CHANGE!

THE DILENSCHNEIDER GROUP
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"Imagination is more important than knowledge."

--Albert Einstein

ECONOMIC OUTLOOK FOR 2010

Look for a slow, uneven and at times messy economic recovery in 2010 as companies and governments around the world face the defining issue of the coming 12 months: Whether to abandon the defensive postures and emergency measures that saw them through the global crisis, and train their sights on growth.

Do not be misled by the more than 3.5 percent growth rate in the fourth quarter. Growth in 2010 will slow as unemployment grows.

A repeat of the Great Depression was avoided last year (perhaps just barely) thanks to a coordinated and unprecedented response by nations and central banks. However, that achievement might have seemed of cold comfort to companies around the world that continued to cut costs and hoard cash on levels not seen since the 1930s.

In the U.S., the recession of 2007 ended in the third quarter of 2009 when the U.S. gross domestic product (GDP) showed a 2.2 percent increase. By year's end, manufacturing, construction, retail sales and household income had risen slightly, and unemployment in November actually dropped from 10.2 percent to 10 percent.

Wall Street swooned at this happy turn of events. At year's end, the Dow Jones average was up 60 percent from its March 2009 low. The dollar ended its long slide and gained against most other currencies. The economies of most of the European nations were also on a moderate upswing, except Spain, Greece and Ireland. Japan, soon to be eclipsed by China as the world's second largest economy, was also back on a growth path, albeit a slow one.

India and China are on pace to achieve growth rates more than double those of the U.S. or European economies this year. Optimistic investors are predicting equity market returns of 15-20% for these and other major Asian markets.

But while the Great Recession seems to be ebbing, some very troubling dangers still exist:

Danger Signs Persist

On December 13, 2009 former Federal Reserve Chairman Paul Volcker made headlines by pointing out a fact that, to us, seems indisputable: Even as recovery takes hold, the U.S. economy remains highly dependent on government support.

Two weeks later, the European Commission echoed Volcker's words by noting in a report that the economic recovery in the euro-zone remains largely dependent on "massive" support from central banks and national governments.

These two statements feature prominently in any attempt to predict economic performance in 2010. Why? The U.S. Federal Reserve and European central banks are beginning to implement “exit strategies” that would put an end to emergency measures that pumped trillions of dollars of liquidity into the system last year.

Although the Fed has indicated that it’s likely to keep near-record low interest rates in place, it remains to be seen how U.S. and global credit markets will function in the absence of liquidity programs that directly support banks and markets like mortgages and commercial borrowing in North America and Europe.

For readers of this Report, the most important question to be answered in 2010 is how much of the emerging new global demand is “organic” and how much is the product of monetary and fiscal stimulus monies flowing from Washington, London, Beijing and other political centers. In short, can this recovery survive without continued government intervention?

Consider also:

- The existence of over $1 quadrillion worth of unregulated derivative investments circulating around the globe, highly leveraged and unsecured by collateral.

- Mounting government debt among developing countries, much of which will never be repaid, and among developed nations, which will probably be repaid, but at great cost to the welfare of their citizens, especially the poor.

- The world's biggest debtor nation—the United States—serves as holder of the world's reserve currency, surely a conflict of interest on a grand scale and is therefore vulnerable to all kinds of mischief from its largest creditors. This makes this reserve currency—the dollar—less than a stable foundation, particularly when the U.S. appears addicted to deficit spending on a huge scale.

- Little sign that governments will rein in the wild and reckless excesses of private banks, investment houses and hedge funds.

- After accepting government bailouts to unfreeze the credit system, banks are using the money to pay down debt, make acquisitions and fatten executive salaries and perks.

The U.S. Consumer: The Tale of Woe Continues

Questions about the source of global demand are especially important at this stage of the economic cycle due to the continued sorry state of one of the former primary drivers of demand: the U.S. consumer. Although the Fed’s December 16, 2009 Federal Open Market Committee statement reported an improvement in household spending in the United States, a strong recovery in consumer spending in the next 12 months seems unlikely for a couple of very basic reasons:

- **Unemployment**: Unemployment declined to 10 percent in November from a 25-year high of 10.2 percent in October. (As previously noted, counting those out of work so long that they have quit looking for jobs and those who are working only part-time because they can't find full time employment, the percentage of unemployed or under-employed in the U.S. is estimated at 17.5 percent, or one out of every six working-age Americans.)

  While the reduction in the official jobless rate is good news, it would be wrong to project this progress into 2010. To the contrary, unemployment is likely to tick up further. Unemployment rates continued to rise for up to 19 months following the end of the recessions in 1991 and 2001, and there is little reason to believe that jobs will recover faster this time around.

- **Deleveraging**: Since the 1960s, personal consumption has been strongly correlated to household debt. This correlation was on display throughout the past decade particularly as low interest rates and home equity borrowing freed up hundreds of billions of dollars for consumer spending. Now that the era of easy money has come to a thunderous end, the relationship remains in force as U.S. consumers work through the aftereffects.

  A study earlier this year from the Federal Reserve Bank of San Francisco suggests the ongoing "deleveraging" could ultimately result in an increase in the U.S. household savings rate from the current level of 4-5 percent to 10 percent in the next decade. While an increase in the savings rate would be welcome news to many worried observers, a spike in savings at that magnitude would pare at least three-quarters of a percentage point from annual consumption growth every year.

  Look for this phenomenon to remain a key driver of economic performance in 2010 and beyond.

Despite the existence of any number of additional factors that could cloud the global economic outlook on a longer horizon—not least of which is the massive growth of projected U.S. budget and trade deficits and the danger they pose to the state of the global reserve currency—the consensus forecast from economists, investors and business leaders is for <u>continued economic improvement in 2010</u> characterized by sustained, if tepid, growth in the developed economies and a more robust recovery in the emerging markets, including growth rates of 8-10 percent or higher in India and China.

Even as they were preparing their 2010 projections, forecasters were reminded of the fragile nature of the global recovery when Dubai World announced it was seeking to restructure some $26 billion in debt, followed in short order by Greece's new government raising the specter of sovereign default within the euro-zone. These events demonstrated that the menace of global "systemic risk" remains a real threat, even as economies and markets begin to gain strength.

Moreover, there is no shortage of other potential disrupters to the global financial system, ranging from the lurking losses in commercial real estate to conflicts in the Middle East or major terror attacks. However, the suddenness with which the Dubai and Greece situations emerged as potential crises illustrated another disconcerting fact: The biggest challenges to the global recovery in 2010 will probably not come from any of the issues currently in the headlines—it's the unknowns that one has to worry about most.

IMPLICATIONS FOR BUSINESS:

- Don't get caught up in the recovery hyperbole. While it appears that the worst is behind us, corporate spending remains far below historic averages, and companies (many with significant excess capacity) in both the U.S. and Europe plan further staffing reductions in 2010. Meanwhile, economists have begun to debate whether the trauma of the Great Recession has permanently changed consumer spending habits. Tread carefully.

- Don't count on banks opening the credit spigot in 2010. You wouldn't know it after a year of headline-grabbing profits and compensation, but the industry is still under serious pressure. The bad loans and toxic assets that caused the balance sheet crisis among the world's largest banks haven't gone away, and the rapid deterioration of real estate portfolios could yet be a fatal blow to scores of smaller banks.

  At the same time, governments around the world are preparing to wind down many of the programs that acted as life-support for banks last year, while also preparing new regulations and more onerous capital requirements. The corporate credit crunch will continue in 2010.

- Negatives aside, 2010 is shaping up as the "Year of the Balancing Act" for most businesses. After two years of being on the defensive, cutting costs and hoarding cash to a degree almost unprecedented, companies will have to choose what they see as the optimum time in 2010 to re-engage in growth strategies on both an organic and external basis (strategic M&A).

  Wait too long, and watch your competitors gobble up market share. Move too soon, and you leave yourself with stagnant investments and exposed to the risk of a renewed downturn. At the end of the day, negotiating this delicate balancing act may prove the central challenge for business in 2010.

Only 40% of Americans pay income taxes.
Five percent of Americans pay 59% of the nation's total income taxes.

POLITICAL OUTLOOK FOR 2010:
MID-TERM ELECTIONS WILL BE CRUCIAL

Look for 2010 to be a fractious, divisive election year as a beleaguered President Obama struggles to push his bold agenda of change through a hostile and united band of Republicans on Capitol Hill with only limited support from feuding liberal and conservative Democrats.

The noxious mixture of Republican opposition and Democratic infighting over Obama's landmark national healthcare reform poisoned the national political climate and drove down public approval ratings of the President, Congress and the political process.

This presents the crucial question to be answered in the 2010 Congressional elections: Does America have the will and the fortitude to at last begin confronting some of the most critical problems facing the nation and the world?

Unless President Obama can reunify his badly divided Democratic Party, restore confidence in his leadership among independent voters, and win support of the few moderates who remain in the Republican Party, the answer will be a resounding no.

Recent years have seen more and more voters becoming “independent.” This group will play a key role in November and, as you read this, appeals are being fashioned to them from both Democrats and Republicans that fly in the face of traditions for both parties.

The Record Democrats Will Run On

Mr. Obama was elected a little over a year ago on a platform of change. Despite inheriting from the Bush Administration a near-collapse of the nation and world's financial systems, the worst global recession since World War II and conflicts in Iraq and Afghanistan, he nonetheless took up a bold agenda in the first year of his presidency.

President Obama begins 2010 in a weak position, with his public support steadily eroding.

His job rating is below 50% on the economy. His own party criticizes him for not following up on campaign promises. Many independents—a growing force—think he is moving too far to the left.

The stimulus promised to save or create 3.5 million jobs. It did not happen in 2009, although the program’s full effect is expected to kick in by mid-2010.

Longer-term, foreign crises loom. The war in Afghanistan, engagement in Iran, where the regime is focused on obtaining nuclear weapons, the stalled Israeli-Palestinian peace talks and hard-line positions from Russia and China could significantly affect the elections.

Obama's most notable achievements were to:

- Advance reform of the nation's chaotic and underperforming healthcare system, by far the world's costliest, but ranking well below most other developed nations in terms of effectiveness.

- Win House passage of a carbon cap-and-trade bill to reduce the use of greenhouse-gas emitting fossil fuels like oil and coal and spur development of alternative cleaner energy sources, including solar, wind, biomass, hydrogen and nuclear. Senate approval, though, faces considerable opposition.

- Put in place a plan for an orderly withdrawal of U.S. combat forces from Iraq and Afghanistan and reshape American foreign policy, relying more on diplomacy than military force to achieve national objectives.

- Enact a $787 billion economic stimulus measure and federal loans of billions of dollars to stave off collapse of the American auto industry.

Jobs Will Be the Big Election Issue

Historically significant as passage of a national healthcare bill may be, it is no longer the central political issue of the day—jobs and economic recovery will be the front burner issues in 2010.

Many economists, including Obama's top economic advisers, believe that a second multi-billion-dollar government stimulus in the form of a jobs program will be needed by mid-2010 to keep the economy growing. Since the vast bulk of the initial federal stimulus spending will have been spent by then, without a second jolt of federal stimulus, the economy is likely to begin shrinking once again.

Why Democrats May Lose Ground in November

Even if Obama succeeds in pushing ahead his agenda of change and the economic recovery continues, historic precedent indicates that the Republicans will pick up some House and Senate seats in the voting on November 2. Traditionally, the political party that holds the White House loses mid-term elections: Since World War II, the out party has gained an average of 23 House and two Senate seats.

In the Senate, there are 36 seats up for election 18 held by Democrats and 18 by Republicans. Some experts predict the Republicans could pick up from four to six seats if the political climate remains unchanged. The GOP's chances were strengthened early this month when two Democrats, Chris Dodd of Connecticut and Byron Dorgan of North Dakota, threw their seats up for grabs by announcing they won't run for reelection.

In the House, all 435 seats are up for election. The Democrats currently hold a 257 to 178 majority. Although the Republicans are expected to make considerable gains, the Democrats are likely to retain majority control. For example, the GOP could pick up 30 seats and the Democrats would still lead 227 to 208.

Still, House Democrats are visibly nervous. More than 80 of them were elected in 2008 from districts carried by George W. Bush in 2006 or John McCain two years later. That makes them vulnerable in a year when voter anger is building against their party. Last month, four veteran House Democrats from traditionally swing or Republican districts said they will not run for reelection, and one freshman Democrat, Rep. Parker Griffith of Alabama, switched parties.

Thirty-seven governorships are up for election, 19 held by Democrats and 18 by Republicans. Pundits think Republicans will make a net gain of up to five, including three big states—Michigan, Pennsylvania and Ohio. And Colorado will be in play now that Democrat Bill Ritter Jr. has decided not to seek a second term as governor.

Even if they suffer a net loss, Democrats have a good shot at winning three big states from the GOP—California, Minnesota, and Florida. But state elections often turn on local issues and are notoriously hard to predict.

Internal Dissension May Hurt Democrats

Democrats face serious problems with two constituencies that backed Obama overwhelmingly in 2008—African-Americans and Hispanics. Both groups are experiencing unemployment rates well above the national average and are critical of the Administration for not doing more to help create jobs.

Liberals are also unhappy with the Administration's decision to increase U.S. combat troops in Afghanistan and giving in to conservatives on a public option for healthcare.

Liberals and minorities are the core of the Democratic Party's base and unless they are mobilized, they may fail to turn out in large numbers in November. Obama needs to galvanize his party's base if the Democrats hope to avoid major losses.

Republicans Have Problems. Too

The Republicans have problems of their own. Their hard-right base—the tea party protesters, the death panel crowd, and the "birthers" who don't consider Obama an American citizen—are fired up. But their excessive zeal and, at times, bizarre behavior are turning off independent voters and moderates, without whose support the Republicans can't win general elections.

In addition to this problem—or more accurately, because of it—the Republicans face two major hurdles:

- **The need to field candidates with broad appeal.** The GOP's ability to recruit candidates who can cross partisan divides and win over independent voters will be a key to its chances in 2010. This will be a serious challenge, since finding that kind of talent won't be an easy matter in a party with such a narrow base. What's more, ultra-conservatives are threatening to go after middle-of-the-road Republicans, with right-wing talk-show hosts like Glenn Beck and Rush Limbaugh leading the attacks. That kind of vituperation drove the Republican candidate out of the special election in New York's 23rd Congressional District last November, allowing a Democrat to win a traditionally GOP district. The bitter memory of this episode will make the task of recruiting broad-appeal candidates that much tougher.

- **The need to offer fresh ideas.** The GOP dominated American politics from 1980 to 2006 on a platform of lower taxes, less regulation and smaller government. Thus far, judging by the rhetoric of its leaders in Congress, its thinking for 2010 consists of exactly the same thing. No party can run forever on static ideas—the world changes too much and voters look for something fresh. So watch what Republicans offer—or fail to offer—that's new and innovative as a barometer of their chances in the mid-term elections.

Keep in mind, too, that 11 months is an eternity in politics. George W. Bush looked like a one-term president in the summer of his first year in office. But the country rallied around his leadership after 9/11 and in November 2002 Republicans picked up eight House and two Senate seats, gaining control of both chambers of Congress.

What's more, Obama has proven to be a resourceful, resilient political leader, both as a candidate and as President during a very challenging period. He is likely to enter 2010 with momentum from the healthcare reform bill and a recovering economy.

The Year of the Tiger, 2010, shapes up to be an exciting one not only for the Chinese, but for Americans as well.

IMPLICATIONS FOR BUSINESS:

- With job creation the Administration's top priority, be positioned for continued economic growth, particularly in the construction, transportation and infrastructure rebuilding industries.

- Business and industry should be prepared to take advantage of Obama's plans to step up spending on research and development of alternative energy sources and promoting energy conservation.

- The Administration will press hard for Congress to curb emissions of greenhouse gases by passing carbon cap-and-trade or carbon tax legislation that will both reduce dependency on fossil fuels and make alternative energy sources more price competitive. If passed, expect a hike in energy prices—at least, initially.

- Legislation to re-regulate the financial system could prove costly to the banking and investment industries. Previously unfettered hedge funds, private banks and derivative investments will likely be especially targeted.

- Congressional Democrats may well press for punitive measures against health insurance companies and others in the heath care industries that opposed their efforts to pass a comprehensive national healthcare plan.

- If the Administration fails to pass a second fiscal stimulus bill, look for a drop in economic growth and a possible double dip recession.

The global population is expected to stabilize in 2050 at 9.15 billion people (there are 6,794,371,706 *people alive today), and the population of many cities previously cited in this Report will swell to incredible and unimaginable proportions.*

PUBLIC POLICY IMPACTS ON BUSINESS: MORE TO COME

Not since FDR's New Deal in 1933 have business interests and public policy been as conjoined as they have become over the past 18 months. In many respects, it matters far less what you think of this unlikely (and to some, unholy) pairing than how you adapt to it. Indeed, these days any mid-sized or larger business would be remiss *not* to consider the public policy implications of major operating decisions or shifts in strategy:

- Ignoring the public policy implications of business decisions leaves a company and its executives at risk of appearing tone deaf or indifferent to the public, to regulators and to the government. With government in an activist mode and politicians and regulators feeling their oats, these risks are substantial—as demonstrated by the public skewering of Goldman Sachs in recent months.

- Failing to take public policy considerations into account also puts companies at a competitive disadvantage by causing them to miss out on opportunities from hundreds of billions of dollars in new outlays by governments around the world. A few companies, such as General Electric, have already achieved "first strike" status by tailoring business initiatives specifically to win more of the $787 billion ordained for stimulus projects in the U.S., only half of which has been allocated.

  Skepticism runs deep both here and abroad about how much companies will actually profit from infrastructure projects that, so far, have been long on promises and short on results. Still, there is no question that the size of this pie is so enormous that businesses in industries affected by stimulus spending have to sit up and pay close attention, lest they cede advantage to their competitors.

  Expect more scrutiny on antitrust and focus on anticompetitive moves, such as collusion, price-fixing or predatory behavior. Christine Varney, who leads the Justice Department's Antitrust Division, will drive this effort.

IMPLICATIONS FOR BUSINESS:

- Public policy considerations are an imperative in major business decisions today, not an elective. This goes far beyond traditional lobbying. Consider tasking a senior executive (Executive Vice President or higher) and/or perhaps a Director with responsibility for thinking through the public policy implications of major strategic and operating decisions, and bluntly communicating those implications to other decision-makers.

- Have that individual report to the CEO or Chairman. Decisions are often made in the heat of competitive battle, or are, as in the case of compensation, fraught with emotion and self interest. An objective voice on broader social implications, and one with considerable influence, has become a necessary part of the decision-making process.

- Open the purse. With government becoming the new locus of power, all businesses need friends in politics. In today's environment, it's naïve and dangerous to think you can ignore government and get on with your work. Don't skimp and don't limit your contributions to any single political party. Get active, and get giving.

Chinese officials misused or embezzled $35 billion in the first 11 months of 2009.

THE LOOMING VALUE-ADDED TAX

With the federal government projecting $1 trillion plus deficits as far as the eye can see, what can be done to achieve meaningful deficit reduction? No combination of spending cuts, if any at all, and increases in income taxes can make a significant dent in the ongoing deficit parade.

So, eyes are turning to the Value-Added Tax, a consumption tax common throughout the world. In fact, the VAT is now in effect in 130 countries, from Europe to emerging economies.

Why are politicians and economic gurus starting to beat the VAT drums? Because it is the only untapped revenue source that can produce really big deficit-eating dollars. It is estimated that a VAT would yield $50 billion per percentage point. Thus, if imposed at the rate of 20%—the average European rate—the annual take would be $1 trillion!

Although a VAT has never previously gained traction in the United States, it is now generally recognized to "be on the table." 2010 will see the beginnings of a serious dialogue and the political positioning that could lead to the ultimate enactment of a VAT.

The VAT is commonly referred to as a "national sales tax." But unlike a sales tax, it is not paid as an add-on by the retail purchaser. Rather, it is embedded in the price of the goods or services charged to the consumer. It is imposed and collected at each stage of manufacture, production, distribution and sale on the "value-added" at that point in the chain.

Because a VAT is ordinarily rebated to exporters, but imposed on importers, it is believed to enhance competitiveness in foreign markets and is thought to be relatively easy to administer and enforce. As a tax on consumption it should encourage savings and, thereby, capital formation.

The big negative is that it extracts a greater relative percentage of spendable income at lower income levels and, therefore, is considered regressive in nature. That, however, can be alleviated by such things as the exemption from the tax of specified goods and services (food, for example), and by providing tax rebates to lower income families.

Do not expect a VAT to be enacted in 2010, or any time before economic recovery has reduced substantially the unemployment rate. A VAT, by increasing the cost of goods and services, would be an adverse factor for the unemployment rate and not politically feasible until "normalcy" returns.

IMPLICATIONS FOR BUSINESS: Now is not too soon for businesses to start to analyze the effect a VAT would have on their operations and profitability, and to move ahead with contingency planning. Also, each company needs to determine whether it would be for or against enactment of a VAT and the steps it should take, alone or in conjunction with others, to advance its position politically.

AMERICA AT WAR

There is a view building outside the U.S. that “war is the American way.”

This takes on added meaning with President Obama’s decision to send 30,000 more troops to Afghanistan.

The thesis here is that U.S. troops and others paid for by the U.S. have been positioned abroad for more than 20 years, and trillions have been spent maintaining these men and women and on developing new weapons for them.

Here are the facts about the largest standing armies in the world:

1. People's Republic of China—People's Liberation Army—2,255,000 for a population of 1,338,612,968 (0.17%)
2. United States of America—U.S. Armed Forces (DOD)—1,473,900 for a population of 307,212,123 (0.5%)
3. India—Indian Armed Forces—1,325,000 for a population of 1,166,079,217 (0.11%)
4. North Korea—Korean People's Army—1,106,000 for a population of 22,665,345 (0.5 %)
5. The Russian Federation—Armed Forces of the Russian Federation—1,037,000 for a population of 140,041,247 (0.7 %)

In citing the overall defense budget, U.S. adversaries point out that the U.S. intelligence community lists 16 services ranging from Air Force Intelligence, the Central Intelligence Agency, and the Defense Intelligence Agency to the National Reconnaissance Office and the National Security Agency, with a cumulative 2009 budget estimated at more than $55 billion.

They suggest that the U.S., with $37.8 billion in arms sales (up $12.4bn from 2007), controlled 68.4% of the global arms market in 2008.

They point out that withdrawal from Iraq will require removal of 1.5 billion pieces of equipment and ask that when the U.S. infrastructure needs repairs, why we are spending on the building of a three-story $17 million troop barracks in Afghanistan; a $220 million upgrade of a base that includes new water treatment plants, headquarters buildings, fuel farms and power generating plants; plus our installation of 15 bus routes, two fire stations, two water treatment plants, two sewage treatment plans, two power plants, a water-bottling plant and the requisite set of fast-food outlets and PXes, as well as air-traffic levels compared to those at Chicago’s O’Hare International and Bagram Airfield in Afghanistan.

<u>**IMPLICATIONS FOR BUSINESS:**</u> Expect this trend to accelerate despite the criticism and for those involved in this military/industrial space to prosper and ask for more.

TERRORISM—A GROWING DANGER

The attempted bombing of an airliner on Christmas Day confirms what experts have been warning all along: The terrorism threat is on the rise as recruits are drawn not only from the Muslim poor, but the middle class as well. The reasons are both religious and economic.

On the religious side, the flames are fanned by clerics who promise their followers everything from a glorious afterlife to the establishment of a global Islamic empire. About 200 clerics are driving this, with these five leading the way: Abu Yahya al-Libi, Anwar al-Awlaki, Abu Muhammad al-Maqdisi, Khalid bin Abdul Rahman al-Husainan and Abdullah el-Faisal. If you want more background on these men, please let us know. On the economic side, television and the Internet have created a huge class of people—mostly young—who seek a better life and intend to get it by whatever means possible. Muslim immigration into Western Europe has created almost ungovernable districts in major cities like Paris, London and Amsterdam.

As President Obama pointed out after the near-disaster in the skies over Detroit, the challenge for the West is not only gathering intelligence on terrorist plots, but coordinating it. U.S. agencies actually had all the information they needed to keep the would-be bomber from boarding a U.S.-bound jet, but they failed, just as with 9/11, to connect the dots. Obama's push to strengthen inter-agency communications is crucial, because al-Qaeda keeps evolving and adjusting its tactics, and the West must evolve and adapt too.

Yemen New Hot Spot

While many countries of the Middle East are worrisome, Yemen is the new hot spot in the war on terrorism. The Carnegie Endowment for International Peace warns that this impoverished nation on the southwest corner of the Arabian Peninsula faces "unprecedented" levels of instability that the government has done little to address. Al-Qaeda has set up training camps in the remote mountains of the north and has aligned itself with separatist rebels in both the east and west. The U.S. has sent in Special Forces trainers to bolster the Yemeni army, and Saudi Arabia, deeply concerned about the threat on its southern flank, has become increasingly involved militarily. But the outlook is uncertain. Expect to hear more in the coming year about the Houthis, a violent group working to dominate Yemen.

Meanwhile, in Somalia, the Jihadist group, Al Shabaab, publicly pledged allegiance to Osama bin Laden in September. Look for this group to take action.

In India the Kashmiri will continue terrorist attacks and drive a fissure between Pakistan and India that will impact the world.

There is much more happening.

In Afghanistan, the resurgent Taliban is funding its bloody comeback with drug trading, kidnapping and extortion. The Pentagon pegs the income from the drug trade alone at anywhere from $70 million to $400 million a year. What's more, according to the CIA, Taliban leaders received more than $100 million last year from foreign donors—private citizens from Saudi Arabia, Pakistan, Iran and other Persian Gulf nations.

IMPLICATIONS FOR BUSINESS: Business needs to operate knowing that the bottom can drop out in a moment. Companies should have contingency plans ready in the event of a major terrorist strike.

The market for "do-it-yourself" medicine in the United States is already $232 billion, and it is projected to grow 11% annually, reaching $452 billion by 2015.

RUSSIA / IRAN / IRAQ / PAKISTAN / AFGHANISTAN: WHAT TO EXPECT AND WHAT TO KNOW

Incredible reports that shape opinions and actions are coming from these countries on an almost daily basis. Just how credible these reports are is a serious question.

But what is clear is that how these countries and their leaders resolve their roles will dramatically affect the rest of the world.

Consider:

- **Russia**, under Prime Minister Vladimir Putin and President Dmitry Medvedev, is in terrible economic shape. The economy, based on which sources you listen to, is off between 15-25%.

  An increase in the size of Russia's workforce, which accounted for almost one-third of the growth in real per-capita GDP over the past decade, is going in reverse. Some estimates are that Russia's labor force could shrink by as many as ten million people by 2020.

  Observers see problems in major cities—Moscow and St. Petersburg—but have no way of tracking what is happening in the rural areas. It is not good. Health issues are increasing. Consumption of alcohol is at an unprecedented level. Order comes from fear and power. A question: Is it possible to effectively govern Russia? To have a strategy?

- **Iran**—Pressure is building on the leadership and anti-government demonstrations rule the day as the people are upset with a lack of direction and leadership. The economic potential in this country is substantial, but it is largely untapped because of religion and other forces operating without a plan or a focus.

  It is unclear whether Ahmadinejad and the Ayatollah Khamene'i are in charge or are now beholden to the Revolutionary Guards.

  What is clear is that Iran wants to:

  - Preserve its revolution;
  - See al-Qaeda and the Taliban stopped;
  - End opium production in Afghanistan, because Iranians suffer from a massive addiction problem;
  - Continue its nuclear program;
  - Increase its oil revenues. This country will earn $50 billion in oil revenue in 2009, but the West will not sell Iran modern technology to increase its product.

- **Iraq**—Corruption and dissatisfaction now rule this country, which is a haven for many facets of a terrorist movement. Information about what is happening is unreliable.

  Illiteracy is still high—ranging between 20% and 45%. Most alarmingly, illiteracy is 18% in the under-15 age group and 43% among females. For every 100,000 books published in North America and 42,000 published in South America, Iraq plus the entire Arab world publishes only 6,500 books.

  Moreover, the region's unemployment rate is nearly 20%. This region needs 15 million jobs almost immediately. In the next two decades, the Arab world will need at least 80 million new jobs.

- **Pakistan**—A center for terrorists and for arming the Taliban and similar Jihadist organizations opposed to the West in other countries. This is a nation with many violent extremists who are committed to defeating modernity.

  In the 2009 Failed States Index, Pakistan is 10th out of 177 countries.

  President Asaf Ali Zardari came to power when Benazir Bhutto, his wife, was assassinated. In Bhutto's government, he was known as "Mr. Ten Percent," the most corrupt of the corrupt. Pakistan is one of the 40 most corrupt nations. In his country, he is seen as a tool of the Americans.

As a flood of court suits emerge in 2010, Zardari will transfer more power to his Prime Minister in hopes of remaining as President. But predictions are he will fail and be driven from office in 2010.

Most likely successors are the Prime Minister, Yousaf Raza Gilani, and Nawaz Sharif, the head of the Pakistan Muslim League.

Gilani is already in power. Sharif is supported by Saudi Arabia, and his coming to power would stimulate the Islamic movement in the country.

The Pakistani military rules the country and is strong. General Ashfaq Kayani leads the military but will retire in 2010. Everyone wants to be his successor. Know that Pakistan will not aggressively go after the Taliban and will continue to provide a safe haven for the Afghan Taliban and Afghan militia groups led by Jallaluddin Haqqani and Gulbuddin Hekmatyar.

- **Afghanistan**—No country (the U.K./Russia) has been successful in bringing order and nation-building to this country, but the United States is trying. How the U.S. fares between now and when President Obama has suggested forces will be withdrawn means absolutely nothing. A few years of efforts at democracy simply cannot reverse centuries of tribal conduct. The war is likely to get much more expensive and worse as this is happening.

IMPLICATIONS FOR BUSINESS: The consequences of what happens in these nations are huge. Information is not reliable and situations are subject to instant change. If a trusted, informed advisor can be found, embrace that person to at least have a sense of what is taking place.

The ten most corrupt nations in the world are:

- *Somalia*
- *Afghanistan*
- *Myanmar*
- *Sudan*
- *Iraq*
- *Chad*
- *Uzbekistan*
- *Turkmenistan*
- *Iran*
- *Haiti*

ISRAELI/PALESTINIAN PEACE PROCESS STALEMATED

The long-running, but floundering, Israeli-Palestinian peace process seems to have reached another formidable impasse. The objective, most agree, is the much-touted two-state solution based on the so-called “road map” laid out by President Bill Clinton more than a decade ago. Meanwhile, because of the lack of any significant progress, one also hears increased sentiment for a one-state solution—especially from radical sources on both sides. Thanks to demographic realities—chiefly, an exploding Palestinian population—that solution, unfortunately, would probably spell the end of a democratic Jewish state as we know it.

All kinds of formulas and compromises have been proposed about the many conflicting issues, but the first sticking point in any negotiation remains the Jewish settlements in the West Bank where some 300,000 Israelis now reside. Both President Obama and Palestinian Authority President Abbas have called for a total settlement freeze.

Israeli Prime Minister Benjamin Netanyahu, who appears to have the strong support of most Israelis, has offered to substantially reduce construction activities, but not to halt them. He specifically excludes East Jerusalem. His government even recently announced it would build hundreds of new dwellings in a section of that city it took over after the 1967 war.

Nobody seems to be budging. No real movement is apparent. The chasm between both sides may be wider than it has been in a great while. Since the level of violence at home has significantly diminished in recent months, there does not appear to be too much urgency on the part of the Israelis.

Respected *New York Times* columnist Thomas Friedman even wrote not long ago that “the only thing driving the peace process now is inertia and diplomatic habit.” He calls today’s efforts “dysfunctional” and argues that U.S. involvement, however well-intentioned, only delays the process. On their own, he contends, the Arabs, Israelis and Palestinians may begin feeling enough pain to start making some hard choices for peace. But Washington doesn’t see disengagement as a practical option.

Abbas Bowing Out

Abbas recently announced he would not run for re-election and suggested that he might even resign before his term ends. Evidently, Abbas has become convinced that the Israelis will simply not agree to a complete settlement freeze. His departure would merely place another barrier in the way of the peace process since the Israelis have come to trust Abbas as a moderate and a “peace partner” in contrast to an implacable terrorist organization such as Hamas, which has controlled Gaza since 2007 and still harbors the fantasy of an Islamic Republic of Palestine.

Notwithstanding, the Obama Administration and a number of European governments continue to search aggressively for ways to restart the peace talks, but it still doesn't look very promising. Persuading Abbas to stay in power is essential. To that end, economic aid to the Palestinians is being beefed up, prisoner releases supported, and efforts strengthened to get the neighboring Arab states more directly involved.

Both Obama and Secretary of State Clinton have made repeated statements about their friendship and unqualified commitment to Israel's security. But the only way now to break the impasse is for the President to get really tough with the Israelis about the settlements issue. Going into a mid-term election at home and beset by mounting domestic and international woes, that seems unlikely at the moment.

Nonetheless, the critical importance of a successful resolution of the now-60-year-plus crisis in the Holy Land cannot be over-emphasized. It could well be the ultimate key to stabilizing the entire Muslim Middle East and neutralizing the militant Jihadist movement.

IMPLICATIONS FOR BUSINESS: Although the Israeli economy, with its very strong entrepreneurial and technological base, continues to be robust and growth-driven, obviously, the unresolved Palestinian issue hangs over all business activity there like an ever-present, menacing threat.

THE PERSIAN GULF AS A SYMBOL FOR THE ARAB WORLD

Time was when the six oil-rich countries of the Gulf would turn to the West for managerial, financial and entrepreneurial talent to expedite their economic development plans. They turned to the Indian subcontinent and the Philippines for unskilled labor.

All that has changed.

Now the countries of the Gulf—even though they've been hit by the global financial crisis—are turning more and more to India and China for managerial talent. They are also inviting more and more foreign direct investment from these two countries.

Consider:

- The federation of seven sheikhdoms is weathering the global financial crisis through fiscal stimulus, monetary easing and systemic reforms;

- It is forging ahead with streamlined plans for sustainable economic growth;

- Abu Dhabi was recently awarded the honor of hosting the new International Renewable Energy Agency, the first multilateral organization to be headquartered in the Arab world.

To be sure, there are 350 million Arabs across a region of 22 nations who fell behind in the global race for progress and prosperity.

But all this is starting to change as Arabs see progress in the Gulf and recognize that a better future can be theirs.

Oil revenues are contributing less and less each year to the UAE's gross domestic product of $300 billion. Income spawned by trade, tourism and financial services is becoming more significant, accounting for more than 60% of GDP.

The first lesson that Emiratis learned from history—history that includes the rebuilding of Germany and Japan after World War II—was about the importance of a first-rate infrastructure. The second was about the value of a knowledge economy.

IMPLICATIONS FOR BUSINESS: This is a very tough place to do business and levels of confidence and trust should always be questioned. That said, Arab leaders understand how to move their people to a better life. They are working on it, and there are opportunities for the nimble businessperson.

Iraq will soon become the holder of the world's second-largest proven oil reserves.

CHINA: THE NUMBERS AND ACTIONS ARE STAGGERING

In China, the Communist Party, which has 74 million members—about 5.5 percent of the population—rules the country. But the final decisions are made by the party's nine-member Standing Committee lead by General Secretary Hu Jinto, better known as President of the People's Republic of China.

China is moving to spread the gains from the nation's spectacular growth to the more rural areas with tax cuts, subsidies and infrastructure spending. And well China should, because despite all the gains and successes, problems loom. A burgeoning middle class of 350 million has gained a strong foothold in the cities, but they are living with some 260 million urban poor. The rural population of more than 750 million farm and migrant workers has seen little advancement. Those at the lower end of the socio-economic scale are not happy, and 2009 saw thousands of demonstrations. The government admitted to 88,000 civil disturbances in 2006. No numbers have been issued since then. Expect more unless the government gets control of the situation.

Average income in China is $4,227 for city dwellers, compared with $1,691 in China's farming villages.

Keeping workers employed at wages of $3.60 a day is a key Chinese strategy to mitigate social unrest within a rural population.

China needs a steady 8 percent annual growth rate to accommodate the 10 million new workers entering the labor force every year. By beating that target with 10% growth for two decades, China's leaders gained a margin of error that allowed them to encourage more private companies to grow and invest and also to accumulate the government's $2 trillion foreign currency war chest.

China's government has embarked on a decade-long $440 billion spending program for renewable technologies, including new investments in water, solar and wind power. It is a partner with its auto companies in green car initiatives, including lithium battery technology, and through its defense budget, it is putting unknown amounts of investment into dual-use military/civilian communications and Internet programs.

In November, the government announced a $585 billion spending plan to create "shovel-ready" jobs, transport jobs, mining jobs and any work that would generate wages fast. Most of these jobs are being snapped up.

China's growth fell to 6.1 percent in the first quarter of 2009, the weakest showing since 1992.

Consumption of electricity, oil and steel was still falling even as the government's National Statistics Bureau announced an increase in industrial output. When skeptical economists asked how these trends could diverge—which does not happen in the West—the government attacked Westerners who questioned the improved growth trend.

With one of the world's highest savings rates (35%), China's consumers have plenty of pent-up spending power. But those large savings are there to protect the family from adversity. China has rudimentary health, education and pension systems compared with the West.

IMPLICATIONS FOR BUSINESS: A sustainable economic relationship between China and the United States will be critical to the economic model China's leaders embrace for the future. The two nations are on a seesaw.

ASEAN nations are concerned about China and seek an active American presence in the region so they are not dominated by China. To be sure, U.S. investments in these nations are three times greater than U.S. investment in China. The relationships in the region should be monitored very carefully, especially if your business success is tied to China.

What the CEO Should Know:

- If China goes for more social spending, watch for Western healthcare, pension planners and infrastructure companies to get new contracts. Much of the technology China needs will come from the West.

- If China tightens up on foreign investment rules, look for more decisions such as the Coca-Cola/Huiyuan Juice Co. case in March in which Coke's $2.3 billion acquisition of a Chinese juice market was rejected by the Chinese on antitrust grounds. China's government said Coke could use co-branding and marketing to stop "potential competition," suggesting that it will reserve more of the consumer market for Chinese brands.

- A decision to support low-margin exporters in shoes, apparel, microcircuits and others in the southern manufacturing belt would indicate China is determined to grab back uncompetitive manufacturing from rivals such as India and Bangladesh to regenerate jobs.

- Tying technology transfer to environmental manufacturing investments would mean the government is bent on growing the "green" sector with its own companies. Although China has dozens of solar panel makers, for example, it doesn't have the capital to invest in leading technology and must get such capital from the West.

- A decision to weaken the yuan from its current 6.83 managed rate toward 7 yuan/dollar would suggest an aggressive move to cheapen exports since the dollar is already declining against the yen and the euro. That would indicate that government spending will not do enough to keep the recovery going.

- A decision to enlist Western design firms to remake some Chinese-branded products such as cell phones and laptops would suggest the move toward value-added exports is getting a push from Beijing.

- China can pump up growth with government spending but it would be very hard for China to win back growth by becoming the cheapest manufacturing country as it was when "the China price" dominated global manufacturing decisions. India already is a sophisticated low-cost competitor in textiles. If India improved roads and power enough to draw in more foreign investment—still a big "if"—it could emerge as a major rival in all forms of low-cost manufacturing.

Western Europe by contrast could be a loser if China seeks to diversify its export dependence beyond the U.S. into Europe while Europe faces pressure at home to be more competitive by moving more production offshore.

SETTING SUN, RISING TIGER?

2010 will mark a milestone for the two biggest economies of Asia—and for the world. This year, China is expected to surpass Japan, taking the title of the world's second-largest economy. For Japan, this is a sobering rite of passage.

As the economic center of Asia shifts even more strongly to China, there will be major reverberations in the economic triangle of Japan/China/U.S.

In the past decade, the percentage of total Japanese exports to the U.S. has been halved—from 30% to 15%—while the percentage that has gone to China has quadrupled—from 5% to 20%. That is only one economic statistic that emphasizes the point that Japan's economic future is certainly more and more in Asia.

In the next decade, the U.S. will be consuming less and saving more, which will dampen import demand by the U.S. Moreover, the newly-elected Administration of Prime Minister Yuko Hatoyama is talking about using economic stimulus and tax policy to ramp up domestic consumption, despite the fragile state of Japanese finances. For Japanese exporters, the rising China market will represent an ever more important offset to flattish demand from most of the rest of the world, including the U.S.

As long as most economists continue to believe that the Chinese currency is pegged by Beijing at an artificially low exchange rate, pressure for its upward valuation will be felt as strongly in Tokyo as in Washington.

Whatever the pace of change of currency cross rates, the gravitational pull of the Chinese economy will only increase. For decades, the U.S ¬Japanese economic and political relationship has been one of the foundations of the world order. Certainly there were occasional tensions and trade flare-ups. But the value of the trade and financial relationship between the world's two biggest economies had a real sense of stability, anchored in mutual respect and interest.

That is still there—but U.S. businessmen are increasingly giving short shrift to Japan in the great rush to China.

Better Opportunities

Ironically, opportunities for U.S. companies in Japan are better now than they have been for some time. There are no raging trade issues, although there are some prickly patches. This year, Japan will chair the Asian Pacific Economic Community (APEC), and in 2011 it will be the turn of the U.S.

To be sure, there is a sense of lassitude in the U.S.-Japan relationship. A big part of this seems to be from the sense captured in the phrase “Japan passing,” and wistfulness as Japan transitions from 2nd to 3rd place.

Even as China has notched up an expected rise of GDP in 2010 of nearly 9 percent, Japan continues to suffer from the anemia of low growth, unfavorable demographic trends and lack of dynamism in the economy. The attention of Japanese businessmen seems to be focused more on Asia, and the “pot of gold in Cathay” conviction among the American business community is focusing its attention on that market, and away from Japan.

IMPLICATIONS FOR BUSINESS: Make sure your focus on the economic opportunities in China don’t distract you from still-imposing opportunities for trade and investment with Japan. If the two governments can get their acts together, there is the potential for coordinated leadership that will shape APEC positively and for years to come, benefiting not just the U.S. and Japan but the entire Asia-Pacific region.

THE HUNT FOR SOMETHING BETTER

It is happening all over the world on every issue imaginable. People, unhappy with their lot, are looking for alternatives—and in most cases coming up dry.

- In Europe, the left is struggling to offer a better way to the millions upset by greed and poor legal and regulatory controls;
- In Asia and Africa, Muslims look to al-Qaeda for something more than violence;
- In the U.S., there are calls for a new system of financial oversight;
- In Latin America, the left has not delivered and people are starting to drift right again.

Virtually every call for a new and better way is meeting with failure.

IMPLICATIONS FOR BUSINESS: Sooner or later, these efforts to achieve change will be successful and will markedly alter the environment in which businesses operate.

TURKEY: A BRIDGE BETWEEN THE EAST AND THE WEST

Not since the days of the Ottoman Empire has Turkey wielded such influence as a power broker between Europe and the Middle East. The ruling conservative Justice & Development (AKP) party continues to strengthen diplomatic and trade ties from Bonn to Baghdad in its quest to have Turkey remain an economic and diplomatic powerhouse both in the European and Middle Eastern worlds.

The country has long-standing alliances with the West—as a NATO ally, friend of Israel, and applicant to the European Union. The EU is its main trade partner with $63 billion dollars (48%) in exports and $75 billion dollars (37%) in imports in 2008. Turkey is also considered a force of stability in an unstable region. "We have one face to the West and one to the East," Prime Minister Erdogan said when he signed trade agreements in Tehran in October.

In 2008 and 2009 alone, according to the *Financial Times*, Turkish diplomats can take credit for "mediating between Israel and Syria, hosting talks between Afghanistan and Pakistan and liaising with Sunni militants in Iraq." These efforts reflect a new diplomacy in Turkey as the country that has not only secured its position as the Eastern bulwark of the NATO alliance, but has also actively sought out opportunities to work peacefully with its Middle Eastern neighbors.

The chief AKP strength in its drive Eastward is rapidly growing trade alliances. Near and Middle Eastern countries are among the biggest trade partners of Turkey. Their share in Turkish exports is 19.3% and in Turkish imports is 8.7 percent. Turkish conglomerates are selling everything from television sets to non-alcoholic beer. Syria and Turkey aim to increase their mutual trade, which is estimated at $4 billion, according to *The New York Times*. Under the AKP, Turkey welcomed Saudi Arabia's King Abdullah for the first time in 40 years and has improved its relationship with Iran through a number of energy deals that are now in the pipeline.

Strong U.S. Relations

But the trade agreements point to something else: a desire to form a political-economical presence in the region that would include Syria, Jordan, Turkey, Iran and Iraq. Prime Minister Erdogan said at a White House meeting: "The fact that President Obama visited Turkey on his first overseas trip, and that he described and characterized Turkish-U.S. relations as a model partnership, has been very important to us politically and in the process that we all look forward to in the future as well. And important steps are now being taken in order to continue to build off our bilateral relations so as to give greater meaning to the term "model partnership."

Today, relations with this relatively new group of countries, along with stronger ties with established partnerships, are flourishing around trade and investment. A new pathway has been created that will ultimately result in an alternative model for relationships in the Middle East. Turkey is at the core of this movement. It has become a powerful force for negotiations between the West and the East and a stabilizing power with the goal of spreading peace and security worldwide.

Katinka Barysch of the Centre for European Reform, a London think tank, told the *Financial Times*: “As a long-standing NATO member and a country negotiating for EU membership, Turkey is expected to align itself with the United States and Europe. As a regional power, Turkey will want to act independently and avoid antagonizing its neighbors.”

Turkey can do both. In the words of President Obama: “I know there are those who like to debate Turkey’s future. They see your country at the crossroads of continents, and touched by the currents of history. Turkey’s greatness lies in your ability to be at the center of things. This is not where East and West divide—this is where they come together: in the beauty of your culture, in the richness of your history, in the strength of your democracy, in your hopes for tomorrow.”

IMPLICATIONS FOR BUSINESS:

- American corporations interested in starting a relationship with or expanding their scope to the Middle East might look to having a presence in Turkey. The country offers a young, qualified and well-educated workforce (61% of the 72 million population is under 34).

- Turkey also has a booming economy with a huge domestic market with $750 billion GDP, an important place in world trade with over $200 billion dollars of imports ranking 13th in the world and over $132 billion dollars of exports ranking 22nd in global trade, a solid infrastructure, and a unique geo-strategic location close to Europe, the Middle East, North Africa and Central Asia.

MEXICO—THE DRUG WAR HEATS UP

Mexico, for the past three years, has been deeply embroiled in a war on the drug trade.

President Felipe Calderón has deployed 45,000 troops into the streets in a battle that has cost more than 13,000 lives to date.

Once independent drug-smuggling bands are now powerful organized crime conglomerates, dealing in illegal activities from drugs to bootleg compact discs.

The drug cartels, while still engaging in traditional bribery of law enforcement, are now targeting politicians on every level with inducements of money and security. Indeed, it is estimated that the cartels have control, or influence, in 72% of Mexico's municipalities.

In the elections, mayoral, gubernatorial and legislative incumbents plus their challengers faced accusations of ties to the major cartels. In the state of Colima, a banner hung on a highway prior to the gubernatorial election lauded candidate Mario Anguiano, stating: "The Zetas support you, and we are with you to the death." The Zetas are the criminal mercenary arm of the powerful Gulf Cartel.

Polls show that President Calderón's battle against the drug traffickers is supported, but most Mexicans do not believe he is winning.

<u>**IMPLICATIONS FOR BUSINESS:**</u> Doing business in this country is dangerous and demanding.

- Mexico's proliferating drug trade, and the concurrent fight against it, have strained U.S.-Mexico relations and intensified border issues. While the United States estimates that 90% of cocaine sold here originated in Mexico, Mexico counters that 90% of the illegal arms facilitating the cartels originated in the U.S.

- Amid widespread allegations of human rights abuses committed by the Mexican army, U.S. Senator Patrick Leahy delayed the release of more than $100 million in aid to Mexico through the so-called Mérida Initiative, which requires that the Secretary of State report progress in Mexico on human rights.

- Additionally, Mexico's economy has been one of the worst hit in the global recession. Output is expected to fall more than 6 percent in 2009.

- It is essential for economic and security reasons on both sides that the U.S. and Mexico build and maintain close ties. Mexico must defeat the corruption that permeates the country to ensure itself a positive working relationship with the U.S.

AFRICA: HUGE PROBLEMS

The African continent, home to some of the biggest health problems in the world, is also the site of the richest mineral deposits in the world, but investors seeking to capitalize on the wealth continue to find themselves hampered.

To cite an example of Sub-Saharan Africa's stunning wealth, the Democratic Republic of Congo alone contains an estimated 60% of the world's known deposits of coltan (Colombite-Tantalum, a mineral used in cellular phones), 30% of diamonds, 10% of niobium, and significant deposits of gold, copper, petroleum and tin. It is likely Africa's richest country in terms of natural resource deposits. In addition, countries like Nigeria, Guinea, Mali, Sudan, Zambia and South Africa are extremely well-endowed with petroleum, aluminum and other metals essential to the world economy.

The problems investors face are economic, political and ethical:

1. **Corruption:** Governments are easily and suddenly undermined in Africa. New governments may or may not honor contracts approved by previous regimes. They often abruptly change terms. Whole projects can lose economic viability, and investors can invest energy for years without productive results, as Rio Tinto has experienced in Guinea.

2. **Security**: Local populations are often hostile to exploitation of their resources, despite government approvals. The ineffectiveness of African governments means mining firms often have to fend for themselves; e.g., Shell and Anvil Mining hired their own armed militias, which were subsequently accused of massacring civilians. This diminished the firms' credibility and ability to operate profitably.

3. **Human Rights:** African mines are often unregulated. Mining is conducted in artisanal fashion without heavy machinery. Children are freely recruited to work at these mines in appalling conditions, working long hours without healthcare or minimum safety requirements, leading to severe violations of human rights and international labor laws.

4. **Conflict Minerals:** Rebels and militias control some of Africa's richest deposits of gold, tin, coltan and diamonds. As in the Hollywood production Blood Diamonds, armed groups deeply involved in war can profit from the global trade in minerals. The Kimberley Process for diamonds has come under heavy criticism. Dozens of other minerals and metals remain unregulated.

Tainted African minerals have received increasing political attention. Hillary Clinton's Africa tour in 2009 raised some prescient links between African wars, abuses of human rights, and the sourcing of minerals: rebel groups using rape as a weapon of war are significant beneficiaries of African mineral trade.

China, however, has circumvented the human rights issues. It has invested billions of dollars in Africa (with $9 billion in the Democratic Republic of Congo alone, and large petroleum investments in Sudan and Angola) while ignoring those governments' human rights records.

The 2009 financial crisis led to the closure of dozens of African mines. Thousands of jobs were lost. However, with the economic recovery, investors will be looking to profit from Africa's wealth and should keep these challenges in mind.

AIDS and Africa

The AIDS epidemic continues to ravage Africa, compounding a range of health woes that is draining Africa's most precious resources—its children. The Bush Administration was rightly appreciated for the unprecedented funding it provided for the AIDS fight in Africa, and this support is continuing, albeit with a change in the philosophical context.

IMPLICATIONS FOR BUSINESS: African minerals present a challenging business case. Economic and ethical issues raise the risk profile of any investment. Investors should show strong preference to politically stable countries like South Africa. Many successful mining firms in Africa—including those that best weathered the financial crisis—have benefited from the World Bank's generous loans, insurance and support programs, which all investors should vigorously pursue. In early 2010 Shell was strongly considering quitting several African investments. Investors should take note.

On the AIDS and health front, business has an opportunity and an obligation to further the support for both treatment and preventative care. Private foundations including the Clinton Global Initiative and the Bill and Melinda Gates Foundation are leading the way and offer credible channels to identify worthy and reliable targets for support.

CAN THE POWER SHIFT BE DENIED?

If present conditions continue, the biggest demographic shift in the 21st century will be in Asia—which will soon have the best engineers and doctors—and more specifically, China.

It is estimated that by 2027 the Chinese economy will be larger than the U.S.', and by 2050, the four largest economies in the world be in China, India, the U.S. and Japan.

Every year it is estimated about one million engineers come to the market. Currently, 480,000 are from China and 200,000 are from India.

Falling birth rates and more people living longer spell serious social and economic trouble for many nations. For example:

Country	Total Fertility Rate (Children Per Woman) In 2005-2010*	Old-Age Dependency Ratio** in 2005	Old-Age Dependency Ratio in 2030
Japan	1.27	30	53
Germany	1.32	28	48
Italy	1.38	30	44
France	1.89	25	41
Greece	1.38	27	38
South Korea	1.22	13	36
Spain	1.43	24	36
Poland	1.27	19	35
United States	2.09	19	32
Russian Federation	1.37	19	30
China	1.77	11	24
India	2.76	7	12

* A fertility rate of about 2.1 is needed to keep replenishing a population.

** The old-age dependency ratio is the ratio of the population 65 years and over to the population aged 15 to 64 multiplied by 100.

GLOBAL WEALTH AND RISK

Certainly, the largest financial losses of the global recession have been visited upon by some of those who have had the most to lose: high net worth (HNW) and ultra-high net worth (UHNW) individuals.

As these individuals work to claw back to their lofty positions, a real question will be how much risk they choose to take on. Too much risk, it has been proven, was a cause of the economic problems we are just now working through.

The actions of these groups—defined as those who hold investable assets (excluding primary residence, collectibles, consumables and consumer durables) of at least $1 million and $30 million, respectively—will impact many others around the world, and in the United States especially.

Over the last 18 months, global wealth has retracted in two ways—both by the number of individuals who meet the HNW criteria, and by the amount of wealth they collectively hold.

According to Capgemini and Merrill Lynch's "World Wealth Report 2009," in 2008 the number of HNW individuals fell 14.9% to 8.6 million, and its combined wealth fell 19.5% to $32.8 trillion. Perhaps more significantly, the UHNW population fell 24.6% to approximately 77,000 and its collective wealth dropped 23.9% to $11.4 trillion.

Asia-Pacific Losses

In Asia-Pacific a large number of those who had acquired wealth have now lost it. Average financial wealth per HNW individuals declined 8.8 percent in the region to U.S. $3.1m in 2008, after growing at a sustained 3.0 percent per year from U.S. $3.2m in 2005 to U.S. $3.4m in 2007. At U.S. $4.9m. Hong Kong still had the highest average financial wealth per HNW individual in the region. The region's Ultra-HNW individual population declined by 29.6% and its wealth declined 35.1%. Many of these individuals no longer trust the market and its regulators. Many are putting assets into solid investments.

That said, it is likely that China and India, because of all the economic activity there will make huge short-term gains in the world's wealthy.

The greatest concentrations of HNW and UHNW individuals reside in North America, the continent that absorbed the greatest losses in wealth.

This considerable drop effectively reversed the strong growth in global wealth throughout 2006 and 2007. This economic slump is expected to continue for the next several months.

While HNW global wealth is expected to rebound to $48.5 trillion in 2013, the impact of this relatively short-term decline in wealth will reverberate in many corners of society.

Many HNW and UHNW individuals are reverting to "defensive" financial positioning as they become increasingly concerned about protecting their jobs, covering their expenses, and saving their disposable income. Many others will be affected by decreased levels of consumer spending, investments and financial risk taking.

Unfortunately, philanthropic giving has been an area that has taken a considerable hit in the last year-and-a-half. It is clear that financial losses among the world's wealthiest groups will trickle down to those who may be suffering the most during this global recession—individuals and families who depend upon charities, foundations and other charitable giving to support their livelihoods.

IMPLICATIONS FOR BUSINESS:

- HNW and UHNW individuals are eager to recover their financial losses through thoughtful and innovative investment opportunities that do not require excessive risk. Look for banks and investment advisors to identify and try to deliver on such ideas.

- Personalized customer service is paramount. Now, more than ever, clients seek frequent and transparent communication.

- As companies still struggle to make profits, discretionary charitable giving has declined significantly. Many firms that had given large funds to charity in previous years have filed for bankruptcy or have been acquired in the last year. The fate of their future giving remains unclear. It is important to remember the positive impact that philanthropic giving has among many groups.

India—One Country?

India has 16 official languages, 874 distinct dialects, 28 states and 7 federal territories.

GOVERNANCE ISSUE OF THE DAY: "PAY, PAY, PAY IN A MILLION WAYS"

The ongoing saga of executive compensation shows no sign of abating.

One veteran governance expert told us he has never seen the pay issue, perceived by people in and out of business alike, as being so out of control.

"It's as bad as I've ever seen it," he said. "Pay, pay, pay in a million ways." The expert cited such current practices as incomplete clawbacks, companies changing the name of bonuses – not calling it as such when awarded to executives and companies raising the base pay after the Board has determined it.

"This is not political, not Democratic or Republican," he continued. "It insults our intelligence. The quicker the business side straightens this out, the quicker we can move on."

The hot-button issue continues to be say-on-pay, which is already required for nearly 300 U.S. companies receiving TARP funds. Non-TARP public company shareholders filed more than 100 say-on-pay proposals in the 2009 proxy season – and many of those companies were not perceived to be in financial trouble. Look for many more say-on-pay proposals as we go in the 2010 proxy season. By 2011, say-on-pay will probably be commonplace.

Helping this along, in July the U.S. House of Representatives approved the Corporate and Financial Institution Compensation Fairness Act of 2009, which now sits in a Senate committee. The proposed legislation stipulates annual non-binding shareholder approval of executive pay at all public companies and shareholder approval of any golden parachute arrangements.

More Disclosure

Furthermore, new SEC rulings now require even more disclosure of pay rationales in simplified language in a company's Compensation Discussion & Analysis (CD&A). Companies already must specifically divulge how overall pay policies and practices for employees named executive officers (NEOs) create incentives that can have an effect on the company's risk and risk management. The new rules extend this requirement to non-NEO employees.

The new rulings also require new disclosures about compensation consultants. Companies are already required to reveal their relationship with pay consultants and how compensation is derived for the top officers. Now companies must disclose whether the consultant provides other services and provide extensive disclosure of fees and a detailed description of the nature of the work.

Attention to these matters will not stop. In November, Shelley Parratt, Deputy Director of the SEC Division of Corporate Finance, told an audience at a proxy disclosure conference: "There is no reason to believe that the scrutiny of executive compensation practices at public companies will subside anytime soon. It is in a company's best interest to communicate clearly and effectively about its executive compensation."

IMPLICATIONS FOR BUSINESS: Most public companies are well along in reviewing proxy CD&A text and tables for simple language—but too many proxy explanations remain murky and convoluted. Companies are also staying on top of the say-on-pay issue at competitors and in related industries and reviewing the benchmarking practices they use to select peer companies when setting executive compensation. But companies aren't going far enough. Two proactive steps:

- Track what institutional shareholders think about say-on-pay and whether they are liable to follow recommendations of proxy advisory firms.
- Build a process that gathers feedback on executive compensation from institutional investors, unions and other unlikely constituencies.

BOOMERS VS. MILLENNIALS: A GENERATIONAL CONFLICT

A monumental change occurred in America when the clock struck 12 on the New Year: The demographic force known as the Millennial Generation—the 80 million young people born between 1982 and 2000—overtook the iconic Baby Boomers, who defined American life and culture for more than half a century.

We find ourselves, therefore, on the cusp of an enormous generational clash, both socially and financially, the likes of which has yet to be seen. For America, this will have a tsunami effect—changing the world as we know it for the rest of the century.

As the Baby Boomer—from Bill Clinton to Meryl Streep—navigate through their 60s and approach the stage of life defined as "elderly," they find themselves immersed amongst a large group of young people eager to become involved in the most pressing national policy conversations.

Recognizing that present political and business decisions will have an indelible impact on their future, both socially and financially, young people—as they mature as leaders—are feverishly attempting to empower themselves.

By tapping platforms such as Facebook, Twitter, Linked-In, YouTube and others, Millennials are using the tools of the Internet to create their public platforms and rally the troops to their causes.

Many of the organizations developing today are online communities, where young Americans can come together and use social networking to raise huge numbers of supporters. These online power plays, however, have yet to fully support the Millennial agenda, as many Baby Boomers have begun to become proficient in their technologies. And, with elevated longevity due to advances in public health and the loss of their nest eggs in the Great Recession, many Boomers are remaining in the workforce longer, stifling the advancement of the country's younger leaders.

These two conflicting trends, coupled with a weak dollar, recessionary forces, enormous debt and intense global competition, will surely have a pervasive effect in politics, in housing, in every area, but most notably on the workforce and in healthcare.

The Workforce

A recent summit jointly convened by a leading Millennial group, Mobilize.org, and Peter G. Peterson's organization, the Peterson Foundation, recently gathered 150 distinguished Millennials to "explore the barriers preventing [young Americans] from achieving financial health."

The group was tasked with "taking immediate and collaborative action to put [the Millennial Generation's] economic future on a sustainable and improving path," especially in light of the vast network of reforms currently being debated by the Obama Administration. Proposed solutions generated by the summit will enter a vast network of up-and-coming Millennial organizations dedicated to creating a better, more sustainable society for the generation that soon will inherit it.

As a result, top young talent is expected to be harder to recruit as Millennials choose to start their own businesses—be it non-profits or NGOs—rather than join the corporate sector.

At the other end of the spectrum, the approaching "Age Wave"—the massive population and cultural shift caused by the 76 million Baby Boomers becoming seniors, elevated longevity and the birth dearth—is expected to force many to support themselves after the age of 65. Because Baby Boomers are keeping their spots in the workforce longer than previous generations, the needs of older workers have become a primary concern for companies.

In time, a power struggle will emerge within the workforce. Leaders would be wise to take heed and find ways of managing both generation's needs.

In Healthcare

As the Baby Boomers become seniors, they will swell the elderly population to 49 million by 2011. By 2025, the senior population, which was 35 million in 2000, will have more than doubled to 72 million. Healthcare costs are going to be enormous.

Elements of the crisis are already upon us: Unfunded Social Security and Medicare liabilities hit $102 trillion in 2008, and only $52 trillion of that amount was vested. Three years ago, 43 percent of consumption by the elderly went to healthcare, and that figure will rise to 50 percent by 2024.

As demand for services increases, there will be competition for existing resources, particularly since the nation will suffer from a profound shortage of caregivers. Over the next decade, more than 2 million caregivers will be needed to accommodate the growth in the elderly population.

Equally troubling, there will be a serious shortage of geriatric caregivers and primary care physicians. Over the next 25 years, certificates awarded in geriatric medicine will decrease by half.

The increased longevity of Americans is leading to an epidemic of "diseases of aging," particularly Alzheimer's, which were not common at the beginning of the 20th century when life expectancy was 47. (Today it is 80 for men and 85 for women.) In little more than 100 years, there has been a decided shift in trends from high mortality and high fertility to low mortality and low fertility.

The dashed hopes among young people and on-hold retirement plans among older people are bound to create a climate of anger, frustration and ‘60s-style rebellion.

IMPLICATIONS FOR BUSINESS:

- The Millennial perspective will become increasingly important to long-term business strategy as young people start to fill leadership positions in the political and business community.

- Movements in policy will become increasingly affected by the Millennial lobby. Make sure you know where your organization stands based on this shift.

- Healthcare reform combined with the Age Wave will mean higher contributions by employers.

- Caring for aging parents will put enormous stress on younger employees. In much the same way that caring for children affected working arrangements during the 1980s and ’90s, caring for parents will necessitate creative solutions by companies.

- The cost for senior care will affect individuals, families and businesses, and continue to increase as a percentage of the gross domestic product.

- There will be a shortage of senior caregivers and new opportunities for careers in healthcare. Companies focused on the needs of the elderly will have greater business opportunities for much of the millennium.

The Rate of U.S. Population Growth

The nation’s population on January 1, according to the U.S. Census Bureau, was 308,400,408. This represents an increase of 2,606,181, or 0.9 percent, from New Year’s Day 2009.

The current Census Bureau estimate is that there will be one birth every eight seconds in the United States in 2010, and one death every 12 seconds. Net international migration is expected to add one person every 37 seconds, resulting in an increase in the total U.S. population of one person every 14 seconds.

YOUNG PEOPLE AND UNEMPLOYMENT

It used to be that young Americans claimed that they would hold between 10 and 14 jobs before they were 38 years old.

That has changed.

Today, Americans between 23 and 33 who plan to stay with the same employer for life has increased dramatically. More than 25% say they will stay with the same employer and forecasters expect that number to grow.

The uncertain economy and unemployment fears are the reasons.

IMPLICATIONS FOR BUSINESS: This is a moment for employers wishing to promote loyalty and employee stock ownership.

THE ROCKY ROAD TO TOURISM RECOVERY

Impacted by severe corporate travel cuts, curtailment of leisure travel (especially overseas), and the freezing of global tourism infrastructure investment, travel took a major hit in 2009, recording a 5.5 percent decline in travel and tourism economy GDP. As the economy limps back to recovery, the travel industry is taking a cautious look at short-term tourism growth, anticipating a flat, or only moderately improved 2010.

The emotional impact on altered traveler psyches has fueled new, emerging trends:

- ***Frugality has become the new reality.*** While Americans have come to view vacations as a "birthright," they are now assessing perceived value, safety, quality and affordability before making travel decisions. Trading down, but not entirely out, consumers are eyeing closer-to-home destinations, smaller and less costly cities. They are even bargain-hunting in convention cities like Las Vegas and Orlando where hotel rates have dropped.

- ***Germ Fever*** and the fear of the H1N1 influenza pandemic continue to take a toll on travelers, 88 percent of whom remain concerned about germs, bacteria and viruses when traveling (up 5 percent from last year). They are also washing their hands often on the road—17 percent more than last year.

- ***"Voluncations,"*** travel packages that integrate vacations with volunteerism and/or sustainability activities, are growing in popularity as a means for tourists to "do well on vacation while doing good". Whether building homes in poor communities, or cleaning up garbage on beaches around the globe, travelers on a "voluncation" are starting to bring home something more substantial than a suntan.

- ***Crossing digital borders*** both to research and book travel on the Internet continues at a furious pace. In 2009, for the first time, more than half of travel bookings were made online. And for those planning a trip, TripAdvisor currently offers 30 million travel review postings on its web site.

- **It's *business as (un)usual*** in the corporate meetings, incentives and business travel sector as this hard-hit category continues to take the greatest hits in travel revenue. According to reports, the depressed economy and public backlash against corporate spending caused the cancellation of thousands of company gatherings, resulting in a 35 percent decrease in meetings, conference and incentives travel and the loss of 250,000 travel-related jobs. And government regulators continue to look over corporate shoulders at spending for meetings and incentives travel.

<u>IMPLICATIONS FOR BUSINESS:</u>

- It pays to bet on travel. A projected trend growth of 4 percent per annum is forecast for the next 10 years, making tourism a vital engine of expansion long-term. In the business travel category, meetings, incentives and events create 2.4 million jobs annually and comprise $240 billion in spending and $39 billion in tax revenue, according to the U.S. Travel Association.

- The depressed business travel segment means corporations with reduced budgets will be seeking discounts and value for their road warriors, often sticking to big brand hotels to achieve efficiencies, predictability and cost controls.

- In the leisure area, the luxury sphere remains the most resilient. But affluent travelers will more likely increase spending and upgrading if tempted with enriching travel experiences that stress intrinsic satisfaction over VIP bragging rights.

- Within the mid-market sector, travelers will be seeking "all-inclusives" and packages in areas that provide the greatest relaxation and stress reduction. These often are found at favorite repeat destinations that feel safe and provide emotional security.

- In all sectors, tourists increasingly are traveling in a virtual space, consulting online web sites both to plan and book trips. Viral is the operative word for marketers and promoters.

SOVEREIGN SCARES

The trillions of dollars of stimulus spending by governments and central banks around the world probably averted a repeat of the Great Depression. In so doing, however, this spending might well have set the stage for the next global crisis.

A recent report by Credit Suisse named government debt the “biggest threat” to global growth, with an eye toward trouble near the end of 2010. The dangers of sovereign risk were driven home in the last quarter of 2009, when a fiscal crisis in Greece raised troubling questions about a possible sovereign default within the European Union, an EU bailout and what that might entail. And—at the extreme—speculation that similar pressure on countries like Ireland, Portugal and Spain could threaten the EU itself (a notion we don’t find plausible).

Economic recession and the price-tag of the banking rescues of 2008 have driven the United Kingdom’s national debt to 68.7 percent of GDP in 2009 from just 44.1 percent in 2007—an increase of more than 50 percent in just two years. The worse news: Standard & Poor’s expects that debt to approach 100 percent of GDP by 2013 and has downgraded its outlook for the U.K. from “neutral” to “negative.” The unfolding fiscal crisis could move the United Kingdom into uncharted waters for a G-10 economy. Bond traders continue to worry about a possible downgrade of the country’s AAA rating, and serious concerns about the stability of its currency persist.

The U. S. public debt rose to 84.4 percent of GDP in 2009 from 41 percent at the end of last year, and the International Monetary Fund expects that number to reach 108 percent by 2014. Massive debts in the U.S. are hardly limited to the federal level, and the federal government might soon find itself forced to bail out state programs or even states themselves. The Great Recession has thrown state budgets into disarray, creating back-to-back annual deficits of more than $7 billion in California alone. (Quoted recently in the *Atlantic*, Robert Cruickshank of the California Progress Report said: “Dubai’s basic logic was being used here in California as well, where a real estate bubble was used to promote an economy… The bubble has burst, and now California faces a crisis every bit as severe as Dubai.”) For a taste of what could come, consider the recent announcement that the federal government will have to bail out unemployment compensation funds in 40 states to the tune of $40 billion over the next two years.

The situation is the same—or worse—in countries around the world. In Japan, for example, public debt is projected to top 200 percent of GDP by 2014. These mounting debts will have two main effects. First, they will limit the ability of countries to respond in a forceful manner in the event of a new crisis. This increases the vulnerability of individual countries and the global economy at large to the risk of economic reversal.

Second, debt crises in Greece and Dubai, previous scares in Ireland and Portugal, and persistent fears about the fiscal health of Eastern European countries like Bulgaria, Hungary and the Baltics represent a potentially new fault line for global credit markets. As a Board member of a large Western bank recently told the *Financial Times*, after two years of worrying about mortgage and credit risk, sovereign risk "is going to be *the* big debate in 2010."

We sure hope not.

IMPLICATIONS FOR BUSINESS: Expect service cuts, pay reductions and tax increases. Ireland could well provide a hint as to what the near-term future could hold for countries and even individual U.S. states. After the collapse of the country's spectacular financial boom left the country with an annual budget deficit of 13% of GDP and a downgraded sovereign debt rating, the government of Ireland imposed an austerity program including significant reductions in government services such as healthcare, education and unemployment compensation, steep pay cuts for public sector employees and a new carbon tax. The simple explanation provided by Irish Finance Minister Brian Lenihan could be applied equally to the United Kingdom, the United States and scores of countries around the world: "The problem is our expenditure base is too high and our revenue base is too low."

IS TELEVISION DEAD?

At first glance, the answer seems to be no. According to the latest "Three Screens" report from Nielsen, most video viewing in the U.S. is still done on traditional television sets. But the trend lines are in another direction. Online video usage is up 35% compared with a year ago, and DVR playback jumped 21%. Expect those numbers to continue rising in 2010.

Last year, Americans watched an average of 31 hours of TV a week and viewed 22 minutes of videos online. But while television will remain a major force in entertainment and communications, it will become increasingly a niche business. In news, for example, liberal and conservative viewers will be offered a growing number of pundits to watch for their ideological booster shots. Because of this trend, as well as because of its low prime time ratings, CNN will be forced to offer more opinion-driven shows.

Whatever its effect on public opinion, this increased narrow-casting is good for businesses that advertise, since it allows marketers to target messages to select audiences. To cite two of many examples, HGTV is the perfect venue for companies selling home products, and the Food Network speaks for itself. (As we went to press, both of these cable channels were locked in a fee dispute with Cablevision, but viewers should see them back on the air soon, if they aren't already.)

Expect the major networks to come under increasing siege as more of the action in television moves from broadcast to cable. Federal regulators will approve the Comcast purchase of NBC Universal this year. As a result, ownership of CBS may be in play in 2010 or perhaps the first quarter of 2011.

Look for the Fox Business Channel to be more of a player in financial news. Until now, it has trailed far behind its competitors in the ratings race. But the hiring of Don Imus for a morning slot and John Stossel for a once-a-week show demonstrates FBC's willingness to spend heavily to build an audience. Other big names will follow this year.

Long-term, the advent of 3-D television may add new excitement to the competitive mix, but several questions loom first: Will consumers be willing to spend up to $3,000 for a 3-D set, especially after so many have just purchased flat-screens? Will the viewing goggles (which could cost $50 a piece) be a turn-off? And will the production costs of 3-D shows be a backbreaker for content providers? Some of the answers should begin to take shape in 2010.

IMPLICATIONS FOR BUSINESS: The more competitive landscape in television financial programming will give business leaders a greater variety of outlets to get their message out.

THE CHANGING FACE OF INTERNATIONAL TELEVISION JOURNALISM

While most American networks continue paring their international news coverage, an anomaly is occurring internationally. Al Jazeera, the Middle Eastern news network, is swiftly becoming the trusted news source of the developing world.

Al Jazeera, which means "the island" in Arabic, is the only independent news network in the Middle East. Founded by the Emir of Qatar, Sheikh Hamad bin Khalifa, the network became known for its willingness to broadcast dissenting views of Arab issues. Al Jazeera was catapulted to international stardom when airing Osama bin Laden's videotaped messages following the September 11 attacks on the United States. Al Jazeera was the only network to initially cover the war in Afghanistan, offering dissenting opinions.

Paralleling the dramatic growth, building and development in many sovereign states, the burgeoning Al Jazeera is poised to become the preeminent face in international news, particularly since many American networks are continuing to close bureaus and cut back their international presence. In the coming year, Al Jazeera plans to open 10 bureaus.

Many Viewpoints

In a region where information traditionally flowed from the wealthier nations of the north to the poor ones south of the equator, Al Jazeera has radically altered the dynamic of news delivery. Its goal is to deliver both “the opinion and the other opinion” to viewers, and Al Jazeera has become the platform where Arab issues are discussed, from all viewpoints. This mission is doing more than providing balanced reporting—it is bringing an entirely new and often young audience to the table.

As a result, the network has seen overwhelming success in recent months. Currently, Al Jazeera reaches more than 150 million households in 100 countries.

With traction throughout the Eastern Hemisphere as the opponent of the status quo, Al Jazeera leveraged its newfound success and entered the English-speaking market in November 2006 with Al Jazeera English (AJE). With nearly 70 bureaus, Al Jazeera is now competing with BBC International as the leading source of global news. With its eyes on the United States, the network foresees even greater opportunities for growth as it enters the North American markets.

Though many Americans may still connect Al Jazeera with Osama bin Laden, opinion is changing in the United States. In Washington, the once-feared network is now being courted by politicians. According to Philip Seib, author of *The Al Jazeera Effect*, AJE has “expanded the realm of discourse,” which could be invaluable to cracking American insularity.

IMPLICATIONS FOR BUSINESS: In a world of “citizen journalism”, large news networks are competing with more than just the clock. They are up against innumerable contributors to the news delivery forum. To compete, large networks are decreasing in size and closing bureaus worldwide. Journalism has historically provided a service to readers by making them aware of world events and permitting public discourse. Without the so-called “watch dog” function, the opportunity for acts of violence, corruption and nepotism increase. Al Jazeera is working to bring light to all of the world’s events and perform a journalistic function that has been diminished in recent years in the Western World.

The developing world offers more than just investment opportunities. With a network like Al Jazeera, content is reaching more people than any other news source. Political leaders and companies doing business will increasingly have to rely on a network like Al Jazeera to get their stories out.

This platform must be watched carefully for its potential to reflect propaganda around the world. At the same time, Al Jazeera could increase business opportunities in developing countries, where there is natural skepticism to Western media.

EMBRACING CORPORATE RESPONSIBILITY: TRYING TO MAKE A MINT BY GOING "GREEN"

Increasingly these days, businesses are concerned about making some green—and not just the kind found in the bank. "Corporate responsibility" and "sustainability" are the new buzzwords helping to drive both Wall Street and Main Street.

Considered a passing fad only a decade ago, protecting the environment has come to represent sound business practice, for two reasons: It can help boost a corporation's bottom line and inspire goodwill with consumers.

A recent IBM Global Business Services survey of 250 global leaders found that 68 percent of them are focusing on corporate social responsibility as a platform for growth and differentiation. More than half of those surveyed believe their companies' corporate social responsibility activities are giving them an advantage over top competitors.

The results bear out the findings of a 2007 GlobeScan survey, which determined that the No. 1 factor shaping consumers' opinion about a company's social-responsibility profile was whether it harmed the environment. In addition, 55 percent of those surveyed in North America said they have avoided companies they deemed irresponsible. In troubled economic times, consumer confidence is key.

And there's more: A 2008 survey by KPMG International and food industry association CIES found that, in addition to having a neutral or positive impact on a company's bottom line, sustainability drives innovation and plays a crucial role in recruitment and retention.

Shades of Green

Embracing the so-called Triple Bottom Line—People, Planet, Profit—involves more than recycling paper products and taking care to turn the lights out at the end of the day. Here's what some so-called "eco-warriors" are doing:

- General Electric's "eco-imagination" campaign aims to reduce greenhouse gas emissions and increase R&D investments in environmental technologies.

- Coca-Cola Enterprises, the largest bottler of Coke beverages, is more than doubling its fleet of hybrid vehicles.

- Clorox has expanded its Green Works line of eco-friendly cleaning products; the cleaners are so popular that the company raised its sales projections six times in 12 months.

- Hewlett-Packard launched Planet Partners—a $100 million recycling and remanufacturing business that recycles 11 million laser printer toner cartridges annually.

- Wal-Mart has set out strict guidelines for reducing energy consumption at its stores and instructed hundreds of thousands of suppliers to report their energy usage and carbon dioxide emissions.

- AT&T has formed a Business Sustainability Advisory Council aimed at helping the world's businesses measure and reduce their carbon emissions.

- Sun Products Corporation, maker of laundry detergents All and Wisk, has turned plastic detergent bottles into sustainable "lumber" that has been used to build playgrounds in communities where Sun Products does business.

- Heinz, Sodexo, Sysco and Unilever are among 30 large growers, food buyers and environmental groups that formed the Stewardship Index for Specialty Crops, a coalition to incorporate sustainability from the field to the table for specialty crops.

- Ford and other automakers are working to make fuel-efficient vehicles that will catch on with motorists.

Working Toward a Common Goal

The sustainability trend isn't only the purview of big business; smaller operations are also taking steps to shrink their carbon footprints.

Numi Organic Tea prides itself on using 100 percent biodegradable or recyclable packaging materials and has won accolades for its waste-reduction efforts. Fairfield University in Connecticut has installed a heat and power plant to create its own energy source; recycled No. 5 plastic containers; and done away with trays in the cafeteria, saving water and reducing food waste in the process.

Local dry cleaners are replacing noxious solvents with more eco-friendly ingredients; hair salons are recycling the foil used in highlighting processes rather than throwing it out; and many companies are using electricity generated from environmentally friendly sources.

While the poor economy has fueled some of these practices as creative ways to trim costs, the new, eco-friendly habits are here to stay. Government leaders across the globe are working to contain greenhouse gas emissions and legislate other methods of protecting the environment.

IMPLICATIONS FOR BUSINESS:

- Concern for the environment and other ethical business practices will likely be mandated soon. Cultivating a "clean" image will reduce criticism from employees, consumers and the government.

- As corporate responsibility becomes the norm, companies must embrace eco-friendly practices in order to remain competitive.

- A company's ability to attract young, skilled workers will increasingly hinge on its corporate responsibility platform. These workers are more environmentally aware than previous generations and bring those values into the workplace.

How big is $1 trillion, really?

- *One trillion is the number "1" followed by 12 zeroes, as in: 1,000,000,000,000.*
- *One trillion seconds of ordinary clock time = 31,546 years.*
- *So, spending at $1 a second, it would take 31,546 years to spend $1 trillion.*
- *The U.S. National Debt now exceeds $12 trillion.*

THE "FUTURES" ARE GREEN

As the debate about the global climate crisis rages, one thing is certain: Government attempts to decrease greenhouse-gas emissions will have far-reaching implications for corporations worldwide.

Until now, most U.S. companies have approached sustainability voluntarily—looking to demonstrate corporate responsibility and maybe save a few dollars—or perhaps because they do business in one of 29 states that have adopted a renewable electricity mandate or other guideline.

Those days will soon be over. Backed by the Environmental Protection Agency's designation of carbon dioxide as an air pollutant and danger to public health, the Obama Administration is working to regulate carbon emissions for electricity generators, refineries, manufacturers and other industries.

Climate legislation passed the House of Representatives in June and has since moved to the Senate. A market-based trading system, similar to the European Emissions Trading Scheme, is also being used as a model for plans under consideration in Japan, China and Australia.

These systems provide corporations with the opportunity to optimize or mitigate risk for carbon liability. Under the scenario, the government would set a limit or cap on the amount of carbon dioxide a company could emit. Firms that go above these levels may buy permits to do so. Companies that remain below the limit could sell their unused permits to others.

Similarly, companies that are able to reduce their carbon emissions through efficiency or new technology for less than the market price for a carbon allowance can choose this path. Those with older technologies and more challenging paths to cut carbon emissions may turn to the market to buy allowances.

For this reason, most analysts consider a market-based approach to be the lowest cost option to achieving environmental objectives and more effective than taxes or fines. The buying and selling of allowances, as well as futures, options and other hedging instruments, sets up a huge new asset class for compliance securities—estimated at $3 trillion to $5 trillion—in the next decade. (In Europe, for example, carbon trading volume rose 68 percent last year.) Anticipating this, 13 of the world's most powerful financial institutions have created an electronic marketplace and clearing facility, called The Green Exchange, to aid various businesses as they navigate the process of trading environmental futures.

As the recent energy summit in Copenhagen demonstrated, the crusade to green our planet will encounter thorny challenges. For example, what are the repercussions for the global economy if the U.S., producer of 24 percent of the world's carbon emissions, reduces its carbon emissions, but China, which produces 27 percent of carbon emissions, does not?

Look to the recent U.S. healthcare debate for a model of how climate-control regulations will likely be shaped. While legislative compromise is likely, ultimately the U.S. will become the largest global market for environmental securities. Meanwhile, the rising costs of traditional power and increased subsidies for alternative energy at the state and local levels will encourage corporations to begin changing how they do business.

IMPLICATIONS FOR BUSINESS: New federal regulations governing carbon emissions will force corporations to rethink how they do business and create systems for operating in a sustainable way. Beyond sustainability, companies will be compelled to understand their "environmental balance sheet." Among the questions businesses will consider are: How can we best reduce our carbon liability? How can we optimize the value of our environmental and compliance assets? How do we hedge for expected fluctuations in price? How can we mitigate risk? Optimization of the environmental portfolio will require alignment with knowledgeable industry leaders and cultivation of new skills. These skills will provide a distinct competitive advantage in a carbon-constrained world.

THE GOOD NEWS AND BAD NEWS IN U.S. EDUCATION

There is almost universal agreement that, if the U.S. is to remain competitive in the global economy, we have to do better at education.

- Nationally, just 70 percent of students graduate from high school, while for African-American, Hispanic and low-income students, it's a little more than 50%.

- Nationwide, about 7,000 students drop out of high school every day. There are some 2,000 schools nationally that produce about 50 percent of the nation's dropouts.

- Less than half of low-income and under-represented minorities enter college as freshmen and attain bachelor's degrees within six years.

- One assessment shows American 15-year-olds now rank 21st in science and 25th in math compared to their peers around the world.

- A California Academy of Sciences Survey found that only 53 percent of adults know how long it takes for the earth to revolve around the sun, and only 58 percent know the earliest humans and dinosaurs didn't live at the same time.

At the same time, there is also some good news:

- The number students earning more associate's degrees and vocational certificates of community colleges and for-profit post-secondary schools has increased 25% in the past five years.

- The rate of college enrollment immediately after completion of high school increased from 49 percent to 67 percent from 1972 to 1997, although since that time it has fluctuated between 62 percent and 69 percent.

- 68 percent of high school students now complete advanced science coursework compared to 35 percent in 1982. The percentage completing advanced math courses grew from 26 percent to 50 percent in the same time frame.

More Federal Aid

- The federal government is stepping up aid. The American Reinvestment and Economic Recovery Act and 2009 budget are providing $4 billion for states to compete for money with innovative education programs and $3.5 billion to initially target 1,200 of the nation's worst performing schools for turnarounds through closings, new personnel or turnover to a charter school or other management. The goal is to turn around the worst one percent, or 5,000 of the nation's schools, in the next five years.

- The U.S. university system remains pre-eminent in research, producing patents, innovative curriculum and educating many world leaders.

- Foreign students now earn 12 percent of all master's degrees and 27 percent of all doctor's degrees in science and engineering from U.S. universities, compared to 6 percent and 11 percent in 1977.

- Study abroad by U.S. students increased by 8.5 percent to 262,000 students in 2007-8, according to the Institute of International Education.

- Technology has had a huge impact. Consider these three views:

    - Rose Luckin, Professor of Learner-Centred Design at the London Knowledge Lab: "Technology makes it easy for students to collate information, but not to analyze and understand it. Much of the evidence suggests that what is going on out there is quite superficial."

    - University College London reports on a five-year study examining those logging onto web sites and found widespread evidence of "skimming activity." Users viewed no more than three pages before "bouncing out."

    - "Children do have the capacity to assimilate learning faster and simultaneously from multiple sources," says Wilma Clark, at the University of London. "The downside is that they expect more variety, so their boredom threshold is falling."

IMPLICATIONS FOR BUSINESS:

- More needs to be done to address failing elementary and secondary schools, particularly in the inner city, if our children are to going to be able to be productive members of the workforce in a global economy.

- Look for continued efforts to create a national system of standards to measure achievement. Right now, states use a variety of different standards for success that far too frequently "game the system" with the bar set too low.

- Expect contentious debate over re-authorization of the "No Child Left Behind" law in 2010, an election year. The bi-partisan coalition that produced the initial legislation no longer exists. Republicans will not want to provide Democratic legislative victories in an election year nor aggressive federal funding and involvement in elementary and secondary education. Teachers' unions and other "special interests" will take on other specific "reforms," such as increased competition and making it easier to get rid of bad teachers.

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367 magazines folded in 2009.

ATHEISM BECOMES AGGRESSIVE

A vicious war of faith and culture has erupted across America—in bookstores, on billboards, in cyberspace, in academia and in the hearts and minds of men and women. It is the debate over God's existence.

Even though this debate preoccupied humankind long before Thomas Aquinas conceived of the five "proofs of God's existence," it has reached a fervent and often strident intensity at the start of the 21st century.

For centuries, philosophers and theologians have pondered the existence of a Divine Being and come up with cosmological proofs and ontological proofs and just about everything else to prove the existence of a supernatural being. And while philosophical atheism dates back to the 6th century BCE, it became a social and cultural force during the mid-18th century, particularly with the French Revolution. In the 20th century, the Bolshevik Revolution and the Cultural Revolution in Red China were bloody and violent social movements motivated in part by anti-clericalism. The atheistic state became a substitute for God.

Now, the battle for minds and hearts continues as what has become known as "militant atheism" takes on a new dimension, inspired in many ways by an aggressive and public assault on organized religion and God by intellectuals like evolutionary biologist Richard Dawkins, whose best-selling books include "The God Delusion" and "The Greatest Show on Earth."

Dawkins, a celebrity star of the neo-atheist movement, has compared religious believers to Holocaust deniers and called the Catholic Church "the greatest force for evil in the world" and "a disgusting institution."

Commenting on the escalation in atheistic attacks, a recent *Associated Press* report said, "The time for polite debate is over. Militant atheist writers are making an all-out assault on religious faith," publishing books like "Good Without God" and "God Is Not Great."

Dawkins, himself, has advocated a combative activism, which he was the first to describe as "militant atheism."

Driven by the Internet

In large part, the movement has been propelled by the Internet, which has allowed worldwide mobilization of the disaffected believers, non-believers and unaffiliated tepid believers.

In preparation for the 2010 Global Atheist Convention in Melbourne, Australia, this March—which is being billed as "The Rise of Atheism"—there have been ad campaigns worldwide in Great Britain, Texas, Indiana, West Virginia and most recently Manhattan, where placards in the subway system ask, "A million New Yorkers are good without God. Are you?"

The "new atheism movement" has been emboldened in part by recent polls that suggest participation in organized religion is sagging. The number of people who responded "none" when asked what their religious affiliation was went from 8 percent in 1990 to 15 percent in 2008, which neo-atheists interpret as proof that "no religion" is the fastest growing category.

Their cause has also gained momentum with the publication of books by antitheist writers who include Christopher Hitchens, author of the bestselling "God Is Not Great: How Religion Poisons Everything," Sam Harris and Daniel Dennett.
Similar trends are evident throughout Western Europe and in Australia, where according to one source, the number of church-goers hovers around 9 percent, and atheism is "going off like a frog in a sock."

Much of the antagonism to religious belief has been fueled by the Christian fundamentalist movement, who deny the theory of evolution; the terrorism associated with Islamic fundamentalists; and the orthodoxy of the Catholic Church that expresses itself in political debate on such issues as abortion and gay marriage.

However, there has recently been a backlash against the "atheist fundamentalism," associated with Dawkins by a number of non-believers who think the Dawkins' crowd has gone too far in its self-proclaimed assault.

A kinder, gentler atheism, dubbed "Atheism 3.0," is emerging and has found its voice in books like "An Atheist Defends Religion: Why Humanity is Better Off with Religion than Without It" and a website called, "The Friendly Atheist."

Believers, too, are taking up the cause and have launched defensive measures of their own with web sites, conferences and a number of bestsellers, which include "The Case for God" by Karen Armstrong and "The Reason for God: Belief in an Age of Skepticism" by Timothy Keller.

IMPLICATIONS FOR BUSINESS:

- Attacking organized religion will become socially acceptable and what had previously been considered offensive in the workplace may become commonplace.

- The cultural debate will escalate as non-believers become more vocal, filtering from the intellectuals to the common man and woman.

- Institutional religion, particularly institutions like the Roman Catholic Church, will face persistent public attack in the media and in politics as it engages in the culture wars.

- There will be antagonistic debate in academic institutions and political arenas, and the opinions of traditional believers will be increasingly unfashionable.

- Intolerance by so-called atheist fundamentalists could hamper public discourse.

- Persecution of religious institutions will become more acceptable if their teachings are contrary to prevailing social mores.

- The social and the charitable causes of many religious organizations, such as Catholic Charities, may be curtailed as they attempt to become more forceful in their opposition to legislative initiatives like gay marriage.

CLOSING QUOTE

“Manners are a sensitive awareness of the feelings of others. If you have that awareness, you have good manners, no matter what fork you use.”

--Emily Post