
A WORLD AT RISK

TREND/FORECASTING REPORT

THE DILENSCHNEIDER GROUP

JANUARY, 2016

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As we start 2016—our 26th year in business—please receive our 52nd Trend/Forecasting Report. We are grateful for the responses to previous reports and the recognition that we've gotten so many issues right.

Indeed, what follows is based on hundreds of discussions and interviews with some of the smartest and most well-connected people in the world.

Everyone believes your life is going to change dramatically in 2016 as a result of the trends we foresee. It's best to start preparing now.

The U.S. is entering a pivotal presidential election year. The campaign to eliminate ISIS will intensify. The migration of millions of refugees will accelerate and bring with it a host of never-before-seen issues. China, challenged by the events of 2015, will try to surge back. Europe's economy will continue to stumble. Our educational system will be debated, criticized and changed even more than it has been. Extraordinary breakthroughs will come in the struggling healthcare system. Innovations in technology will create exciting new opportunities, many of which you will experience first-hand in your personal as well as professional life.

And this is just the front edge of the wave that is moving toward us as you read this letter.

To be sure, life has been greatly improved for much of the world over the past 20 to 30 years and will continue getting better for millions more. But hold on tight, because people and their leaders will still need to address a wide array of problems.

Indeed, much of what is covered in the following pages will define the next generation and perhaps the generations after that for the next 50 to 60 years.

Just consider the following:

- Although China is no longer the world's fastest-growing economy, it will continue to refuse to move to a true market economy and this will create issues in other markets. 2015 marked the first year in which the Indian economy grew faster than China's. Expect it to outgrow China again as domestic demand there boosts GDP;
- The rest of Asia, especially Japan, is extremely anxious about China and may take actions not helpful to the region or the world;
- Elements in Saudi Arabia, where more than 157 beheadings were carried out last year, are supporting terrorism and the consequences for its rulers will be difficult at best. The Islamic State is painting the Royal Family as corrupt, which could lead to serious destabilization;
- Expect more Paris and San Bernardino-like attacks;
- Despite the best efforts of the French, the U.S. has no choice but to take on the role of global policeman and that will cause problems domestically as well as backlash around the world;
- Regulation will continue to slow the engine of growth in America;
- The rule of law, critical to a civilized society, will come under still more pressure in many parts of the world, and when defied, will encourage rogue elements to push their agendas;
- Look for protectionism to rise as populist politicians and political movements take hold in many areas of the world;
- The price of oil and other natural resources will not recover to 2014-15 levels;

- There will be major infrastructure investments as many nations recognize the need to upgrade their transportation, power-generation and communications systems. India will lead the way. The U.S., depending on the outcome of the presidential election, could make significant strides as well;
- Civil unrest will erupt in many regions, and in some places there may be social collapse.

In the U.S., culture wars, attacks on the police, the growing influence of Hispanics, and the diminishing influence of African-Americans in comparison with Hispanics may increase polarization. This, in turn, may lead to turmoil in many institutions, notably our universities.

In an unwelcome first for our nation, the children of the Baby Boomers will not have lives as good as their parents.

Surveys show most Americans are pessimistic about their economic futures. An overwhelming majority, nearly 80 percent, believe the Country's moral compass is pointing in the wrong direction. Many see the U.S. broken apart by race, class and political struggles.

It is clear that those in the middle and lower income levels are not pleased with the enormous income gap between them and the rich. This will be a major, and possibly defining, issue in the year ahead.

Leadership has failed in many ways in business, politics and the social sector. New faces have emerged, but genuine leaders have yet to prove themselves. A major question is who will step forward on the big issues—the economy, the Middle East, Chinese expansion, ISIS, corruption and much more—and how will they assert their leadership?

And while we're on the subject of leadership, what has happened to the profession of journalism that is so critical to our democratic society, and what can we expect from it in the future?

As you read this, the only figure who has the power to “convene” to address global problems is Pope Francis.

Then there is Vladimir Putin. Forecasting what will happen in Russia is always difficult, but we can be certain that, at least for several years, it will not be good and will have a negative impact on the rest of the world.

And people in many disadvantaged countries are hostile toward the West, particularly the U.S. While diplomacy, foreign aid and other efforts go forward, there is a significant shortfall in terms of hopes and expectations.

But amid all this gloom there are many bright spots.

Several years ago we predicted that young men and women would assert themselves and begin changing the world. Look now at the dazzling array of innovations and inventions they have contributed. To cite just three fields, are you communicating, doing business and receiving medical care the same way you were 10 years ago? Of course not, thanks to their creativity.

Expect even more in the coming year. There is a real potential for more positive change out there.

With this broad perspective in mind, and based on our continuing discussions over the past 12 months with hundreds of experts in diverse fields, including business, finance, journalism, the arts, academia and the non-profit sector, we have identified another set of noteworthy trends for 2016 and beyond.

This Report, then, as it has for 26 years, focuses on critical thinking and on how you might apply it in your life, your business, or whatever pursuits you follow. Though there are many demands on your time, we urge you to put aside a few moments, whenever convenient, to read it thoroughly.

As you receive this we will have moved our permanent headquarters to the 57th floor of the Chrysler Building. We welcome your visit—the views are fantastic.

We would, of course, be pleased to hear any response you might have to this effort.

Best regards,

A handwritten signature in black ink, appearing to read 'R. Dilenschneider', with a horizontal line extending to the right.

Robert L. Dilenschneider

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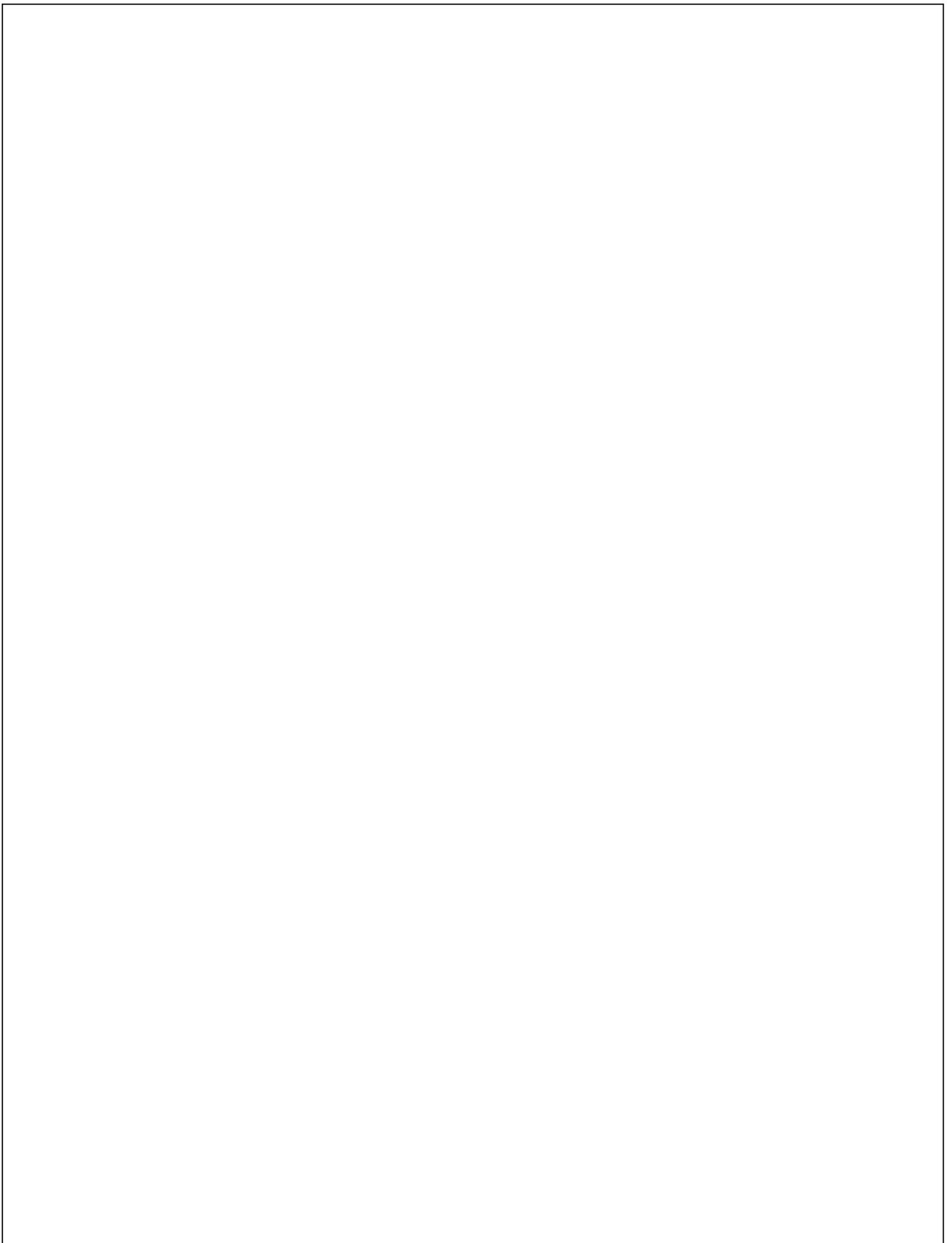
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Closing Quote

*Efforts and courage are not enough without
purpose and direction.*

— John F. Kennedy



ECONOMICS 2016: THE YEAR OF THE KNOWN UNKNOWNNS

*Economists don't predict because they know,
but because they are asked.*
- John Kenneth Galbraith

Conditions in the global economy have improved, but growth continues to be somewhere between one to two percentage points below levels last seen before the financial crisis of 2007-2008.

Led by China, emerging markets were for some years following the Great Recession the locus of strength. That leadership role has now faded in the wake of slumping commodity prices and a sharp slowdown in China.

Now, the world is increasingly dependent on strength in the U.S. economy, which seems poised to continue to outperform other industrialized economies. But that forecast is not without a certain degree of risk.

Indeed, for the first time in the postwar era—and perhaps for the first time ever—the risks of the United States *importing* a recession cannot be dismissed.

WHAT WE KNOW.....

That said, as the New Year begins, it is hard to see how any sort of downturn will materialize in the U.S. during 2016, despite the agitated markets of this year's first trading week.

To be sure, the industrial sector is in disarray, hammered by the effects of a strong dollar on export markets. And business investment, which has been tepid for some time, will likely remain that way; spending on oil and gas projects, an important pocket of strength over the past few years, has virtually dried up in the wake of the steep decline in energy prices.

But the steep drop in oil prices has freed up buckets of money for consumers. Last year, new auto sales surged to an all-time high, completing a phoenix-like recovery that began with the government bailout of the industry in 2009. Continued low mortgage interest rates and sharp increases in the price of rental housing combined to make last year a healthy one for home builders—and buyers. Despite the recent increase in short-term interest rates by the Federal Reserve, analysts say the prospects for 2016 remain positive for housing.

Moreover, government spending will likely be a net economic positive for the first time in years at the state, local and federal levels. State and local balance sheets are largely recovered from the effects of the Great Recession, and they are spending again. And the budget recently approved by Congress and signed by the President will also provide some stimulus.

For example, passage of transportation legislation will help boost construction spending—and hiring. And approval of the TPP trade deal—which could come this year—in conjunction with the opening in April of an expanded Panama Canal, should boost trade volumes and lead to more jobs.

If realized, the two employment-related developments mentioned above would serve to bolster a job market that already seems quite healthy.

The Labor Department's recent announcement that more than 292,000 jobs were created in December capped a year in which non-farm payroll employment grew by 2.65 million, and locked up a two-year gain that was the best since the late 1990s. At 5 percent (unchanged from November), the nation's unemployment rate in December is at its lowest level since April, 2008.

After totaling up the positives and the negatives, at the end of last year economists were projecting the U.S. economy will expand at a slightly more rapid rate in 2016 than the 2.2 percent increase recorded for 2015. Recently, analysts at the International Monetary Fund projected growth in the American economy at 2.8 percent for the coming 12 months.

AND WHAT WE DON'T...

Compared to business conditions in the United States, the economic health of many important countries appears tenuous at best. Developments in these countries—some political, some economic—over the coming year will be key determinants in the performance of the global economy in 2016. It is far easier to identify some of the most important variables than to predict how future events will unfold.

In its most recent forecast, released last summer, the IMF projected global growth at 3.6 percent for 2016, an improvement from 3.1 percent for 2015.

Unfortunately, that projection was made well before a number of topics identified and discussed below became increasingly critical to the outlook.

Of particular importance, it seems to us, are the following:

CHINA

Concern about the outlook for the world's second largest economy was being voiced well before the recent unsettling developments in China's equity and foreign exchange markets. Needless to say, what has transpired since the start of the New Year has done little to instill confidence in the Country's ability to manage the challenges it faces.

Much of the worry is centered on China's ability to cope with a mountain of public and private sector debt, a large part of it denominated in U.S. dollars.

The debt numbers have surged to 244 percent of GDP from 148 percent in 2008, even as growth decelerated to an estimated 6.8 percent last year from 9.6 percent.

The slowdown is a reflection of China's shift from a prolonged period when the economy was driven by exports and infrastructure spending to one which emphasizes consumer spending and services.

Doubts about China's ability to make this transition surfaced over the summer, and have resurfaced in recent days. Adding to the anxiety is the Federal Reserve's decision to raise short-term interest rates, a move that further strengthened the value of the dollar; both will increase China's interest payment burden. Predicting how Beijing would react should major private companies default on their debt is a major unknown.

A further slowdown in China's growth rate would be felt across Asia, and around the world. After watching the Chinese authorities allow the value of the yuan to fall sharply in value in recent days, some analysts are voicing concern that any continued depreciation might lead to a round of competitive devaluations in the region.

SAUDI ARABIA AND OIL

The Kingdom remains the world's swing producer of oil. But the rise of shale wells in the U.S. and elsewhere has slowed the Country's ability to move the pendulum.

It was Saudi Arabia that kicked off a price war in 2014 when it refused to cut production. Its continued refusal to do so has not only roiled world petroleum markets, but also done major damage to its own financial well-being.

Saudi Arabia needs a world oil price of around \$85 per barrel to finance public spending, and around \$60 per barrel to keep its current account in balance. Needless to say, with the price of oil flirting with \$30 a barrel—its lowest level in well over a decade—Saudi officials have been forced to adopt a series of belt-tightening measures.

Many of those steps—including cuts in local subsidies on gas, electricity and water—were announced before more than 40 prisoners, including a prominent Shiite cleric, were beheaded. Those executions have exacerbated tension between Iran, Saudi Arabia and a number of other Sunni-dominated countries in the Middle East.

It seems unlikely that oil prices will decline much further from current levels. But it is equally difficult to predict when they will firm up and begin to rise.

Several developments cloud the oil price outlook, making it difficult to see when supply and demand will come back into some sort of balance.

First, Iran is poised to resume sales of oil. American producers have sustained production of more than 9 million barrels a day, despite a sharp fall in the rig count. And the Saudis have shown little or no indication they intend to cut their own production.

MIGRATION AND BREXIT IN THE EU

All things being equal, the European Central Bank's quantitative easing policies seem sufficient to further a fragile recovery in the European Union this year: in November, the European Commission forecast growth at 1.8 percent in 2016, up marginally from 1.6 percent last year.

Less clear, however, is how much damage might be done by the continued influx of refugees from the Middle East; in the short run, the costs of coping with their numbers will likely outweigh the future economic benefits, assuming many or most remain.

It is also uncertain if citizens in the United Kingdom will choose to leave the EU—the British exit known for short as “Brexit.” Prime Minister David Cameron has promised a referendum on the issue, and a vote could be held by mid-year.

At the moment, the odds seem to be running in favor of Britain remaining part of the EU. A decision to leave would likely have an adverse impact on the economies of both the U.K. and the EU.

LOW INFLATION

Will inflation in the industrialized economies, the ones most impacted by the Great Recession, remain subdued?

Unemployment in the EU has fallen to its lowest level in four years; in the U.S., it has not been lower since 2008. Yet wage growth remains weak, and demand shows few signs of surging. Productivity, which usually rises in conjunction with employment, is still weak, particularly in the United States.

At the same time, commodity prices remain under pressure, due in large measure to China's slowing rate of growth.

As a consequence, growth in major emerging market countries like Brazil, Russia, Chile and Indonesia will be constrained—or worse. Meanwhile, continued strength in the dollar reduces the price of imports in the U.S. even as it hinders the performance of American manufacturing concerns. Any additional appreciation would likely make it harder for the Fed to push through additional increases in interest rates. Indeed, recent Fed minutes show that some governors were reluctant to approve the increase that was implemented in December.

One of the Fed's mandates is to keep inflation in check. (The other is to pursue pro-growth policies).

To the astonishment of many analysts, inflation has remained well below the Fed's 2 percent target for years. All indications are that 2016 will be no different, and that the decisions confronting policymakers around the world will remain difficult.

IMPLICATIONS FOR BUSINESS:

- Expansion of the Panama Canal and the prospects of a TPP trade agreement figure to be huge positives;
- Look for serious efforts to address infrastructure, especially in the USA;
- Despite the recent focus on national security, the economy and its prospects will once again emerge as the dominant issue in the November presidential election;
- Absent productivity gains or a slide in demand, expect further gains in employment in the U.S.

POLITICS: EXPECT THE UNEXPECTED

Because of complicated rule changes in GOP primaries and delegate-counting set by the Republican National Committee in September 2012—ironically designed to avoid a drawn-out primary process, we will not know for longer than usual who the Republican nominee for president will be. Conventional wisdom still holds that Donald Trump will not be the nominee despite his lead in the polls for a remarkable number of months. He is not greatly expanding his base which he must do to get the required number of delegates. His appeal because of his celebrity and unusual candor may dim as voters get closer to the responsibility of casting actual votes for president. If Trump has done anything, he has hit a nerve of a population upset at the way all is going in the USA.

The most conservative primaries are at the beginning of the process. Texas Sen. Ted Cruz began the year giving Trump the first real run for his money, so to speak, but he is thoroughly disliked by his fellow senators although they concede he is very bright and shrewd. Marco Rubio is playing his cards right, getting the support of the venerable John McCain, But many consider him too inexperienced to get the nomination.

One reason Trump should be worried about getting the actual GOP nomination is the still-unknown question about whether so-called establishment Republicans, who tend to favor Jeb Bush, Marco Rubio, John Kasich or even Chris Christie will balk at a takeover of the party by a rebel outsider such as Trump or Cruz. Although Republican delegates are mostly pledged to vote for the candidate who won their state primary or caucus, not all are. Talk of a brokered convention is gaining strength because it's possible no one candidate musters enough delegates going into the convention in Cleveland because some states are winner-take-all and other states dole out delegates proportionately based on where candidates place in the final state primary vote count. The GOP nominee this year must get 1,237 of 2,475 delegates to win the nomination. Trump or Cruz could win decisively in some small conservative states early on but still not get enough delegates if establishment candidates stay in the race as more liberal, larger states vote.

On the Democratic side, even though Sanders has proved to be a bigger threat to Hillary Clinton than she anticipated, the party has superdelegates, which Republicans don't have. In the arcane world of Democratic politics, superdelegates are elected officials or party insiders. In 2008, Hillary Clinton had 49 percent of the delegates (elected by voters in the primaries) or 1,726 and Barack Obama had 51 percent or 1,828. Clinton could have still won the nomination if she had gotten enough superdelegates to get her over the hurdle to victory. But Obama won 66 percent of the superdelegates or 478 while Clinton won 236 or 34 percent.

Unlike most delegates, who must vote as the voters dictated (don't forget that some states proportion them according to the vote percentages; other states are winner-take-all), superdelegates are free to vote as they choose. But Hillary Clinton already has won the pledged support of the vast majority of Democratic superdelegates; Bernie Sanders lags far behind her.

It is worth remembering that at the beginning of the election year, almost always the prevailing thoughts prove to be wrong.

In January of 1960 the establishment thought Democrats would lose if they nominated young John F. Kennedy. In 1964 President Lyndon B. Johnson would be beaten by a northerner and in 1968 he would win. In 1972 Richard Nixon would lose because of Vietnam. In 1976 few thought an unknown from Georgia could win the White House. In 1980 the favorite was Carter to win against Ronald Reagan. In 1984 the outlook was dim for Reagan's re-election. Few thought George H.W. Bush in January 1988 could defeat his fellow Republicans. In 1992 Bill Clinton's troubles seemed to assure Bush's re-election. In 1996 Clinton was widely predicted to lose. In 2000 George W. Bush was predicted an easy swoop to victory. In January of 2004 Howard Dean looked unstoppable. In 2008 it was Hillary Clinton's election to lose. In 2012 Republicans thought almost anybody they picked could defeat a weakened Obama.

Stay tuned. The voters are restless; the past is not always prologue.

As for the Democrats, Hillary Clinton is on track to become the first woman to win a political primary and her party's nomination. Bernie Sanders has provided a spirited offense and prevented her from moving to the center as early as she would have liked. But he will not seek a third-party draft although he is technically a Vermont Independent. He does not want to be another Ralph Nader, who lost his political appeal after running on the Green Party ticket in 2000 and denying Al Gore a victory.

Although Barack Obama is now a lame duck, he does not intend to leave office without doing as much as he can to get pieces of his substantial agenda into policy. Starting the year with an essentially ineffective bit of gun control was a red flag to political enemies and indicates it will be another turbulent year.

As is true in most election years, do not expect significant legislative action on Capitol Hill. One-third of the Senate and the entire House is up for re-election; politics reigns. Speaker Paul Ryan's sop to Tea Partiers by starting the new year with another pointlessly futile vote to repeal Obamacare was inevitable but is also another indication that relations between Congress and the White House will remain sour.

So has anything changed and what can be expected? The public is angry at over-regulation, the excess of the plaintiff bar, income inequality and the inability of leaders in all parts of life in America to lead.

Anything can happen.

IMPLICATIONS FOR BUSINESS: It is still too early to say, but politicians will assert themselves again in 2017 and lobbying will be very intense.

DID YOU KNOW?

Zakat, or alms-giving, is the practice of charitable giving by Muslims based on accumulated wealth, and is obligatory for all who are able to do so.

It is considered to be a personal responsibility for Muslims to ease economic hardship for others and eliminate inequality.

Zakat consists of spending 2.5 percent of one's wealth for the benefit of the poor or needy.

ISIS AND TERRORISM: PAST AND PRESENT

Some form of jihadist extremism, predominantly in Arabic states, may be intractable in the foreseeable future. Whatever they choose to call themselves, from ISIS to al-Qaeda affiliates to Boko Haram, terrorists will continue to exist and flourish.

Right now, however, ISIS, overwhelmingly Sunni in make-up, is clearly the most visible and powerful such militant Islamist organization, able to attract like-minded, radicalized volunteers from around the globe. This makes for a very dangerous world.

Today, a savage, black-flagged ISIS, formed out of the remnants of the Iraqi Baath Party and its mostly Sunni Army deposed by America in the opening days of the Iraq War, dominates the militant Muslim jihadist movement.

Unemployed Recruits

With two-thirds of the Arabic population now under 30, the overwhelming majority are jobless, rootless, angry and too often disillusioned by the corruption and incapable rule of existing Arabic governments. Their anger is also fueled by the on-going presence of the West and the U.S. in their homelands, providing a dissatisfied pool of young Muslims from which ISIS is able to attract recruits. Sophisticated use of social media has been another prime factor in the organization's success, as has its interpretation of the Quran to indoctrinate potential suicide bombers.

Many tend to forget that.

The anti-Western, anti-American sentiment that produced ISIS and its revolutionary Islamist jihadism go back a long way in Middle East history. There were literally hundreds of terrorist incidents in the 20th century. Some trace its most destructive origins to the post-World War I period when the winning Allies divided the defeated Ottoman Empire into new nations with newly-arranged, often arbitrary borders, usually ruled by strongman monarchs and dictators.

In 1979 came the transformative Iranian Revolution under Ayatollah Khomeini marked by rejection of modernity and hostage-taking. In the early and mid-1980s, deadly bombings of the American Embassy in Beirut and the Marine barracks in that city also took many hundreds of lives.

In the next decade, the wealthy Saudi Osama Bin Laden and his murderous crew came on the terrorist scene. They were responsible for the first lethal bombing of the World Trade Center and the U.S. guided missile destroyer Cole in the port of Aden. In those same years, Muslim Bosnia and Kosovo were targeted by a vengeful Serbia. Extremist Muslim terrorism reached a high point with the coordinated aerial assault by al-Qaeda of 9/11 on New York City and Washington that ultimately triggered the invasion of Iraq in 2003. It has been a bloody chronicle until now, with little let-up in sight.

Expect more.

It took a long time in coming, but a broad coalition led by the United States has declared it will crush ISIS and its territorial ambitions; restore stability to Iraq and Syria and reverse the huge exodus of refugees—mostly from the Middle East.

A new post-war political order hangs in the balance.

In the ongoing struggle against ISIS and its caliphate agenda, Russia and even Iran, for better or worse, have become allies of the West. Turkey is also a member of the coalition despite its historic concerns about Kurdish separatism. Those Kurdish forces have been the most successful, on-the-ground adversary of ISIS.

No Combat Troops

Although there have been calls from influential politicians like John McCain and Lindsey Graham for American "boots-on-the-ground," U.S. popular opinion opposes such a move if much more narrowly now than it did in the past. Meanwhile, others have called for a "no-fly-zone" to be implemented over both Syria and Iraq while a cautious President Obama remains reluctant to risk American lives. He often cites his visits to Washington's Walter Reed Hospital and the plight of the many legless, armless, sightless veterans he encounters there.

Massive aerial strikes by the U.S., Russia, France and now the U.K. continue to be the prime coalition offensive strategy to defeat ISIS. These strikes, including drone attacks, numbering thousands of sorties, have enabled the West to recapture considerable territory from ISIS in Northern Syria and Iraq as well as take out scores of their leaders and commanders. At the same time, a small U.S. special operations force in Syria and 3,500 troops on the ground in Iraq are committed to training local armies, intelligence gathering and defending U.S. installations and lives. Iraqi troops were able to recapture the large city of Ramadi from ISIS in late December, but there is no talk these days of "regime change."

IMPLICATIONS FOR BUSINESS: All this is inconclusive. Confusion reigns. The ultimate defeat of ISIS will be a long and arduous struggle. Should the Republicans gain the White House in November, expect a more forceful, intensive strategy against ISIS. Within the GOP, there is a strong sense that wars cannot be won without infantry. One possible long-term solution would divide Iraq into three separate regions dominated by Shiites, Sunnis and Kurds, respectively.

An end to hostilities is essential for business to thrive.

Those opposed to the West need what business can give them, meaning the short-term outlook looks promising. But, longer-term, terrorism may be here to stay and that is a negative for business.

SAUDI ARABIA Vs. IRAN: THE HEART OF THE MATTER

Saudi Arabia, a Sunni Muslim stronghold, and Iran, the Shiite capital of the Mideast, have been locked in a deadly struggle for supremacy in the region for eons—and especially since the dissolution of the Ottoman Empire at the end of World War I.

The intense hostility, however, came to an ominous, headline-making crisis in early January when, on a single day, the Saudis executed 47 prisoners, some beheaded, including a prominent Shiite cleric, stating they were all “terrorists.” This move unleashed worldwide condemnation. And all this played right into the hands of Iranian hardliners, who are eager to undermine their more moderate President Rouhani.

Repercussions came almost immediately. Angry mobs attacked the Saudi embassy in Tehran and Shiite protestors in many Arab lands took to the streets. Riyadh quickly retaliated, breaking off diplomatic relations with its longtime adversary as did Bahrain, Kuwait, Qatar, the United Arab Emirates, Sudan, Somali and Djibouti. Jordan and Egypt joined in, denouncing Iran’s “interference” in Arab affairs. Tensions between the two powers rocketed, stoking the flames of sectarianism across the region.

Iran Has Edge

Standing alone, Saudi Arabia is at a distinct disadvantage against the much larger and more populous Iran. In another counter-move, Riyadh has organized a large military anti-terrorism coalition that specifically does not include Iran, Iraq, or Syria. The coalition is the Saudis’ notice to Iran that it will not accept Iranian influence in the Sunni Arab countries’ Shiite communities.

Saudi Arabia has long been allied with the U.S.—an alliance resting initially on the Gulf Kingdom’s position as the world’s No. 1 producer of crude oil and leader of OPEC. That relationship may be in jeopardy as the planet experiences an oil glut, with prices plummeting to new lows. That circumstance has been further heightened by global climate changes, whatever one’s opinion about the causes of these dislocations may be.

A new emphasis on energy sustainability has emerged, favoring the use of wind, solar, water, biofuels and natural gas while materially diminishing demand for carbon-generating fossil fuels such as coal and oil.

At the same time, the Saudis, determined to maintain their market share, have kept production at its usual high level in a bid to challenge abundant new shale oil and natural gas. That strategy has not worked, sinking the nation’s critical oil revenues by a formidable 23 percent last year. As a result, in reaction to decades of profligate spending, Saudi Arabia has now instituted across-the-board austerity and sweeping deficit cuts.

Although America has stood fast over the years alongside Saudi Arabia, providing billions in armaments, the relationship has never been an easy one. Saudi Arabia is an absolute monarchy devoid of the democratic principles and ideals so treasured here. Institutions like pluralism, minority and women's rights, freedom of religion, speech and assembly are virtually unknown in Saudi Arabia. This Mideast country is also the home base of the particularly radical, repressive Sunni offshoot called Wahhabism, which continues to flourish in its many schools and mosques.

Moreover, except for a few air strikes, Riyadh has not been a very active participant in the coalition against ISIS. Instead, it has devoted considerable military attention to its southern neighbor, Yemen, fighting off the Houthis, another Shiite sect.

The Saudi regime is vehemently anti-Israel; has fought hard to upend the Arab Spring movement; and has yet to make a very significant contribution to the war against ISIS. Be that as it may, when it comes to issues of national security and regional stability, both past and present Washington administrations have agreed that working with the Saudis must take precedence over moral considerations—especially when few other feasible alternatives exist.

IMPLICATIONS FOR BUSINESS: Except for munitions-makers and manufacturers of conflict-related products, wars and governmental instability are rarely a positive for business.

DID YOU KNOW?

There are 3 million more American workers over the age of 65 than there were a decade ago. Nearly 19 percent of American seniors work, up from 14.4 percent in 2004. In Canada, 13.4 percent over 65 are employed, up from 7.7 percent in 2004; in the U.K., 10.3 percent of seniors work, up from 6.1 percent a decade ago.

WHERE DID THE TRUST GO? HOW CAN WE GET IT BACK?

Americans have always been a skeptical people. Blessed by the Constitution with a free press and free speech, freedom of religion and freedom of association, they have always enjoyed the right to sound off, individually or in groups, about people and events, especially those in the news. It is one of the things that make the United States great.

Politics and politicians have historically been the most frequent targets of criticism, but many other institutions have come in for harsh judgments, too, like Wall Street after the 1929 crash or corrupt unions in the 1950s.

Nevertheless, for most of the nation's history, there have been large numbers of institutions that most Americans believed in and admired. Organized religion, the legal system, the medical profession, amateur sports, public schools, the Supreme Court—these and many others were usually treated with respect.

But things have changed. It may have started with the Bay of Pigs, a failed attempt in 1961 to invade Cuba, when the American people were stunned to see their government display shockingly bad judgment and ineptitude. The Vietnam War certainly shook the nation's confidence, and Watergate was another devastating blow. Whatever the exact process, trust in national institutions has eroded over the past half century or so, and the erosion continues to accelerate. What was once natural skepticism has morphed into suspicion, hostility and often outright loathing for what were once the pillars of American society.

The implications of this growing deficit of trust are profound. A nation holds together only as long as most citizens share a certain number of common beliefs, values and experiences—and as long as they feel reasonably confident that the organizations, both public and private, that provide them with goods and services are trustworthy. If that commonality of interests and beliefs collapses—if the national motto becomes, in effect, “every man for himself”—America will have taken a dark and dangerous turn.

Erasing cynicism and skepticism from the national consciousness will not come easily or quickly. Sweeping reforms are required to restore trust. But there are some ways that individuals and institutions can begin the process of regaining that trust. The public must act as committed citizens and write, call or otherwise contact local, state, and national legislators and demand a return to the kind of bipartisanship and compromise that have traditionally characterized American politics. And, above all, they must vote. Electoral politics works.

Those who provide services or products, whether in business or government, public or private, profit or non-profit, must:

- Be authentic. So much of what is said and done does not pass the simple smell test. One thinks of food companies that sell products as “healthy” or “natural,” which ring hollow with consumers who see a list of unpronounceable ingredients. In politics, candidates who state who they are and what they stand for without hedging bets might make themselves much more believable to wary voters—even if they do not agree on all issues.
- Be accountable. We all make mistakes. Admitting fault goes a long way towards redemption and regaining trust. Has anyone or any institution yet admitted any criminal responsibility for the collapse of the world economy in 2008?
- Be transparent. We live in an era when too many decisions that affect the public are being made in secret. Let the sunshine in. Open the process up to scrutiny. In a world where video cameras and social media are ubiquitous, think about taking the initiative to be more visible in the way you come to decisions. It’s hard to regain trust in the wake of a cover-up.
- Make your case. If you think that what you do is part of the solution, say so. Explain why your actions benefit others. Surely, governments and large corporations are better than so many people think. They should try much harder and with more evidence and clarity to explain how their actions improve things for many.

IMPLICATIONS FOR BUSINESS: Restoration of institutional trust in the wake of necessary reforms will be far from a slam dunk. The journey may be long and the obstacles many, but it is an achievable goal that will greatly benefit the entire nation.

DID YOU KNOW?

Last year, for the first time ever,
the number of American households equipped
with high-speed broadband Internet service declined sharply
in favor of mobile broadband smartphones.

THE REFUGEE CRISIS: LITTLE LIGHT IN SIGHT

As war goes on in Syria and Iraq and radical Islamic jihadist organizations like ISIS and Boko Haram on two continents continue their murderous depredations, the crisis of displaced refugees fleeing across the Mediterranean from the Middle East and North Africa intensifies. This flood of humanity is considered to be migrants seeking to improve their desperate lives. In the U.S. there has been a huge influx of migrants, largely children, from Central America.

Displaced Syrians are the authentic refugees today. Responsibility for them has now fallen on Europe and the United States. That obligation has proven to be a burden not universally welcomed. Germany has shown the moral way. Chancellor Angela Merkel's willingness to accept hundreds of thousands of refugees has earned her much admiration and recently *Time Magazine's* coveted "Person of the Year" designation.

Though politically risky, Merkel's bold leadership on this issue has won hearts and minds around the globe. An estimated 11 million people have been displaced in Syria since civil war broke out. Virtually all are not politically persecuted in the traditional refugee sense, but nearly all fear for their lives from al-Assad's barrel-bombers, ISIS or Western aerial strikes' collateral damage.

In mid-December, the U.N. Security Council voted to seek an end to hostilities in Syria, but little progress has been made thus far. Some estimates now place the number of Syrian dead since the conflict began at over 250,000.

U.N. Resolutions

Despite the humanitarian issues involved and the United Nations Refugee Convention passed in 1951 plus another U.N. ruling a decade ago, aside from Germany, most European nations have not been eager to open their borders to refugees, fearful that potential terrorists may be among those admitted. Countries like Hungary and Poland have been especially reluctant to cooperate.

Typically, Poland's parliament voted to close its borders tightly to any Syrian refugees. Hungary's leader has spoken of "a Christian Europe." Germany and Canada, open to accepting 23,000 Syrian refugees, remain in the vanguard.

There should be little doubt that we will see a wave of anti-immigrant, right-wing populism across Europe and in America.

Here in the U.S., fear of terrorists posing as refugees has heightened concerns among many, from the person in the street to governors of more than 30 states. Although President Obama has now raised the allowed number of Syrian refugees able to enter this Country annually to 15,000, the entry process remains long (often as much as two years) and very thorough. In fact, since 2012, the U.S. has admitted only about 1,900 Syrian refugees after very detailed and lengthy vetting.

In one respect, however, the U.S. has been unusually generous, contributing \$450 million to the United Nations High Commission for Refugees (UNHCR) funding needs in Syria, compared to \$300,000 from Russia. The Commission has identified at least 130,000 Syrian refugees now herded together in Turkey, Jordan and Lebanon who require immediate permanent resettlement. It asks America to accept 65,000.

As noted, many in the U.S. have strongly rejected the idea of allowing any Syrian refugees into this Country, feeling that the border authorities cannot effectively screen out disguised terrorists. Also, without more support from this Country, Angela Merkel in Germany could see her administration seriously undermined.

The refugee issue is a national security matter as much as a humanitarian crisis in the struggle against radical jihadism.

IMPLICATIONS FOR BUSINESS: Refugees will cause issues not seen today and that will cause problems for business.

VIOLENCE IN AMERICA: AN EPIDEMIC

One trend in America that will worsen in coming months is violence. Gun violence is most prevalent. Mass killings in schools, churches, workplaces, etc.—the latest, in San Bernardino, California—are becoming regular occurrences. It has now reached epidemic proportions. Such mass violence accounted for more than 450 deaths in 2015 alone.

It seems that violent episodes can be found in every part of society these days.

Why is it happening? Who knows? Some feel video games steeped in violence are at the top of the charts as culprits. Popular entertainment wallows in violence. Some feel leadership of various minority communities engender violence.

Although mental and psychological issues are a leading factor in violent outbreaks, few will deny that the easy availability of guns in this Country is a central element in the current explosion. By contrast, in countries such as Japan and Australia, where strict gun controls prevail, gun violence rates are markedly low.

Many Americans desire to be properly armed and safe. It remains a controversial issue with Second Amendment advocates in strong opposition to any substantial limitations. At minimum, however, even the vast majority of NRA members seem to support universal background checks and perhaps some curbs on lethal assault weaponry and high-capacity magazines.

Violence will never vanish from our society. Criminal and psychotic types will always exist as will so-called lone-wolf, militant political and religious zealots. But the public is calling for an end to what has been taking place. How that will be achieved remains to be seen.

IMPLICATIONS FOR BUSINESS: A violent society never bodes well for business or finance.

DID YOU KNOW?

Tokyo, Japan and its immediate environs represent the largest metropolitan area in the world with more than 35 million inhabitants.

WHO'S GOT POWER? HOW DID THEY GET IT?

Forbes' 2015 list of the 73 Most Powerful People in the World (one name on it for every 100 million people on Earth) contained few surprises. The Top 10 names are all familiar: Putin, Merkel, Obama, Pope Francis, Xi Jinping, Bill Gates, Janet Yellen, Britain's David Cameron, India's Narendra Modi and Google's Larry Page.

Critiquing such lists is certainly fun, but it is still a serious business that raises important questions, starting with this: What qualifies a person as powerful?

Certain assets seem obvious: Leading a country with a big army and/or dynamic economy is clearly a qualification, which explains Putin, Merkel, Obama, Xi and Modi. Being rich is another, which explains Gates, Page and the many other billionaires who appear elsewhere on the list (among them, Warren Buffet at 13, Carlos Slim 15, Jeff Bezos 17, Mark Zuckerberg 19.)

It is worth noting that business and social "leaders" are not part of the list.

Some of the clichés about power—"it's who you know," "it's the ability to connect with the masses," "knowledge is power"—don't apply to this list in any obvious way. But they help explain how several came to the list.

Vladimir Putin was thrust into power in 1999 because he got a big boost from outgoing Russian President Boris Yeltsin (“who you know”). Barack Obama and Angela Merkel didn’t start out from positions of power, but they learned how to rise to the top in democratic systems (“connecting with the masses,” “knowledge”).

There are personal characteristics the people who gain power have in common.

That said, what works in business and finance does not play well in politics or religion—at least not always. But some traits do seem to crop up constantly among those who make Most Powerful lists:

- They stay focused on themselves and their advancement
- They set their goals and keep their eyes on the prize
- They aim high
- They are willing to take risks
- Once they have power, they’re willing to use it, often ruthlessly.

One special category also must be considered—power gained through terror. Forbes acknowledges this by placing at 57 on its list Abu Bakr Al-Baghdadi, the leader of ISIS. Hideous as it may be, terrorizing people by sending armed, suicidal zealots among them *is* a form of power. Look for some on the “most powerful” list to use their power in negative ways.

IMPLICATIONS FOR BUSINESS: There is a need to be alert to constantly changing directions, often subtle at first, which can dramatically change the landscape of business operations.

DID YOU KNOW?

The City of Chicago has proposed a 9 percent tax on the streaming of entertainment online, such as Netflix, movies and sports. The proposal is currently facing a court challenge.

WOMEN'S CHANGING ROLE: MORE CRACKS THAN EVER IN THE GLASS CEILING

Whether or not Hillary Clinton wins the presidency this year, the fact that she is the first woman in U.S. history to have a serious chance at the White House is a huge step for women—and men. In a way, men can begin to relax—women are assuming their fair share of responsibility for the world and its myriad problems.

There is no field now where women do not participate and, increasingly, succeed. Women are CEOs, bassoon players, astrophysicists, truck drivers, investment bankers, plumbers, surgeons, Uber drivers, Supreme Court justices, carpenters, mechanics, fighter pilots, construction workers and network news anchors.

One of the most stunning recent developments was Defense Secretary Ash Carter's decision to open combat positions to women without exceptions. While the change is controversial, it is welcomed by military career women who were blocked from pay hikes and promotions because they couldn't fill certain combat jobs.

Mo'ne Davis at 13 has a 74-mph fastball that helped her become the first girl to win a Little League World Series ring. Angelina Jolie is Hollywood's highest-paid actress and her presence in a film, on or off camera, almost guarantees a box office hit. The youngest U.S. ambassador ever to the UN is Samantha Power. The most powerful economist in the world is the Fed's Janet Yellen. The head of the International Monetary Fund is Christine Lagarde. Arguably the world's biggest pop stars are Taylor Swift and Adele.

Ruth Porat, once the most powerful woman on Wall Street, is now CFO at Google, the first woman to crack its senior ranks. Katharine Viner is the first woman in *The Guardian's* 194-year-history to be editor-in-chief. Zanny Minton-Beddoes now leads *The Economist*. The youngest recipient of the Nobel Peace Prize is a teenage girl, Malala Yousafzai. Thirty-five years ago there were no women on the Supreme Court; today there are three.

In the business world, the glass ceiling has cracked, although not enough. Among the S&P 500 companies, there are 22 women CEOs or 4.4 percent, women hold 14.2 percent of the top leadership positions, 19.2 percent of the board seats and make up 45 percent of the work force.

As of 2012, there were nearly 10 million women-owned businesses in the U.S. Women start their own businesses at a rate twice as fast as men. According to an American Express analysis, women start an estimated 1,288 companies each day, up from 602 in 2011-12. Although men still own 71 percent of existing businesses, the number of women-owned firms has grown 68 percent since 2008, compared with 47 percent for all businesses. The progress for minority women-owned businesses is even more remarkable, skyrocketing by 265 percent since 1997. Minorities now make up one in three female-owned businesses, up from only one in six less than two decades ago.

In politics, while only 20 women are members of the Senate, that is a historic high. And 19.4 percent of the 435 members of the House are women, another historic figure. German Chancellor Angela Merkel was Time Magazine's Person of the Year.

Perhaps because Hillary Clinton lost in 2008, women have been slow to focus on the history-making potential of this year's election. Also the drama among the GOP candidates has sucked much of the air out of the Democratic campaign. On the Republican side, Carly Fiorina is the first serious woman candidate since Elizabeth Dole 16 years ago.

(In the interest of full disclosure, several women have run for president as third-party or protest candidates, but they are all footnotes to history, including, as *New York Times* columnist Gail Collins points out, comedian Gracie Allen, wife of George Burns, who ran in 1940 on the Surprise Party ticket.)

In at least one arena, however, women are still having a hard slog. They still do most of the housework, child care, cooking and laundry. Not quite there yet.

IMPLICATIONS FOR BUSINESS: Opening more doors of opportunity for women has proved to be one of the best developments in the history of American business. It has effectively doubled the talent pool, introduced creative new ways of thinking and brought companies closer to a key consumer group, to name just three of the benefits. It remains a work in progress, however. The organizations that do a better job of giving women opportunities for advancement and fair pay will almost invariably gain an edge over the competition.

DID YOU KNOW?

There were 13 million vinyl records pressed in the United States in 2014, the most in 25 years.

THE PAKISTANI DILEMMA

Winning its independence in the summer of 1947 in northwestern India, Pakistan today is a nation of over 192 million that poses genuine, urgent problems for the West. In the many decades that have followed independence, Hindu India and Muslim Pakistan have been bitter and unrelenting enemies. Chief among many contentious issues is the status of Kashmir, still part of India although largely Muslim in population.

One hopeful sign, however, took place only a few weeks ago when for the first time in a dozen years, Indian leader, Prime Minister Narendra Modi, paid a formal visit to his Pakistani counterpart, Nawaz Sharif, meeting in the Pakistani city of Lahore.

Much of the world looks with fear and trembling at these South Asian nations because both are nuclear powers. It is now estimated that Pakistan has at least 120 warheads, including small tactical weapons that can easily hit India. Outbreaks of violence between the two, like the devastating bombing in Mumbai some years ago, are all too common.

Pakistan has also served as a protected home to many extremist religious organizations like the Taliban. Its border with Afghanistan has long been a safe haven for militants, including al-Qaeda. To this, add a powerful national security intelligence operation obsessed with India and, many believe, fiercely anti-Western. It is noteworthy that both Pakistan and India have to date rejected any suggestion that they rein in their nuclear capabilities.

A meeting last fall between President Obama and Pakistani Prime Minister Sharif failed to make serious progress. Pakistan, whatever its pledges of allegiance to Western aspirations, remains a land hospitable to Muslim terrorists. Consider that it played host to Osama Bin Laden for decades before the al-Qaeda mastermind was taken out by a U.S. Navy Seal team in 2011.

No less disturbing to the U.S. and the West has been Pakistan's refusal to sign the Nuclear Nonproliferation Treaty and its supplying nuclear material to North Korea. Pressures are mounting on the nation to openly take a more positive stand in favor of the West and against jihadists in ISIS and its own violent Taliban.

IMPLICATIONS FOR BUSINESS: The conflicted role of Pakistan in the struggle against global jihad must be seen as a negative for business

AFTER A TUMULTUOUS YEAR, TURKEY IS AT A TURNING POINT

Turkey, critical simply because of its geographical location, is crucial to peace and stability in the world.

The list of problems is long and daunting. First there is a kind of cold war going on with Russia, the largest and most powerful of Turkey's neighbors. It started with the shoot-down of a Russian fighter plane that strayed out of Syria's air space into Turkey's. That escalated to a nasty exchange of insults between President Recep Erdogan and Vladimir Putin and then to an exchange of trade sanctions that threaten to damage both countries' struggling economies.

The internal conflict with Turkey's Kurds has turned hot again with brutal attacks and counterattacks by both sides. Ironically, Turkish Kurds have been highly effective in the battle against the Islamic State in Syria, which raises the question of why President Erdogan has chosen this moment to go after people who are his natural allies in the most important fight now underway in the Middle East. Even more complicating, the Kurds' successes increase the danger of ISIS retaliatory strikes within Turkey (it has struck there in the recent past).

The past year was a poor one for Turkey's economy and President Erdogan is widely accused of trying to unconstitutionally turn a parliamentary democracy into a presidential autocracy.

With all of this, Turkey is caught up in the Mideast refugee crisis, since it is one of the most accessible way-stations for Syrians trying to get to Europe. In fact, Turkey is believed to be sheltering what is now the world's largest refugee population. Amnesty International accuses it of unlawfully detaining many of these people and deporting large numbers back to war zones. Whether that is true or not (and the Amnesty charge seems well-documented), the crisis places major financial and social stresses on a country that can ill-afford them.

It appears Erdogan has begun healing the breach with Israel, renewing a 50-year-long friendship between the countries. But that is a double-edged sword for the Turks, since drawing closer to Israel may damage their standing among other Muslim nations.

Predictions about what lies ahead this year are hard to come by, especially since almost everything that happened in 2015 was completely unexpected.

There are two reliable factors. One is that Turkey—which is NATO's only Muslim member—will remain a dominant player in the Middle East. And Turkey still has a well-armed, well-trained military, a determined, powerful leader and a populace that tends to rally around the government in times of conflict.

The other constant is that Erdogan will call most of the shots. Like it or not, he has most of the reins of power in his hands. And he is a lot like Putin—a self-confident nationalist with a feisty streak and a great disregard for political and diplomatic niceties. It is not at all clear that he has a plan for getting Turkey back on the high road—like Putin, he is perfectly capable of making serious blunders—but he will be the man to watch.

IMPLICATIONS FOR BUSINESS: Despite its difficulties, Turkey remains one of the few bright spots in the Middle East—a reliable country to do business in and with. Keep a wary eye on developments, though, especially the crackdown on Kurds and the resulting backlash. Watch political developments too. The fact that Erdogan is concentrating so much power in his office could lead to popular discontent and mass demonstrations.

THE CHINESE ENIGMA

As the second-largest economy in the world after the United States and the most populous nation, China is now facing serious economic problems—both foreign and domestic. Growth has slowed significantly from the halcyon days of high annual double-digit advances. Exports for the year 2015 were down sharply as has been China's manipulated currency.

This slowdown notwithstanding, China will still come out well ahead of the U.S. and all European nations for the full year 2015 in terms of annual growth (estimated at about 7 percent). But its economy is struggling. Labor problems are mounting as unionization spreads and some manufacturers close plants, moving to countries like Vietnam and Bangladesh, where wages are even lower. Unemployment rates have reached troubling levels.

Chinese air and water pollution are perhaps the worst in the world. The abandonment of China's 35-year-old "one-child" policy readily creates new health problems for a society with one-fifth of the globe's population. There is no meaningful social safety net in China.

China, with its great wealth and ancient history, is the dominant power in Asia and the major rival of the United States for global leadership.

Aggressive business moves into Africa and South America with both manpower and material have become commonplace. Now, even in the U.S., many of our best-known enterprises, like the AMC movie house chain, and the iconic Waldorf-Astoria Hotel are wholly Chinese-owned.

It is the area of trade and exploration rights in the vast South China Sea where tensions between Beijing and Washington (with its pivot toward Asia) have focused. Though surrounded by Vietnam, the Philippines, Malaysia and Indonesia, the South China Sea has been repeatedly claimed by China, asserting “indisputable sovereignty” over nearly all of this very large and much-traveled body of water where an estimated \$5 trillion in trade passes every year. It also happens to be potentially very rich in unexplored natural gas and oil deposits.

China decided some years ago that it wanted more dominance over the Pacific Ocean in direct defiance of the U.S., which has long held sway there. Currently, both seem to be playing a provocative game of chicken. American warships move close to newly-constructed Chinese islands in the Sea while an enlarged Chinese Navy hovers near-by.

Fortunately, growing tensions between China and the U.S. were relaxed somewhat in the wake of the visit to Washington this fall of Chinese leader, Xi Jinping.

However, cyberwarfare against the U.S. and Europe by Chinese hackers continues to accelerate. Xi also still holds firmly to doctrine of “one country, two systems,” but he has also made moves to improve relations with Taiwan and Hong Kong.

IMPLICATIONS FOR BUSINESS: Because American firms have considerable business interests in China and that nation is one of the largest buyers of U.S. Treasury debt, peaceful, cooperative relations between both countries is vitally important.

JAPAN YEARNS FOR GLOBAL RELEVANCE

Strong investment trends toward the end of 2015 helped Japan avoid a full recession and diplomatic overtures with ASEAN, China and the U.S. created momentum and optimism for 2016.

GDP expanded at a seasonally adjusted annualized rate of 1.0 percent in 2015 Q3, which contrasted the 0.8 percent up to that point. Restrained demand from China and slow progress in Prime Minister Shinzo Abe’s “Abenomics” pro-growth policies combined to temper greater growth. In December the Japanese government approved the draft of tax reforms planned for FY2016, which includes the planned cut in the corporate tax rate to 29.97 percent. This could bode well for fiscal soundness as Japanese government debt is among the highest in the industrialized world.

On the political front, the successful negotiation of the Trans Pacific Partnership has created a momentum for a new era in trade relations not just with the U.S. but with regional implications for ASEAN and Japan. (The agreement awaits a vote by the U.S. Congress; President Obama has said he will sign it.) Prime Minister Abe’s historic address to Congress in April created a new level of momentum for U.S.-Japan ties, with increased commitment to bilateral cooperation in economic development and regional security.

Trends To Watch For In 2016

- Regional strategic ties with India will strengthen especially after the Modi-Abe signing of a \$35 billion economic security and trade pact, which includes sub-agreements on everything from building a Shinkansen (bullet train) from Mumbai to Ahmedabad, to a Make In India Fund to encourage industrial production and cooperation in civil nuclear energy.
- Japan-China relations will continue to start and stall as the balance of power continues to shift in Asia. China will continue to flex its muscles on island sovereignty and pepper diplomatic dialogue with references to Japan's historic military activity.
- Business ties will drive Japan-China relations as increased Chinese investment in Japan and greater appeal from Japan to ASEAN economies creates a more symbiotic and strategic economic dynamism.

IMPLICATIONS FOR BUSINESS: The rebound of Japan's equity market and an increased emphasis on economic growth, particularly driven by a potential increase in Chinese demand, could be opportunities for increased investment and collaboration with Japanese firms.

RUSSIA: WHAT'S NEXT?

Vladimir Putin, now in his third term as Russian president, continues to be a confounding puzzlement. No one knows what he will do next. A few argue that "once a KGB agent, always a KGB man." Obviously, Putin is a strong nationalist/pragmatist with a wistful longing for the former, unreconstructed Soviet empire. He hopes to recapture the old Soviet Union glory and dominance.

Some highly-placed and influential American politicians and media see Russia as this nation's No. 1 foreign enemy. Though they envision aggressive Russian threats to neighboring Baltic nations and other lands that share borders with Russia, their opinions, for now, are in the minority.

Surely, the good old days of "re-set" are over. That acknowledged, differences and hostilities at present are basically manageable—especially since Russia has joined the war against ISIS in the Mideast, sending ground forces and air power into Syria.

In the wake of that development, the U.S. now appears to have accepted Russia's demand that the future of Syrian President Bashar al-Assad be decided by Syria's own people. Simultaneously, Russia has to cope with violent jihadists active in bordering Islamic states that were once part of the Soviet Union. Whether this balance will change is an open question.

Security Council Acts

At the end of December, the United Nations Security Council, including Russia, voted to conduct talks in Geneva starting later this month to enforce a cease-fire in Syria, after nearly five years of civil war, and decide what the embattled nation's future will be.

The Russian Federation, the largest nation on the planet, added still more territory when it effectively annexed Crimea. Not long afterwards, it stepped up manpower and material aid to rebelling, Russian speakers in Eastern Ukraine. Putin is also doing his best to assure that Ukraine stays out of the European Union.

The West has imposed new, tough economic sanctions on Russia. Those sanctions, coupled with plunging oil and natural gas prices (oil has fallen from above \$80 a barrel to the neighborhood of \$30) have inevitably taken their toll on the Russian economy, but perhaps not as much as the Western alliance had hoped. There is talk that certain European nations may opt to drop sanctions altogether.

Economic activity in Russia fell an estimated four percent in 2015, evidently not enough to erode Mr. Putin's popular support, which remains relatively robust. Some marginal dissent is tolerated internally, although a number of the more visible dissenters have been mysteriously murdered during the past few years.

IMPLICATIONS FOR BUSINESS: Any decline in tensions and animosity between Russia and the United States must be seen as a positive for American firms and investors eager to continue to operate in the expansive Russian marketplace.

DID YOU KNOW?

The value of volunteer time devoted to charity work nationwide last year was \$173,000,000,000.
The average time donated annually per person in the USA was 32 hours.

CUBA UPDATE

A lot has happened in U.S.-Cuban relations since the two countries agreed to restore diplomatic relations a year ago December.

- U.S. travel to the island has surged 50 percent under relaxed travel restrictions, although tourism is still prohibited. Some 250,000 Americans visited the island in the first 11 months of 2015 in permitted categories, including people-to-people exchanges. Americans can be seen everywhere in Havana. Hotel rooms need to be booked four to six months in advance at least.
- In September, the Obama administration announced new rules to allow U.S. companies to do business directly with Cuba, including setting up offices and banking relationships in the Country.
- The United States and Cuba have struck a deal to restore commercial air service between the two countries with as many as 110 flights a day, and direct mail service is also being restored.
- The U.S. Chamber of Commerce has launched the U.S.-Cuba Business Council to build strong commercial relationships with the island. The Chamber and Council members, including American Airlines, Amway, Boeing and Caterpillar, visited the island in November.
- Sprint became the first U.S. wireless carrier to offering roaming service in Cuba.
- President Obama has expressed an interest in traveling to Cuba before he leaves office, although saying “the conditions have to be right.”
- And perhaps most incredibly, Cuban-American Mayor Carlos Gimenez of Miami-Dade County, long a bastion of Cuban exile anti-Castroism, wants the Port of Miami to serve as a terminal for ferries running between Miami and Cuba.

However, despite the relaxation of rules and agreements, how quickly U.S. commerce on the island will evolve is an open question. There are a number of caveats:

- Cuba remains a socialist country with all that implies in terms of restrictions on private enterprise.
- For most U.S. businesses, commercial relations with Cuba are still prohibited under the U.S. embargo, which only Congress can lift. Exceptions are agriculture, medicine, telecom and certain categories of items to support Cuba’s nascent private sector, including building materials, equipment and tools.

- The average Cuban makes less than \$30 per month. Even a McDonald's, were it allowed to operate in Cuba, would be very expensive for the ordinary Cuban.
- Many U.S. businesses believe Cuba needs to have clearer and more transparent "rules of the road" for foreign companies to do business before investing.

IMPLICATIONS FOR BUSINESS: For U.S. companies to invest in a major way in the island, Congress needs to lift the U.S. embargo, which is increasingly gaining political support. And Cuba must do its part in creating a favorable investment climate through less bureaucracy, clear, enforceable laws and regulations for doing business there that allow U.S. companies to make money.

Aside from some American companies like airlines that can see immediate benefit by servicing Americans going to Cuba, most businesses, while very interested in Cuba and following developments closely, are taking a wait-and-see attitude.

Cuban President Raúl Castro has described Cuba's economic reform process as "without hurry, but without pause." Without hurry but without pause is probably also how American companies should view doing business in Cuba.

RISE OF THE NON-BANKS

One of U.S. regulators' central goals in the wake of the global financial crisis was to reduce risk-taking among banks holding federally insured deposits. There is no doubt they have been successful. Across a variety of financial markets and businesses, banks have downsized operations or, in many cases, exited entirely. But even the best intentions come with consequences. In 2016, markets may well discover whether this logical effort to limit risky behavior among banks has achieved the broader goal of making the financial system safer and more stable, or if it has created a new and dangerous set of systemic risks.

As new regulations reshape the market, activities abandoned by heavily regulated banks are not going away. Rather, they are simply moving to businesses and venues that are less regulated and more difficult to monitor. For example, non-bank lenders—businesses that provide credit without funding themselves with deposits—are capturing a growing share of business in mortgages, commercial real estate, small business/middle-market banking and other key areas of the U.S. economy. Included in this group are a broad mix of online lending platforms, private equity firms, business development companies, investment funds and others.

Non-bank lenders now issue a whopping 40 percent of U.S home loans. In and of itself this fact does not imply any significant new risk. Non-bank lenders have long been part of the U.S. mortgage market, and most of the loans originated by these companies meet newly tightened standards required for sale to Fannie Mae and Freddie Mac. However, non-banks are also significant players in what until recently was called the “subprime” end of the market. Non-bank lenders now account for up to 80 percent of FHA mortgages—including low down-payment loans targeting first-time home buyers and other borrowers with lower credit scores.

These lenders also now issue nearly two-thirds of securities guaranteed by Ginnie Mae, whose president, Ted Tozer told CNBC in September 2015 that these companies are using “some of the most sophisticated financial engineering that this industry has ever seen” and relying on “greater dependence on credit lines, securitization involving multiple players, and more frequent trading of servicing rights.”

If that sounds awfully familiar—and disquietingly so, for anyone who lived through the lead-up to the 2008 fiscal crisis—there is more. In another blast from the past, the *Los Angeles Times* in November noted that several non-banks ranked among the Country’s biggest mortgage lenders are run by former executives of Countrywide Financial.

In business lending, non-banks were once viewed as high-priced alternatives for small and mid-sized companies unable to obtain affordable credit from banks. But since the global crisis, non-bank lenders have been increasingly winning customers from banks’ sweet spot—their target market of better credit-quality businesses. About a quarter of U.S. small businesses and mid-sized companies interviewed by consultancy Greenwich Associates in Q3 2015 said they had obtained funding from a non-bank lender in the past 18 months. Almost all of these businesses said they had a positive experience and would borrow from a non-bank again.

These high rates of customer satisfaction highlight one of the non-banks’ main competitive advantages: the ability to provide rapid decisions and quick funding on loans, as well as high quality customer service. In business banking, mortgage lending and other businesses, non-banks achieve these feats largely by leveraging technology better than traditional banks. However, regulation also plays a big role. Post-crisis documentation requirements and rules about “onboarding” new customers have made the process of applying for bank loans cumbersome and often unpleasant for businesses and individuals and extended the time customers have to wait for decisions on their bank loans.

Non-banks are exempt from the rules causing these headaches for bank borrowers. And therein lies the rub.

IMPLICATIONS FOR BUSINESS: In many ways, non-banks' growing market share in important loan markets represents a meaningful achievement for regulators, who have forced the migration of risky lending from tax-payer backstopped banks to independent companies and investors without disrupting the flow of credit. But the untested nature of the non-bank or "shadow" system remains a real source of concern. For starters, taxpayers remain solidly on the hook for government-sponsored enterprise-backed loans issued by non-banks, and, with non-bank lenders lacking the massive balance sheets of banks, the GSE's will have a much tougher time forcing these companies to buy back failed loans. And, in truth, no one can predict how the quality of non-bank loan portfolios across credit products will compare with those of traditional banks, or how those portfolios will perform in the event of even a modest uptick in loan defaults—never mind a significant downturn in the economy. With the U.S. Federal Reserve's move to increase interest rates for the first time in nearly a decade, it is likely that markets have started inching toward the stress-test that will prove whether the displacement of banks by non-bank bank lenders represents a step toward stability, or a new systemic risk.

A NEW YEAR BRINGS BUSINESS NEW WAYS OF THINKING

2016 could well be the year that cutting-edge goes mainstream as many age-old business practices become obsolete. Companies in disparate industries—from banking to manufacturing—are rushing to adopt new approaches to traditional problems. Consider just two of the most recent innovations: refiguring the traditional office environment and the much-ballyhooed concept of "design thinking."

Citigroup announced in late December that its new 39-floor headquarters in Lower Manhattan will have few offices, no cubicles and no permanent desks for most workers. Instead, virtually all the executives and investment bankers as well as the rank-and-file will work at temporary stations each day (a concept called "hot-desking"), store their personal effects in a locker each night, and then start fresh the following day in a different space.

The twin goals, according to CEO Michael Corbat, are to save money by fitting more people into one space and to foster communication and productivity among people who otherwise would never rub shoulders. "You're going to be forced to bump into people," says Mr. Corbat, who will have no door on his own glass-walled office. It is a bold concept that will be closely watched by managers inside and outside the banking industry.

“Design thinking,” or DT, is a concept that is difficult to define (*Forbes*, *Fast Company*, Wikipedia, even the *Harvard Business Review* each come at it a bit differently), but it appears to have legs. Indeed, its promise is so far-reaching that it may well become standard business practice and a key factor in determining future profit growth for businesses of all stripes.

Simply put, DT focuses on distilling user needs, not problems, as a starting point in creating solutions, typically through lengthy face-to-face meetings between clients and an in-house design team. No questions or views are out of bounds. The approach was summed up by one publication this way: Question: How many design thinkers does it take to screw in a light bulb? Answer: Why a light bulb?

It may look at first glance like New Age hokum. But *The New York Times*' Steve Lohr, one of the best business writers around, says this: “Across corporate America, there is a rising enthusiasm for design thinking not only to develop products but also to guide strategy and shape decisions of all kinds.”

It is being taught in multi-day seminars like Stanford University's “Design Thinking Boot Camp,” and put into practice at major U.S. companies like PepsiCo and IBM. PepsiCo CEO Indra Nooyi told the *Harvard Business Review* last September that “design” has a voice in nearly every important business decision the company makes. And IBM CEO Ginni Rometty says design thinking is “at the center” of her massive reinvention of IBM that focuses on the cloud, analytics and mobile computing. Some 8,000 IBM employees have gone through some version of DT initiation.

IMPLICATIONS FOR BUSINESS: Time will tell how Citigroup's bold work space experiment works out. Meanwhile, design thinking deserves serious attention. A word of caution, however—it probably requires outside talent. In-house people—even those with records of innovation—are likely to wind up solving problems in the same old ways. DT at PepsiCo didn't really get traction until the Company hired an expert who demanded (and got) substantial resources, a design studio and a seat at management's table. IBM engaged a cowboy-boots-wearing specialist who told Ms. Rometty he would need a thousand designers to embed DT thinking at IBM. Her response, to her credit, was: “Go. And how fast can you do it?”

STOCK BUYBACKS ARE ON THE RISE

Stock buybacks continue to grow in popularity, with many large companies in the United States announcing share repurchases in 2015.

That is because buybacks provide companies and their boards with another way of returning capital to shareholders.

And, in contrast to dividends—which tend to become routine and expected events—companies can employ buybacks at their discretion.

Buybacks, in short, increase companies' flexibility in how they manage their resources.

McKinsey, the global business strategy consulting firm, estimated late last year that share buybacks alone have increased to almost half (about 47 percent) of the market's income since 2011, from about 23 percent in the early 1990s and less than 10 percent in the 1980s.

As Wall Street analysts have observed, S&P 500 companies in 2015 returned more money to shareholders with dividends and stock repurchases than they actually earned. There has been concern, however, that companies may sometimes use share repurchases to prop up their share prices.

Buybacks, critics say, can help to create an illusion that a stock is undervalued. Nevertheless, a number of value experts consider buybacks a useful and legitimate way for a company to invest its capital.

IMPLICATIONS FOR BUSINESS: Stock buybacks give management greater flexibility in managing their capital and resources.

Their increasing popularity has attracted more research and commentary, notably from management consultants and analysts.

DID YOU KNOW?

8.8 million more Americans had health insurance in 2014 than in 2013.

THE FUTURE IS ARRIVING FAR FASTER THAN EXPECTED

The speed of change and innovation is accelerating rapidly, altering the way people live in the United States and other advanced industrial societies.

The worlds envisioned by George Orwell in "1984" and Aldous Huxley in "Brave New World" now seem almost quaint, even passé.

The number and scope of innovations is impressive and growing almost by the day. As William Ford Gibson, the American-Canadian novelist and essayist, has said: "The future is already here—it's just not very evenly distributed." (Gibson is also credited with predicting the rise of reality television and with establishing the conceptual foundation for the rapid growth of virtual environments such as video games and the World Wide Web.)

Here's a sample of a few recent innovations:

- Chemicals to reverse aging;
- Flying robots (drones) to monitor borders, deliver essential supplies and protect sensitive installations;
- Self-driving cars to improve transport;
- 3D printed replacement organs and limbs to prolong lives and speed improvements in healthcare;
- Nanobots (molecular robots implanted within the body to fix health issues); Neurons that can tell stem cells to produce more neurons to enhance the brain's performance, and even brain implants to restore memories; and
- Cryonics—placing brains and other organs and even whole bodies in suspended animation—which some argue will soon be a realistic alternative to dying.

IMPLICATIONS FOR BUSINESS: There is an accelerating need for companies to innovate and keep up with technological developments and their implications for growth and competition as well as for society.

DID YOU KNOW?

By 2030, it is projected that China will have 148 cities with more than a million inhabitants, out of a worldwide total of 663.

TECHNOLOGY: WHAT'S AHEAD?

Expect dozens of forms of new technology to emerge in 2016 and beyond. A good place to gauge what is ahead is to look at IBM's predictions, which follow here, and are printed with the Company's permission:

- More business will shift to cloud-enabled business models;
- Software-defined storage will be THE storage of the hybrid cloud era;
- Cognitive will drive business processes and decisions;
- Cognitive capabilities will shape IT operations;
- Advancements in mainframe technology will help deliver greater trust in cloud security.

Beyond that, on the game front, Samsung's Oculus Rift and other systems like it will take users to worlds and places never before experienced. AT&T signed more than 300 deals in 2015 that connect everything from your garage door, your thermostat and your home locks and more through single phones/numbers. Your car is likely to become a smartphone all on its own; your voice will become a major driver for you in the years ahead; drones, used in the military will become part of everyday life (it is estimated that packages less than 5 pounds will be delivered by drone;) look for more smart watches and fitness bracelets, but even more significant, health-monitoring technology may not be worn but contained within the human body.

IMPLICATIONS FOR BUSINESS: Technology has created a new world and you need to keep pace to be competitive. It is that simple.

2015 THE BIGGEST YEAR EVER FOR M&A; 2016 SEEN AS SLOWER

The year 2015 was the biggest ever for mergers and acquisitions, with the global total of \$4.7 trillion eclipsing the previous record of \$4.4 trillion set in 2007. The deal creating the most attention—and controversy—was the agreement of Pfizer to acquire Allergan for \$160 billion.

Historically low interest rates were a major factor in fueling the year's M&A boom. Others were the pressure to become more efficient in a slow-growth economy and the desire to keep up with rivals who were doing the same.

Naturally, banks benefitted most from the M&A surge, including Goldman Sachs, JP Morgan Chase, Morgan Stanley and Bank of America. Goldman Sachs led M&A advisers in 2015, handling more than \$1.8 trillion in worldwide deals, according to Dealogic.

The largest planned deals were: Anheuser-Busch InBev's plan to purchase SABMiller for \$117 billion, including \$11 billion in debt; DuPont's and Dow Chemical's planned union valued at \$68.6 billion; and Dell's \$66 billion offer for software company EMC, which would be the largest tech merger ever.

Drug Mergers

The proposed combination of the giants Pfizer and Allergan, based in Dublin, Ireland reignited the debate over U.S. tax policy concerning overseas profits, prompting plenty of anti-corporate opposition.

The fact that the U.S. government taxes the overseas income of its domestic corporations while most major countries do not is at the heart of the debate. In defending the deal, Ian Read the CEO of Pfizer and Bret Saunders, Allergan's CEO, have spoken out sharply against current U.S. tax policy, which they say makes their so-called tax inversion plan necessary.

Investors are also concerned that many of the deals planned, but not concluded in 2015 could be blocked by antitrust regulation. As a result, several takeover targets now trade at steep discounts to the offering prices.

Looking to 2016, the consensus is that dealmaking will continue, but at a somewhat reduced pace. Rising interest rates and uncertainty about the economies in China and Europe are cited as the prime concerns.

Nevertheless, 74 percent of executives surveyed by EY expect to actively pursue acquisitions in the next 12 months. And corporate deal pipelines are larger than six months ago, with many companies looking at three or four potential deals at once.

IMPLICATIONS FOR BUSINESS: The pressure for companies to jump on the merger bandwagon remains strong. It takes strength and independence not to be swept up in the merger frenzy in a lackluster economy fraught with uncertainty.

Many of the real M&A heroes are those who turned away deal opportunities because the price simply wasn't worth it. Company executives and boards of directors must also keep in mind that the economic value of any M&A deal must be communicated clearly and convincingly to shareholders and other constituencies.

IS CORPORATE CULTURE CHANGING?

An early crack in the button-down culture of American business occurred in the early 1970s when a top official of a big computer company was visiting the Manhattan offices of a major client, a man polite enough to accompany his visitor down to the lobby after their meeting.

On the way down, the elevator stopped a few floors below, and a scruffy looking fellow without a tie and jacket got in. In the vernacular of the time, he was dressed more like Abbie Hoffman than Richard Nixon. After the man got off, the visiting executive scowled and said, "Don't you have a dress code here?" To which the client replied, "We do. He's one of *your* guys!"

The incident prompted outrage back at headquarters, triggering a stern company-wide dress code memo from the boss, a message that no doubt spurred at least a temporary spike in Brooks Brothers white shirt sales.

These days, such memos are rare if not irrelevant in our increasingly informal business culture. “Casual Fridays” now seem to occur every day of the week. Hoodies, t-shirts, jeans, sneakers and messenger bags are trending relentlessly eastward from Silicon Valley, where anyone with a necktie is viewed as an alien.

Today’s business culture includes much more than t-shirts and shower clogs. Yoga retreats and 15-minute, on-site massage therapy sessions are now the rage at many companies. 24/7 free food, game arcades, barbershops, nap pods, and even concierge services exist. In lieu of offices, picnic-table seating is supposed to democratize the workplace and emphasize the “one big team” approach. Flex options allow filing that latest sales report from your kitchen table—after alerting your Facebook friends to the breaking news that you just had kale sautéed in coconut oil, topped with a scrambled egg-white for breakfast. Meanwhile, back at the office, everyone’s feeling warm and fuzzy after the morning Zumba class, being “nice” and non-confrontational with each other, and looking forward to the Friday afternoon wine pour, which this week features “interesting un-oaked Napa chardonnays!”

But there are signs the pendulum may be swinging back in today’s coddled “whatever you want!” culture. In a well-publicized move three years ago, Yahoo declared that working at home was no longer an option, claiming that bringing everyone back into the office would spur more collaborative communication. Best Buy soon followed. Inhabitants of the endless rows of low-partition cubicles have complained about lack of privacy. Some companies now provide out-of-earshot spaces where employees may call doctors, brokers or girlfriends without fear of being overheard.

And *The Wall Street Journal* recently reported that “nice” is becoming a four-letter word in some offices, where management believes being soft and pleasant hurts productivity when people don’t openly and honestly criticize each other. Thus they encourage more direct, blunt discussions. Which some people say portends a new office trend: “front-stabbing.”

IMPLICATIONS FOR BUSINESS: The start of a new year is always a good time to assess and, if indicated, recalibrate policies that affect employees and their productivity. It’s important to balance working conditions and morale with financial results, but only in ways that don’t impair long-term growth of the corporation. It’s never easy to scale back on benefits that people treat as entitlements. But sometimes that may become necessary.

DIGITAL Vs. PRINT: WHO'S WINNING?

There is scant argument that in the media arena, especially, digital outlets have battered the analog world of print. Major daily newspapers have vanished in cities across the Country as an estimated quarter of once-working journalists have found themselves jobless, losing out to *BuzzFeed*, *The Daily Beast*, *Slate* and *Salon*.

Yet, many print outlets, despite the obituaries from those in the industry, remain alive and kicking. There are currently 1,331 daily print newspapers still being published in the United States including several national sheets such as *USA Today*, *The Wall Street Journal* and *The New York Times*. Almost all also have digital operations, but print is dominant in terms of influence.

It should also be recorded that 7,000 non-daily newspapers continue to be published in smaller communities across the Country, not to mention an imposing 17,000 or so print magazines of both general and specialized interest across the country.

As for hardcover books, readers now support an estimated 1,000+ publishing houses, whose books are sold in over 1,700 independent bookstores that are members of the American Booksellers Association in addition to large chains like Barnes & Noble and scores of university presses.

In the long run, the age of bits will triumph over physical objects and services. Digital is more affordable, ubiquitous and convenient. But, evidently, many people still opt for the feel, touch and even smell of newsprint and hardcover books—books, incidentally, that can be placed on shelves in one's home for all to see.

It is newsworthy that Amazon recently made two surprising announcements: Its sales of e-books on the Kindle dropped for the first time ever and it planned to open a bricks-and-mortar bookstore—an ambition realized in Seattle in November. Letter-press print offerings may be on the way out, but they are very far from being dead. Electric typewriters and carbon paper will probably never come back. On the other hand, many analog artifacts, such as vinyl records, are in a multi-year resurgence.

IMPLICATIONS FOR BUSINESS: In the final analysis, the digital world will prevail, but there are plenty of dollars to be made in the analog space. Last year the Japanese media giant Nikkei paid an incredible \$1.3 billion for the orange-colored, prestigious *Financial Times* and Jeff Bezos, the Amazon founder, shelled out \$250 million for *The Washington Post*.

ADVANCES IN EMBRYONIC STEM CELL RESEARCH

Pharmaceutical companies continue to make important advances in drug therapies, especially for various cancers. Lung cancer alone has 123 medicines in development, solid tumors 227. This dramatic number of potential wonder drugs will no doubt benefit patients for many years to come.

But perhaps a more interesting increase in research is coming from the scientific study of embryonic stem cell cures.

Human stem cells carefully engineered and transplanted have shown remarkable results in treating diseases ranging from ALS (Lou Gehrig's disease) and Alzheimer's to blindness, blood disorders, all forms of cancer, and diabetes.

Recent developments in hearing loss and heart disease, multiple sclerosis, muscular dystrophy and Parkinson's have been especially encouraging.

The most remarkable results have occurred in patients with previously irreversible spinal cord injuries. In the laboratory, rats with spinal paralysis have had limb function restore with engineered stem cell replacement. These encouraging results have research scientists accelerating their efforts with hope for a full or partial cure in the future.

There are many obstacles, however. Most religions take no official stance though some Protestant denominations as well as the Catholic Church are opposed to human embryonic research, which relies mostly on abortion to supply the embryo.

Stem cell research is seemingly hard to come by. The research takes many years, the results are often unsuccessful or sporadic and it's hard to see how those doing the research will profit from their efforts.

All that said, many research organizations around the world still compete without sharing research results. This will, no doubt, slow success.

IMPLICATIONS FOR BUSINESS: Obstacles aside, look for continued and accelerated research with successes, full or partial, reported around the world. Genetic mapping and stem cell therapies are the future of medicine.

NO TALKING: HOW TECHNOLOGY IS HARMING THE ART OF CONVERSATION

The art of conversation is being lost and devices are replacing face-to-face exchanges.

We wrote this in 1999 when beepers and fax machines were cutting-edge, the smart phone was undreamed of, and “texting” was not a word.

In the years since, the pace at which electronic communications replace personal conversation has accelerated dramatically. Anyone who has watched a parent ignoring the child being pushed in a stroller in favor of a smartphone screen, or noticed couples in restaurants engrossed not in each other but in texting, can see quite clearly how technology is diminishing human interaction.

The evidence is more than anecdotal. Increasing numbers of social scientists are studying the extent to which people—especially young people—are behaving in new and different ways because of their preference for Facebook, texts, Twitter, Snapchat and all the other forms of impersonal dialogue.

MIT Discovery

For example, MIT’s Professor Sherry Turkle has discovered that her students observe what they call “the Rule of Three,” which means that in a group of friends it’s okay to look down at your screen if three of them have their heads up and are chatting. The conversation goes on, but with different people involved at different moments. As a consequence, the talk has to stay light—topics where people can drop in and out—a far cry from the intense sessions of an earlier era.

Professor Janet Sternberg of Fordham University reports that many of her students don’t look her in the eye when they talk and cannot handle the basics of a normal conversation. She says of actual conversation, “It is an art that’s becoming as valuable as good writing,” a truly disturbing observation.

The impact may be even worse. A University of Michigan study found a 40 percent decline in empathy among college students over a 10-year period—and that was back in 2010 before smart phones had become nearly universal. The fact that the Internet is now a platform for rude, mean and even vicious commentary confirms that the same technology that seems to bring us all together is simultaneously driving us apart.

But all is not lost. Social scientists also report that younger people can reacquire the ability to engage in real exchanges and regain their sense of empathy after relatively short separations from their devices. Just a few days, it seems, can work wonders. Another thing that helps is when parents put down their devices and engage the “app generation” in actual, good old-fashioned conversation.

IMPLICATIONS FOR BUSINESS: Companies that hire significant numbers of young people may want to keep a close eye on their ability to carry on normal face-to-face conversations. One tell-tale sign is whether they are capable of looking away from their devices for significant periods of time. If not, part of the job training protocol may have to be “stop texting and start talking.”

DID YOU KNOW?

Time magazine’s very first “Man of the Year”
(as it was then known) was Charles A. Lindbergh in 1927.

BE READY FOR A NEW SPACE RACE

As our planet has occupied itself with all manner of earthly strife, the conquest of space has taken a backseat. Now, however, a revived space race appears in the offing.

The immediate goal is to place humans on the Moon again, reprising Neil Armstrong’s historic landing in 1969. Space exploration watchers are looking for a return trip to the Moon in the 2020s—one that may include women as well as men.

It is expected that once again, an American-led team will beat the Russians in the next lunar voyage. However, China will be in contention this time around, hoping for U.S. budget cuts or political or scientific problems that might set America’s efforts back.

Space discovery authorities foresee a manned flight to Mars a decade later. And some highly visible public figures have announced plans to sponsor their own trips beyond the Earth’s atmosphere.

Richard Branson has formed Virgin Galactic, which aims to offer suborbital flights into space to paying customers in the next couple of years. Jeff Bezos and Elon Musk are in competition to launch rockets to carry satellites into space. Most recently, Paul Allen of Microsoft fame went public with a plan to build the world’s biggest airplane to launch rockets at high altitudes.

What will drive the conquest of space this time around is the promise of scientific gains in healthcare, technology and telecommunications. That will require an \$18 billion annual budget for NASA plus billions more from private companies and countries.

Another prospective payoff will be physiology studies to help astronauts deal with the effects of prolonged weightlessness. Those studies may also lead to advances in treating the bone and muscle problems of seniors.

Knowledge acquired from space flights can also spur the interest of universities and companies in partnering with NASA to kindle the development of products like memory foam for mattresses, cordless power tools, and scratch-resistant eyeglass lenses. Given the need to spread the daunting costs of the space travel revival, some even see it as opening a new chapter in international cooperation.

IMPLICATIONS FOR BUSINESS: Any research-and-development-driven company will want to stay abreast of the revived space race and the exciting possibilities it presents for advances in healthcare, information technology and a vast range of products.

MANY METRO AREAS BOOMING

We are witnessing a major urban renaissance in this nation as key cities across the Country prosper, and gentrify, bringing sky-high rents and sales prices, attracting great numbers of tourist/visitors and offering more amenities (shopping, entertainment, cultural icons) that lure well-heeled suburban empty-nesters as well as very affluent residents from around the globe.

High-skill, high-paying industries are also increasingly drawn to such locations. Documented immigration (at least one million every year) likewise has played an important role. For whatever reasons, the newly-arrived (legal and otherwise) seem to gravitate to cities.

This is a trend that will continue.

A century and a half ago and even earlier, America was largely an agricultural nation. The post-Civil War period brought on rapid industrialization and rising northward migration to big cities—especially by African-Americans who found new job opportunities there. The trend changed again after World War II as millions of former military personnel responded to the call of the suburbs. Then, some two decades ago, suburbanization began to lose some of its appeal as the magnet of metro areas accelerated.

New York City, with a population approaching 8.5 million and growing, is a striking case in point. The massive move of younger, upper-middle and wealthier class people to sprawling suburban communities that characterized the post-World War II period has halted.

Reasons for this urban movement are varied. One can point to a substantial drop in crime rates and, more significantly, the arrival of high-income, very skilled individuals—perhaps 10 percent of the overall population—that has been in the vanguard of this latter-day urbanization. They are often comprised of a working husband and wife, accustomed to long hours, who have rejected commutes from the suburbs.

Meanwhile, the mounting absence of affordable housing has, inevitably, motivated many of the poor and a shrinking middle class to migrate out of the cities and often into decaying suburbs. That noted, the balance between small and big-town America still heavily favors metropolitan regions—a trend that appears unstoppable.

IMPLICATIONS FOR BUSINESS: Historically, business growth has always kept pace with rising urbanization in this Country.

SINGLE AMERICA

Americans—notably in recent times, gay Americans—are still getting married, but, for most, later and at lower rates than in previous years. Not too many decades ago, married couples represented 76 percent of households in this Country.

In 2014, however, the U.S. Bureau of Labor Statistics disclosed that 124.6 million Americans, age 16 and older, were single —50.2 percent of the population compared to 37.4 percent in 1976. The unattached are now a slim majority across the United States. In this era of dramatic social and cultural change, one can point to a multitude of reasons for this development.

The feminism movement has, to be sure, been a key factor here. The stigma once attached to a woman's single status has disappeared, and with it such terms as “spinster” and “old maid.” Time was when economic security was very often a compelling determinant in promoting marriage. Today, with so many women part of the nation's workforce, that is no longer the case.

Working women, often in very high-paying jobs, are the rule. They have become as career-oriented as men and financially independent. Meanwhile, co-habitation, without marriage and often with children, has become a commonplace contemporary American lifestyle.

Sex Taboos

Today's relatively neutral attitudes about pre-marital sex, once totally taboo, is an important contributor to this climate. These free-wheeling days even young high schoolers are sexually active. Technology, of course, has played a role. With literally hundreds of web dating sites available on the Internet (eHarmony, OK Cupid, Tinder, Match.com and countless more based on careers, age, geography, interests, religion, etc.) finding a sex partner, whether for one night or longer, is simpler than it once was. "What's your number?"—meaning your number of sex partners—has become a popular game among many singles. Also, single motherhood is no longer a cause for shame and embarrassment and, in fact, is widespread.

The latest data show that poorer young people, with a high school diploma or less, are much more likely to avoid marriage than college-educated individuals. But matrimony, however, is far from dead. Single people do take their vows, but at a substantially later time in their lives than formerly. For years, the average age for people to wed was 20 for women and 22 for men. Now, it is 27 for women and 29 for men.

As might be expected, the high divorce rate has contributed to the singles explosion. Nonetheless, the divorce rate for college-educated marrieds is 25 percent, or about half that of less-educated persons.

IMPLICATIONS FOR BUSINESS: For the real estate industry and other goods and services providers serving single households, the trend is a plus. Yet, overall, declining birth rates for singles, and marrieds who opt not to have children, add up to slower growth and fewer consumers.

A FEW WORDS WITH YOU

The English language, to say the very least, is dynamic and constantly growing. Shakespeare, probably the greatest English writer of all time, used more than 30,000 different words in his plays and poems, but had a small vocabulary compared to today's definitive Oxford English Dictionary, which lists vastly more. The Oxford Dictionary also produces each year a rundown of newly-invented words, mostly these days by Millennials, that pop up more than occasionally in texting and other forms of digital communication.

Try "hangry," which describes a bad-tempered person who may also be hungry, or "rando," meaning a person one does not know, who appears odd and suspicious, or "wine/beer o'clock," meaning the appropriate time of day to start imbibing. Political neologisms also abound, such as "Hispandering," suggesting, of course, pandering to Hispanics.

The U.K. lexicon lists dozens more, from "awesome sauce" and its polar opposite, "weak sauce," to "manspreading" and "butt dial," which is nothing more than calling a wrong number on a smartphone buried in your pocket somewhere.

Another new addition to the language is the English/Japanese coinage “emoji,” which is how young folk define a small image or icon representing an emotion. And then there is the now oft-repeated word “meme” to convey an idea, belief system or behavior passed from one individual to another.

IMPLICATIONS FOR BUSINESS: The more communications the better, but as the late writer-teacher, William Zinsser, argued, the best writing still demands “brevity, clarity, simplicity and humanity.”

THE RISE OF THE COMMUNITY NEWSPAPER

The decline of print journalism has been precipitous over the past 15 years, with the winnowing of major metropolitan dailies across America. The sharp drop in print advertising, from classified to retail and automotive, and the rise of new media has forced newspapers to cut staff and their editorial news hole, and left a vacuum in news coverage across the nation.

Electronic media—TV and radio—suffered a similar fate even before it began to afflict newspapers. Their news staffs nationally and locally have been attenuated for decades and much of the reporting they used, particularly on a regional level, was borrowed from the newspapers in their circulation area.

However, as major metropolitan dailies have decreased in number and seen their newsrooms decimated, local news is experiencing somewhat of a resurgence in many markets, where readers still rely on weeklies and community papers to provide the basic reporting they want—obituaries, high school sports, town government decisions, local business, calendar events and features about arts and entertainment.

Community newspapers can have a strong franchise if they commit to local news that dailies do not carry, largely because the competing media and news aggregation sites do not get as granular nor commit themselves to small town coverage. At the same time, the weekly market can be both broad and targeted, offering alternative papers, ethnic publications, advocacy publications, supermarket tabloids, shoppers and business papers.

Newspaper circulation in America began eroding long before the advent of the Internet and the large-scale loss of advertising revenue. National circulation peaked in 1984 with 63 million readers for 1,600 morning and afternoon paid daily papers. In 2014, there were 1,331 dailies remaining, with total circulation of 40,420,000.

Yet, there are some 7,000 non-daily community newspapers in America that have a readership of 150 million each week. Total circulation, paid and unpaid, is placed at 65 million, and each copy is passed along an average of 2.3 times. Some 30 percent of the homes with community newspaper readers do not have Internet service, and thus rely more on traditional media for their news. Ad revenue continues to be a challenge, largely because the losses in print ads vastly exceed any gains from digital ad growth.

A key to success for some papers in this new world has been a combined digital/print approach, where many stories are published online as quickly as possible, while analyses and wrap-ups of ongoing stories are published in print on days when circulation peaks—in particular Wednesday or Thursday, Friday and Sunday. In fact, many newspaper companies offer circulation options that omit a print edition on slow days but offer full online access 24/7.

In the coming months and years, expect newspapers to continue their struggle and to innovate as much as possible to stay relevant and loyal to their mission. The print medium is far from dead, but changes to this vital public resource are far from over and new opportunities on a local level will continue to emerge.

IMPLICATIONS FOR BUSINESS: Community journalism can still reach readers on a more granular level. Print advertising rates are more affordable and packages are available across many editions in larger newspaper chains. Specialized weeklies target different markets, from regional business communities to arts and entertainment and ethnic groups. They should all be considered when pursuing advertising or news coverage.

CHANGING VIEWER MEDIA HABITS

On any given day, 18 percent of teens are watching ten hours or more of on-screen media, with nearly 50 percent of that viewing being done on mobile devices.

Today, young people are integrating screen time into many aspects of their daily lives—sending texts, checking the news or local movie times, or watching a full-length film or entire season of a favorite television show.

The average American adult uses electronic media 11 hours a day, utilizing smartphones, PCs, game consoles and multimedia devices, among other equipment.

Beyond the U.S., the most screen minutes are logged by the United Kingdom, followed by the U.S. and France. South Africa and Colombia are among the countries spending the least amount of time online.

The U.S. and Western Europe watch a lot of TV, while Asia and other developing economies are heavy into tablet and mobile use. Content is still most important, but consumers are creating their own experience, given the availability of new media.

Binge watching a favorite TV series is becoming very popular, especially among Millennials. That group is more likely to binge watch than non-Millennials—39 percent to 16 percent, respectively.

Millennials are using social media more than any other demographic. They are more likely to use Instagram and Twitter than their younger or older counterparts.

IMPLICATIONS FOR BUSINESS: Because of the shifting media landscape, to completely reach the desired audiences with a key message, it will take some serious research. To remain competitive and relevant, a business must take the time to find out which age groups are reinventing media, and make sure its brand is part of the viewing exposure of those groups.

TV Vs. THE INTERNET AND THE CONCEPT OF SOCIAL TELEVISION

The online future of TV is growing closer. Everyone from HBO to NBC, Showtime to CBS, is introducing an early iteration on the idea that TV soon will be just another app.

“Cutting the cord” was the culprit that led U.S. cable, satellite and telecom pay-TV companies to their biggest collective quarterly decline of about 625,000 viewers between April and June of 2015, according to the research firm SNL Kagan.

Cornerstone networks such as NBC, CBS, FOX and ABC are continuing to add content such as full episodes of their most popular television shows to their own app, giving consumers ample opportunity to stream them whenever and wherever they please, instead of their scheduled air time. Throw Netflix’s and Hulu’s growing library into that mix and it leaves little reason reduces the need for consumers to keep cable.

Yet, the number of pay-TV subscribing homes and businesses remains at 100.4 million, with 83 percent of homes still connected. A strong possibility that number remains high is that sports—the king of live television—has kept those hefty cable packages going strong.

Live sports have long seemed an impregnable category of entertainment. Bob Iger, the chairman and CEO of Disney, which owns ABC and sports behemoth ESPN, recently took a stance and stated that apps are the future of TV. So it would not be out of the question to think that live sports games, along with the already accessible highlights and other sports news, will increasingly become available by way of apps.

After all, it seems even the NFL is open to experimenting with the way consumers view games. In October, Yahoo streamed a Buffalo Bills-Jacksonville Jaguars game from London in what was “the first time an NFL game appeared exclusively online for free to anyone with an Internet connection”.

TV is indeed in trouble these days. Not the content of course—we are in the middle of a golden age of phenomenal programming—but the process by which we discover, find, and consume it.

IMPLICATIONS FOR BUSINESS: The change in viewing habits for television-style content speaks volumes about the evolution in lifestyles between generations. This is a clear example of how business or industry must adapt to meet the needs, values, and aspirations of Generation X and younger people. Busy lifestyles and technology increase the value of portability and convenience.

Also of note, with the rise of streaming platforms with original content, including Hulu, Amazon, and Netflix, the cost to create high-quality and engaging television-style programs has fallen significantly. This lowered cost barrier offers unique opportunity for branded content that was not accessible to marketing and communications departments previously. Businesses should look for new opportunities in this space to help build awareness and strength in their brands.

*“Courage is the price that life exacts
for granting peace.*

- Amelia Earhart

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