41st Trend/Forecasting Report

At The Precipice

September 2010

200 Park Avenue, New York, NY 10166, 212-922-0900 - Three First National Plaza, Chicago, IL 60602, 312-553-0700

www.dilenschneider.com

Whatever you do, you need courage.
Whatever course you decide upon, there is always
someone to tell you that you are wrong.
There are always difficulties arising that tempt you to
believe your critics are right.

–Ralph Waldo Emerson

41st Trend/Forecasting Report

At The Precipice

Table of Content

The Dilenschneider Group

September 15, 2010

Please receive this Trend/Forecasting Report—our 41st—and recognize, as we do, that our nation and the world are in the most precarious spot in recent times. How policymakers in business, politics and the social sector assess the huge leadership challenges that lie ahead is crucial.

The next 12 months will produce surprise after surprise, most of them unpleasant, so get ready. Life as we know it will never be the same, and a momentum is building that will change the world for at least the next generation.

This Report is like no other we have prepared since we started in business 20 years ago because what lies ahead is like no other time that we, or any others, have experienced.

With the year 2000, the bloodiest century in history came to an end, and the world entered a new millennium that many believed would be a time of high hopes. But the dream ended all too soon.

Today we face a truly perilous world defined by global economic crises, seemingly permanent war, widespread terrorism, proliferating natural and man-made disasters, a degrading environment, epidemic drug use, new climate issues and much more.

The major questions are: 1) Why did all this happen? 2) What do we do about it? 3) What is the plan for going forward?

One of the chief goals of these Reports is to give our friends and clients a heads-up about the trends and developments that are just over the horizon. We can't see everything that's coming—nobody can—but we are proud of our batting average in getting it right.

There is considerable fear and uncertainty out there. Many have lost large amounts of their net worth; millions are without jobs, and the immediate prospects for returning to full employment are not good. There is a deep concern about leadership at all levels.

Expect the world and all parts of society to be in a state of perpetual change while individuals in powerful positions seek advantage.

Recognize there will be periods of enormous frustration because individuals and organizations that once believed they had control over their destiny now feel powerless.

Sovereign nations will increasingly focus on their own success and, while paying lip service to globalization, will pursue "me first" policies. Count on the rogue states to stir discord because they recognize their only route to success will be the destabilization of others. Look for continuing developments in China, which is methodically proceeding on its plan for growth and which accounts for several trends in this Report.

We understand that this letter is pessimistic. It is cast this way because of the conditions out there.

Leadership can change that. But it will take at least 12 to18 months to turn things around. And right now, few if any leaders are out there to do that.

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

In addition, we recently had the privilege once again of attending the Ambrosetti Conference. This meeting typically brings together some of the world's leading political, social and economic thinkers.

In attendance were Joaquín Almunia (Vice President, European Commission); Renato Brunetta (Minister of Public Administration and Innovation, Italy); Cheng Siwei (Dean of the Management School, Graduate University of the Chinese Academy of Science and former Vice Chairman, Standing Committee, National People's Congress, China); Roberto Maroni (Minister of the Interior, Italy); Amre Moussa (Secretary General, Arab League); Peter Sutherland (President of the London School of Economics and President of British Petroleum, U.K.); and Jean-Claude Trichet (President, European Central Bank).

Coming from this meeting and appended to this letter are forecasts that describe the macro-economic situation in many parts of the world.

This Report, then, as it has for 20 years, focuses on critical thinking and how you might apply it in your life, in your business and in whatever pursuits you follow. Though there are many demands on your time, we urge you to put aside a few moments whenever convenient to read it thoroughly.

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

Best regards,

Robert L. Dilenschneider

The Economy —A Long, Hard Slog

The aftermath of banking crises is associated with profound declines in output and employment. The unemployment rate rises an average of seven percentage points during the down phase of the cycle, which lasts on average more than four years.

"This Time Is Different"
Carmen M. Reinhart & Kenneth S. Rogoff

When they began in 2002/2003 to look empirically at the effects of banking/financial crises over the past eight centuries, the authors of "This Time Is Different" had no way of knowing the firestorm that exploded in 2007, mushroomed in 2008 and nearly cratered the global economy in 2009 was about to unfold. Equally unforeseen was the massive and widespread fiscal and monetary response to the crisis.

It has been a little over a year since governments around the world committed trillions of dollars to offset the steep declines in wealth—and demand—that occurred from the fourth quarter of 2007 through March of 2009.

Here in the U.S., stimulus, officially known as the American Recovery and Reinvestment Act, was enacted by Congress in February of 2009 in the wake of the credit and housing bubble, when the nation was still losing 750,000 jobs a month.

Debate rages about the efficacy of the stimulus, and much has been made about the way it increased an already-soaring national debt (see graph above). But it seems very safe to say that without it, the United States—and the world—would be in a far different, much tougher place today. Comparisons with previous post-World War II recessions—and recoveries—are misplaced. This has been and continues to be a historic Global Event. And it isn't over yet.

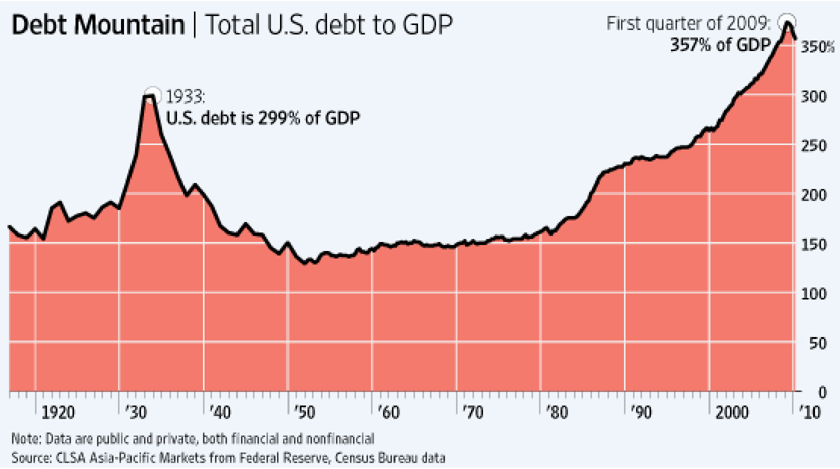
Consider What Might Have Been

In a recent analysis of the effects of the stimulus in the U.S., noted economists Alan Blinder and Mark Zandi quantify what the economic effect would have been absent the government's response (monetary and fiscal):

"We estimate that, without the government's response, GDP in 2010 would be about 11.5 percent lower, payroll employment would be less by some 8.5 million jobs, and the nation would now be experiencing deflation."

Even so, the U.S. economy, which has experienced three straight quarters of growth, is now showing distinct signs of slowing, raising concerns about the possibility of a double-dip recession.

Additionally, most economists agree that the so-called bailouts of the banking and auto industries were also essential elements of a strategy to stave off Great Depression 2.0. A substantial percentage of those outlays have, in fact, already been returned to the Treasury Department.



Ironically, however, that is not what the majority of Americans think. A recent USA TODAY/Gallup poll found that 59 percent of respondents disapproved of President Obama's handling of the economy, including the bailouts and stimulus.

A year ago, a number of prominent economists also warned that the over $800 billion in stimulus spending approved by Congress would not be sufficient to reinvigorate the economy. Twelve months later, the public outcry against adding additional hundreds of billions in stimulus to the federal budget deficit—a deficit swollen in large measure by the steep decline in tax revenues that has occurred over the last two years—has been so powerful as to make further spending seem politically untenable.

Abroad, the Stimulus Warded Off a Deep Depression

Outside the U.S., the effects of government intervention have been mixed. In China, where the response to the crisis was much bigger than in the United States, the challenge to the economy has been significant, but manageable. Elsewhere, major industrialized countries, their heads once above water, are starting to flounder.

Japan continues to muddle and shows little evidence of doing much else. Among important European countries, business conditions currently are strongest in Germany, where a genuine recovery is under way.

That said, real dangers and challenges remain to be faced in these countries. Specifically, economists worry that officials in rapidly expanding, emerging markets like Brazil, China and India—countries currently experiencing very healthy growth but rising inflation—will try to cool things off by cutting government spending or raising interest rates or both.

Europeans Cut Spending

Major European governments—Germany and the United Kingdom in particular—have made no bones about their intention to cut government spending and rely on exports to fuel growth. To offset some of the effects of a more restrictive fiscal policy, monetary authorities in the U.K. and Europe appear ready to provide stimulus as needed.

In the United States, long considered the locomotive of the global economy, exports have counted for a little more than half of growth since late 2009. About 40 percent of U.S. exports went to emerging markets.

President Obama has made it plain he expects exports to play a big role in America's near- and intermediate-term economic future. In his State of the Union address in January, the President set a goal of doubling U.S. exports over the next five years. The goal is laudable, but reaching it will be a daunting task, given the state of the world economy.

It is understandable why the President and his advisors have chosen to focus on generating as much export growth as possible. Here is a brief look at the outlook for the key components of America's Gross Domestic Product (GDP):

Consumption

Traditionally, American consumers accounted for some two-thirds of the economy. However, in the free-spending, credit-driven years leading up to the crisis, the total jumped to about 73 percent of GDP. That period is over. Americans are now saddled with insupportably high levels of debt. At the peak of the housing boom, consumers' liabilities rose to more than 130 percent of their disposable income. In the 1980s and 1990s, by contrast, consumers had less than a dollar of debt for every dollar of disposable income.

Through May, consumers had paid down debt for 20 consecutive months. Still, according to the Federal Reserve, that deleveraging has only reduced the liability/disposable income ratio to the mid-120s. The personal savings rate, which was close to zero before the crisis, is now above 6 percent. It is likely to move higher, crimping consumption in the near to intermediate term. Americans are far less wealthy today than they were in 2007.

Since the crisis peaked in the first quarter of 2009, household assets fell almost $18 trillion and are still down $11 trillion. These asset losses have reduced private spending by an estimated

5 percent—maybe more. Almost $1 trillion in economic stimulus (spending or tax cuts) would have been required in the early stage of the crisis to offset fully this decline in spending, and more than $500 billion would be required today.

Completing this bleak picture; unemployment remains well above 9 percent. Until and unless job growth picks up at a vigorous pace, it seems unlikely American consumers will drive the economy.

Gross Investment

Business investment, which accounts for only about 10 percent of GDP, has been rising for about a year. That's the good news. The bad news is that the fastest-growing components of this spending are in equipment and information processing, areas that make the existing workforce more productive. New bodies need not apply, as detailed elsewhere in this Report. This trend has been in place since 1990.

Before then, following a recession, companies would start adding jobs in a little more than two months. By contrast, it took 27 months following the 2001 recession before companies hired in large enough numbers to cut seriously into unemployment. This time the lag is even longer.

Construction spending is likely to remain very weak. The inventory of unsold, abandoned or repossessed residential houses grows by the day. Commercial properties are faring a bit better, but this is a relative assessment. More than one million homes will likely be repossessed by banks this year. During the first six months of 2010, one in every 78 households received at least one foreclosure filing.

Until the number of those unsold, abandoned or repossessed homes peaks and then begins to decline, it is hard to predict when significant new construction activity will commence.

It seems likely that companies will sooner or later invest in human capital. Yet, many see the uncertainties surrounding the impact of health care and financial regulatory reform as impediments to hiring.

Government

The modest pickup in the economy over the last nine months—and massive amounts of federal money—have helped to somewhat improve the balance sheets of state and local governments. Most were given some relief in early August with passage of legislation in Congress providing $26 billion for states and school districts to avoid further sweeping layoffs. States and local government now contribute as much to GDP as the nation's manufacturing sector.

Given the extraordinary steps the Federal Reserve has already taken to cope with the damage caused by the banking crisis, it might seem there is little more the central bank can do. But that is not altogether true. In coming months, expect to see the Fed take some action, with particular emphasis on bolstering the housing sector.

Exports Minus Imports

Even if export volumes show good growth, imports will continue to outstrip what this country sells abroad. The nation has been running a merchandise trade deficit for decades, as America's appetite for foreign oil and low-cost consumer goods from countries like China has grown. There is no reason to expect this trend will end anytime soon.

Barring a totally unexpected set of events or circumstances, for the foreseeable future expect economic growth in the United States to be tepid at best. The banking crisis that erupted in 2008 was decades in the making. Repairing the damage will take many more years.

Implications For Business

• Companies that were in operation in the 1930s should review their past experience. Deflation in the U.S. and in other major industrialized countries is a real possibility.

• Be prepared to be pressured by Washington to pick up hiring. This tendency will probably increase if corporate profits continue to rise.

• Even if Republicans regain control of the House and Senate in the November elections, don't expect miracles. Underlying economic conditions will remain the same. Unless Republicans gain a veto-proof majority, those hoping for repeal of the new health care legislation will be disappointed.

• Beware of a rising stock market as a leading economic indicator—it may be a false guide. V-shaped recoveries in stocks have happened following past banking/financial crises. From their empirical work, Reinhart and Rogoff found such recoveries in equity prices to be far more common than in housing prices or employment.

• To the extent possible, prepare for the possibility of trade wars. With so many countries putting so much emphasis on exports, the chances of a "beggar-thy-neighbor" manipulation of exchange rates seem real.

Nobody knows what the recently passed health care legislation will bring. What is known is that the bill that was passed will create hundreds of new regulatory reporting departments. As for the financial services legislation that was passed, many on Wall Street believe that now that Goldman Sachs has paid a $550 million fine it will be back to business as usual for financial titans. We do know that the legislation will lead to the creation of no fewer than 243 new regulations by 11 different federal agencies, and such complicated scenarios usually wind up favoring Wall Street.

Did You Know?

The U.S. national debt now tops $72,000 per household.

New Jobs —Don't Hold Your Breath

In the wake of the Great Recession, the U.S. is confronting a harsh new reality. Some pundits have labeled it "the New Economy" or "the New Normal," suggesting a sweeping realignment of the nation's economic profile characterized by high, persistent unemployment. We are in uncharted territory.

The U.S. may, indeed, be experiencing a new kind of jobless recovery with over 14 million unemployed (officially 9.6 percent on August 31), plus countless millions more who are working only part-time or who have simply stopped looking. Taken together, they add up to well over 16 percent of the nation's workforce. The figures are especially high among African-Americans and Latinos. About 55 percent of Americans had lost a job, taken a cut in pay, or agreed to shorter workweeks.

The nation needs about 125,000 new jobs a month just to keep up with population growth and new workers coming on the job market. To date, the Obama stimulus has been more successful in saving jobs than in creating them.

Many companies, even after depleting inventories, still have unused capacity. Meanwhile, consumer demand remains soft thanks to debt pay-down, lack of confidence in the economy, the end of the credit-based buying binge, and a higher personal savings rate.

Core Reasons

But the core reasons for this seemingly intractable joblessness are certain economic and demographic realities—facts on the ground that come into play no matter which political party is in power. There is no quick fix or silver bullet:

l) When large employers (who made most of the big job cuts during the recession) can get by with existing head counts, they are disinclined to hire –especially facing an uncertain economic future. Their commitment is to grow shareholder value and return on equity, and labor costs are a major component of most businesses' operating overhead.

In 2009, after substantial downsizing, combined profits of all firms listed on the New York Stock Exchange reached $61.4 billion—a record. The 2010 second quarter profits for most major firms were equally robust. But although they are sitting on huge cash reserves and other liquid assets, companies are more disposed to make capital investments, upgrade facilities or seek attractively priced acquisitions than to hire. U.S. companies are currently making new equipment and software purchases at the fastest pace since the late 1990s.

2) The outsourcing of jobs by companies pursuing low-cost labor in Asia and Africa will not abate. Globalization is now an unalterable fact of economic life. The Internet also allows jobs to be moved overseas without any loss of control.

3) A "Buy American" push may help somewhat, but competition from foreign producers and service providers is intensifying in developing countries and powerhouses like China, India and Brazil plus the still-formidable E.U.

4) The labor union movement has lost much of its ability to protect jobs. At one time, one-third or more of American workers were union members. That total is down to around 12 percent, with about 7 percent in the private sector.

5) Employed workers—many fearful of losing their jobs—continue to boost productivity by working harder and longer hours, often precluding the need for more hires. Today, the average male employee works about 100 hours more each year than he did 20 years ago. For women, it's an estimated 200 hours.

Accelerating Automation

6) Automation (specifically, digitization) is becoming increasingly important in both the production and service sectors. In the past, new technologies such as robotics were constrained to some degree by union contracts. Now there is a new wave of computer-based automation. Eastman-Kodak offers a typical example. Before digital cameras came on the market, the iconic company had some 60,000 employees. Today, after closing many labs and factories, it has fewer than 25,000.

7) Population growth from immigration—legal and illegal—further compounds the employment problem. The U.S. admits about 700,000 legal immigrants annually, a greater number than during the great European tide of 1890-1920.

8) Approximately 100,000 home-grown first-time job seekers add to the labor force every month—high school and college graduates, dropouts, released prison inmates, etc.

9) The nation's workforce is aging, but retirement at 65 is no longer the norm— either by choice or out of economic necessity. According to the Department of Labor, 6.6 million people 65 and over were in the labor force during the first half of 2010, blocking traditional pathways for younger workers.

Many argue that innovation, infrastructure rebuilding and an emerging green economy will create significant job opportunities. President Obama has just proposed a massive $50 billion infrastructure/transportation bill designed to create jobs, but it is an open question whether Congress will come on board. Even if passed, much of that cannot happen quickly. Although there has been some growth for several quarters now, it has not made a meaningful dent in the overall jobless numbers thanks to the daunting realities cited above. And most of the growth has little to do with which party is ruling in Washington.

Implications For Business

The U.S. will have to generate as many as 300,000 new jobs monthly for at least 27 months to get back to where we were before the Great Recession. Those dismaying numbers pose a serious dilemma for the economy and will have an important impact on the national elections.

Did You Know?

On-the-job safety is actually improving: The total number of fatal workplace injuries fell by 17 percent last year to 4,340, down from 5,214 in 2008, according to the Bureau of Labor Statistics

---

The Coming Political Season

Against a backdrop of economic uncertainty, an unpopular war in Afghanistan, record federal deficits and persistent unemployment, voters are angry and many incumbents are in the fight of their lives.

Leading much of that anger is a new and powerful political force called the Tea Party movement, which has mobilized hundreds of thousands of voters and has given fits to the Republican establishment across the country. Even though most of its members are Conservatives or Republicans and should support the Republican nominees in the fall election, they have created havoc for establishment candidates. They have been a force behind Marco Rubio in the Florida Senate race, forcing the incumbent Governor, Charlie Crist, to withdraw from the GOP and run as an independent.

They also backed a newcomer, businessman Rick Scott, who defeated the establishment choice for governor in the August Florida primary. Their candidates also won nominations over the establishment-picked candidates in Colorado, Nevada, Utah and Alaska. In Utah and Alaska, they knocked off two incumbent Senators, Robert Bennett in Utah and Lisa Murkowski in Alaska. Few will argue that the Republication Party in many states has moved from the right to the far right. The ultra-right conservatives emerging victorious in Republication primaries also include Sharron Angle in Nevada, Joe Miller in Alaska, Rand Paul in Kentucky, Mike Lee in Utah, Pat Toomey in Pennsylvania and Ron Johnson in Wisconsin.

This has the potential to backfire in November since the deciding votes in many states will probably be cast by Independents—less than one-fourth of registered voters now define themselves as Republicans—who are not extremists and might choose to vote Democratic or just stay home. Of course, the fragile economy may still be the deciding factor. Whatever the reality, the electorate traditionally blames the party in power when the economy flounders.

Big Money Enters

This is also a year in which several former business executives have decided to throw their hats—or actually their wallets—into the political game. The biggest spender to date is the former CEO of e-Bay, Meg Whitman, who spent nearly $120 million of her own money to win the Republican nomination for governor of California and the right to wage a campaign against former governor and current Attorney General Jerry Brown. Running with her against Senator Barbara Boxer is former HP CEO Carly Fiorina, who spent $5 million—again, her own money—to win the primary. Also, setting a pretty fast pace is the $22 million spent by wrestling executive Linda McMahon to win the Republican Senate nomination in Connecticut. She promises to at least double that to win in the fall. Rick Scott spent $50 million in Florida and he didn't even get in the race until mid-April.

The November election will definitely alter the dynamics of Washington. The new Congress will certainly be more Republican ... no one on either side of the aisle argues against that opinion. The gains that Democrats made in taking back the

House in 2006 (31) and added to in President Obama's 2008 election (21) represent many of the seats in jeopardy.

Democrats Under Siege

Even the most partisan Democratic strategists are beginning to concede that the House, and perhaps even the Senate, could have Republican majorities. President Obama's party and his agenda are under siege and his future legislative priorities are at risk. His low approval numbers are not helpful to his party's incumbents, and as of today Republicans have a huge advantage in voter intensity. Even if Republicans fail to win a majority, they will certainly win enough seats to be close to parity and force Democrats to deal with them in a real bipartisan way, or little will be accomplished.

As of today, 120 House seats are being monitored by the non-partisan experts and party operatives who pay close attention to races across the country – nearly 50 more seats than were watched two years ago and double the number of 2006. Some 102 of those 120 seats are held by Democrats. Thirty-two Democrats are trailing or have trailed their Republican opponents in public or private polls. A pick-up of 39 will make Nancy Pelosi a member of the ex-Speakers Club.

Winning a GOP majority in the Senate is a greater challenge, but not impossible. The Republicans, at 41 seats today, need ten for the majority and will pick up at least four to five on the low side. There are 37 seats up in this cycle with 15 (seven Democrats, eight Republicans) of them open seats due to retirement, defeat or death.

Safe GOP Seats

The Majority Leader, Harry Reid, is in a close race along with four other Democratic incumbents. No Republican Senators are in trouble but two have been defeated in the nomination process, as noted above. The ultimate indictment of the White House's weak political operation is manifested in the vulnerable seats once held by President Obama in Illinois and Vice President Biden in Delaware. Both are viewed as probable Republican gains.

Republicans should do very well in the gubernatorial races, picking up four or five more governorships to give them a solid majority. This will be especially important since Congressional reapportionment is scheduled for 2011.

Even if the Democrats do not lose either chamber, there will be tremendous pressure to have a lame-duck session after the election to ram through unfinished business. That will be very difficult to do if the Democrats sustain big losses.

This election could turn out to be transformative, but not necessarily in a way that resolves the great divide between the two dominant political parties. Whichever party controls the House and the Senate will have small margins. The philosophical differences will remain. Democrats will want spending programs and more taxes. Republicans will want to reduce spending and lower the deficit, keep taxes where they are, and repeal much of the President's health care bill. Common ground and compromise will be a difficult challenge and may not be resolved by one election.

Implications For Business

President Obama has been labeled by some as "anti-business," which he emphatically denies. Both parties, in fact, have had major backers from the business and financial communities. The GOP, however—with the exception of Teddy Roosevelt—has been historically recognized as the pro-business party. Now, in the wake of the recently passed financial reform bill, Wall Street, which once gave the Democrats considerable support, has also turned against the party in power.

If a resurgent Republican Party succeeds in regaining majorities in Congress, look for legislative gridlock because of the President's veto power, but expect a spate of congressional hearings about the Obama Administration. Keep in mind, too, that certain far right, populist candidates and Tea Party favorites are not exactly friends of Wall Street, bailouts of any kind or big business generally.

Did You Know?

The latest data from The U.S. Department of Housing and Urban Development show housing sales were down in July 26 percent from the same month in 2009.

What To Expect From U.S. For eign Policy

U.S. foreign policy can be best described as a work in progress, but it will soon be clearer whether the new initiatives to deal with old problems will bear fruit.

The U.S. withdrawal from Iraq is on schedule, but Iraqi political resolution has not kept pace with military success, and questions are already emerging about whether the Iraqi army and police can fight effectively without major U.S. support. The next few months will prove critical.

Iran remains outwardly intransigent, but international sanctions, particularly in the financial area, are beginning to bite and its nuclear program is encountering technological setbacks. The option of Israeli or U.S. military action remains on hold.

Afghanistan has one more chance of retaining major U.S. economic and security support with a critical policy review scheduled for late this year. The administration is committed to reducing U.S. forces starting in July, but the pace of the drawdown depends on the situation of the ground. General Petraeus' advice will play a major role but will not be definitive.

Pakistan's failure to crack down on Taliban safe havens makes success in Afghanistan immensely more difficult. But faced with its disastrous floods, Islamabad is unlikely to be an active regional military or political player in the near term.

Expectations are low for the ongoing Israeli-Palestinian talks fostered by President Obama. Conventional wisdom has it that the Netanyahu government is unwilling to take big steps for peace while a divided Palestinian Authority under President Abbas is unable to. And as we went to press, the issue of Israeli settlements in the West Bank loomed as a potential deal-breaker. Even if the negotiations stay on track, it is questionable whether a breakthrough will emerge.

The administration continues a quietly devastating campaign against Al Qaeda, setting back its ability to conduct complicated attacks like 9/11. But more Mumbai-style incidents are possible, and the extremist poison is taking deeper hold in places like Yemen, Somalia and Northern Africa.

U.S.-European relations, both economically and diplomatically, have turned a corner. The EU met the danger of financial meltdowns with firmness and resolution, guiding Greece, Spain and Central European members away from the excesses of recent years. Russia, faced with a series of agricultural, export, and terrorist setbacks, seems more inclined to work with, not automatically against, U.S. interests.

In the Far East, it has become generally accepted that China can be nudged but not compelled to play a more responsible role consummate with its economic and political power. Beijing's fixation on internal stability is likely to continue to temper its external actions. U.S.-China relations will play out in a timeframe of years, not months.

North Korea, obsessed with its succession issues, remains a provocative irritant—a cult with an army. But sanctions appear to be keeping a lid on North Korean weapons exports and containment remains the order of the day.

Implications For Business

Two years into the Obama Administration, we can begin to see movement or at least clarification in achieving foreign policy goals.

Did You Know?

Those who make $200,000 a year represent 3 percent of all taxpayers, but pay 52 percent of all income taxes.

Leaders, Yes Heroes, No

According to several polls, Americans are dissatisfied with their leaders—their business leaders, their religious leaders, but most of all their political leaders.

Part of the dissatisfaction stems no doubt from the difficult times in which we live—from high unemployment, housing foreclosures and stalled economic growth to two wars that have cost thousands of American casualties and hundreds of billions of dollars without any sense of finality, much less victory.

New York Times columnist Thomas Friedman recently put his finger on the challenge this poses to those in charge: "During most of the post-World War II era, being a leader meant, on balance, giving things away to people. Today, and for the next decade at least, being a leader in America will mean, on balance, taking things away from people."

Another source of the nation's discontent lies in the fact that we have leaders, but we do not have heroes.

For example, General David Petraeus is a highly effective military leader. He succeeded in stabilizing Iraq in 2007-08 at a time when it seemed that the U.S. was losing control, and he has asserted strong leadership in Afghanistan since taking command there. Yet, no one thinks of him as military hero—a latter-day John Pershing or Dwight Eisenhower. Petraeus' straightforward, plain-vanilla personality and the complex environment in which he operates rule that out.

By the same token, whether one agrees with President Obama's policies or not, it is clear that he has tried to lead. In just 21 months, he bailed out GM and Chrysler; passed the stimulus bill that created 3 million jobs and saved at least another million; won passage of a historic health care package that will provide a safety net for the uninsured and under-insured; and oversaw passage of a financial reform package that, while far from perfect, is intended to prevent another financial crisis.

But right now, it's hard to imagine Democrats putting Obama in the same pantheon with Franklin Roosevelt or Harry Truman (just as it's hard to imagine Republicans putting George W. Bush on the same pedestal with Ronald Reagan).

Look at almost any other profession—sports, entertainment, the arts—and the field is equally devoid of heroes. The reasons for this are many, but among them are:

- The one-two punch of the Vietnam War and Watergate made Americans a more skeptical, less trusting people and that has never gone away.

- The media once turned a blind eye on the private lives of national figures, but no longer. FDR's polio-damaged legs and JFK's White House philandering were well-known to White House correspondents at the time, but never reported. Nowadays, in a 24/7 atmosphere of "gotcha journalism," nothing is out of bounds, and no one is spared.

- The potential heroes themselves rarely behave in heroic style. In Hollywood, the breakdown of the old studio system and the rise of individuals who negotiate their own mega-deals (often for films that bomb) have left us with a handful of box-office stars, but no movie idols.

• Similarly in sports, the era of legends is long gone. It's hard to look up to players when so many behave badly on and off the field, when steroids are in widespread use, and when jumping teams for multi-million-dollar contracts is routine.

Once the nation had Babe Ruth and Cy Young. Now it has Barry Bonds and Roger Clemens. It's quite a comedown, and it may help explain the sourness when pollsters come around to ask questions about leadership.

Implications For Business

Business leaders as a group are among those found wanting in the polls. The hard economic times brought on by the bad conduct of a few, and repeated stories about out-sized compensation packages, have contributed to this tarnished reputation. Maintaining high standards of conduct in the workplace and keeping engaged in community- and nation-building activities can be the antidote.

Bush's Tax Cuts—An Uncertain Future

The income tax cuts enacted under George W. Bush in 2001 are scheduled to expire. Congress specified they should sunset in 2011. Republicans, some Congressional Democrats and a number of private economists have argued that an end to the cuts—in effect, a tax increase—will jeopardize the fragile recovery. Democrats see it as a way to lower the deficit and start closing the wealth gap that has grown so large in America. Four options have been floated:

1) Extend all the cuts across the board to the wealthy and middle class alike.

2) Eliminate all the cuts for all taxpayers.
3) Keep the prevailing rates for couples earning less than $250,000 annually or single taxpayers earning less than $200,000 and raise the rate for all others to a maximum of 39.6 percent (as in the Clinton years) up from the current 35 percent. This is the option advocated by President Obama. Additionally, dividends going to wealthier individuals would be treated as ordinary income (39.6 percent) and the capital gains tax would rise to 20 from today's 15 percent.

4) Phase in tax increases over several years for those with incomes above $250,000 and $200,000. (About 350,000 American households now report adjusted gross income of one million or more.)

Retaining the cuts—even for a year or two—will add to the federal budget deficit. The empirical evidence of the last 10 years offers very little reason to support the proposition that employment will rise if the cuts remain in place, particularly for the wealthiest Americans. Employment growth over the last decade has been among the lowest since data tracking these trends began to be collected.

The argument that tax cuts will spur investment seems equally misplaced. Investment decisions seem much more influenced by the state of final demand and the health of the global economy than they are by tax rates. Moreover, there is currently a large amount of underutilized capacity in the economy.

Implications For Business

At this juncture in the debate, with deficit concerns coming to a head, it seems doubtful that all of the Bush tax cuts— especially for the more affluent—can remain in place. Indeed, just 30 percent of the public wants to keep them intact. Some kind of compromise would appear to be in the cards—perhaps along the lines outlined in options 3 or 4. With the Obama plan, those with more than a million taxable dollars would receive an annual average saving of about $6,300, substantially less than the $100,000 they enjoy under current rates.

Re-Orienting The American Economy

As is noted elsewhere in this Report, the American consumer is in the midst of a retrenchment that will likely last years and will have profound effects on the U.S. and global economy.

From a previous peak some two decades ago of between 8 and 10 percent, the saving rate—roughly defined as the share of after-tax income that is not spent—fell precipitously, and bottomed out at just over 1 percent at the height of the housing bubble. Two factors persuaded Americans at all income levels to use borrowed money to finance consumption.

First, constrained by a lack of real income growth, lower and middle income households took on unprecedented debt to maintain their standard of living and to pay for items such as their children's college educations, the price of which has been rising at a much faster clip than inflation. Wealthier individuals were also not immune.

During the 1990s and well into the current decade, rising prices for assets like stocks and houses lulled many into a false sense of security about their financial future. On the assumption they were secure, increasing numbers of households began to save less. With the onset of the Great Recession and the accompanying rise in the national unemployment rate, these two broad forces are now working in the opposite direction.

More Deleveraging

For the less well-to-do, deleveraging is now the name of the game. Spending has to match income, and debt has to be reduced. Higher income households are also doing all they can to ratchet up savings to compensate for the steep decline in personal wealth over the last three years.

As a consequence of these trends, the savings rate has risen more or less steadily over the past two years, to a high of 6.2 percent in June. (It fell back in July to 5.9 percent.)

Traditionally, consumers accounted for two-thirds of the American economy. By 2007, before the Great Recession hit, consumer spending had risen to 72 percent of GDP, an increase of 9 percent from traditional norms. But increased savings means less spending and a return to more normal consumption patterns. In the near-to-medium-term, this will act as a drag on the American economy and present a challenge to countries like Germany and China, not known for promoting domestic consumption.

Without a return of growth in real income, American consumers may see few alternatives to releveraging their balance sheets as a way of maintaining living standards.

Intense Pressure

Indeed, pressure to do this will likely be intense, especially if prices for items like higher education and health care continue to rise at rates well above inflation. In a troubling development, June data from the Federal Reserve show that for the first time in history the size of outstanding student loan debt exceeded the amount Americans owed in revolving credit. This is as much a reflection of the degree to which households are currently paying down credit card debt as it is an indication of how rapidly outstanding student loans are rising.

“What we have been through has scarred the collective psyche,” argues Mark Zandi, chief economist at Moody's.com. “And the biggest change in attitudes is among younger people, who have never lived through any sort of downturn.”

The likelihood that the unemployment rate will remain stubbornly high for years to come also will almost certainly act as an incentive for consumers to favor saving over spending.

Implications For Business

A higher savings rate is a positive for business since it provides financial institutions with funds to lend to companies and individuals and to invest. But it puts a big damper on robust consumer spending, which is essential for the economy to recover and grow.

China—Onward & Upward But More Slowly

In mid-August, global media headlined the news that China's GDP had just eclipsed Japan's, making the Asian Goliath the world's second biggest economy behind only the U.S. Most economists forecast that China will eventually become the planet's No. 1 economic power—perhaps by 2020.

Since Deng Xiaoping jettisoned the Communist economic model in 1979, China has made extraordinary gains with an economy built on exports and investment. The growth has moved hundreds of millions out of poverty while creating scores of new millionaires. Nonetheless, some 700 million of its 1.3 billion people continue to live an agrarian lifestyle in relative poverty.

After three decades of impressive 10 percent or better annual growth, the Chinese industrial dynamo is finally, and inevitably, slowing down—more like 7-8 percent in the wake of the global recession. Unlike many Western democracies, however, its rigid system of state-directed capitalism has enabled China to act swiftly to deal with asset bubbles. For example, facing a housing construction boom in many major coastal cities, the authoritarian central government acted swiftly to curb speculators.

While China has built growth on its massive export machine powered by a cheap currency, a major boost to domestic consumerism is now essential to support the nation's seemingly unlimited production capacity and surplus labor pool. Lacking any kind of government-sponsored social safety net, the Chinese have been very big savers (to insure their futures) rather than spenders. This will need to change. Though China has been called "the factory of the world," the domestic service sector is seriously deficient and the country faces formidable environmental problems.

Little Opposition

Politically, there is little opposition to one-party rule under the Communist banner. For the present at least, most Chinese appear willing to forego democratic political norms in exchange for economic security. The ruling hierarchy routinely proclaims that its goals are "harmony, stability and prosperity for all."

On the international front, China will be an increasingly tough competitor of the U.S. for resources, global standing, and influence. Yet, even with its current military buildup, most informed observers who have lived in the country for any length of time, do not see China as an aggressor nation in pursuit of global hegemony. And despite protectionist fervor and scapegoating in the U.S., the Chinese do not seem to feel any special hostility to America. But within its own backyard, China will continue to uncompromisingly protect its disputed claims to Taiwan and Tibet. Both issues may one day cause problems for relationships with the U.S.

With so much export-driven wealth and high domestic savings, China is today one of the world's largest creditors—especially of the U.S. It holds an estimated $900 billion in U.S. Treasuries. Will the Chinese go on financing our deficit spending? The answer to that critical question depends largely on the state of the American economy. Because of our symbiotic relationship with the Chinese, it will probably take another major collapse here for them to start aggressively cashing in their U.S. chips.

Implications For Business

Although U.S. investment in China, whether outsourcing, building new plants, or opening outlets, has been enormous over the past few decades, the huge trade imbalance in China's favor has always been a concern. The greatly undervalued Chinese currency is another sticking point. Despite much pressure from the U.S., the Chinese central bank has consistently resisted efforts to implement a really meaningful increase in the value of the yuan.

The recent Google imbroglio also spotlighted the over-hanging issue of government interference with and restrictions on foreign companies. But the vast, basically untapped Chinese consumer market remains a compelling target for American manufacturers and service providers.

Did You Know?

Japan, the world's third-largest economy, is also one of the world's largest debtor nations, far exceeding the U.S. Currently, Japan's ratio of debt to GDP is nearly 200 percent, or about twice that of the U.S. or Germany.

China—A Rising Military Presence In The Pacific

When we think of China today we tend to focus on its economic miracle. Little attention is given to its military buildup.

At 2.3 million, the Chinese have the largest army in the world measured by pure numbers (although not when measured on a per capita basis; that would be North Korea with 48.8 soldiers for every 1,000 people, against China's 1.7, America's 5.1 and Russia's 7.3).
Even more significant, China is strengthening its navy. According to an assessment by the Congressional Research Service made public on August 26, "China's naval modernization effort, which began in the 1990s, encompasses a broad array of weapon acquisition programs, including anti-ship ballistic missiles (ASBMs), submarines and surface ships. China's naval modernization effort also includes reforms and improvements in maintenance and logistics, naval doctrine, personnel quality, education, training and exercises."

The report goes on to say that the Defense Department believes China's near-term goal is "to develop military options for addressing the situation with Taiwan." Specifically, DOD believes the Chinese want "a so-called anti-access force—a force that can deter U.S. intervention in a conflict involving Taiwan or failing that delay the arrival or reduce the effectiveness of intervening U.S. naval and air forces."

For the long-term, according to the CRS report, DOD believes China's naval buildup is aimed at "pursuing additional goals, such as asserting or defending China's claims in maritime territorial disputes, protecting China's sea lines of communications, displacing U.S. influence in the Pacific and asserting China's status as a major world power." It also provides great symbolic value in support of China's global economic goals.

Implications For Business

Look for China to be even more dominant close to home, particularly in its relations with Taiwan.

Did You Know?

According to the U.S. Census Bureau, the rate of increase for federal domestic spending in fiscal year 2009 was 16 percent, to a total of $3.2 trillion. The 2009 spending total is equivalent to $10,548 per person living in the United States.

Talking Turkey

Turkey has been much in the news lately and for good reasons—geographic, political, diplomatic and economic. This ancient land of nearly 75 million—at once Asian and European—continues to be an essential bridge between East and West.

It remains a modern, secular, non-Arab, largely conservative Muslim state, where democratic institutions and Islam co-exist. Although it has recently bolstered ties with bordering Muslim nations such as Iran, Iraq and Syria, Turkey continues to be a key, influential ally of the U.S. in the Middle East.

Internally, the nation's military and judiciary have long cast themselves as the protectors of the nation's tradition of secularism against domestic forces seeking a more Islamist, anti-Western government. Critics sharply dispute that claim, contending that the military and courts have in fact constituted a barrier against democracy and the rule of law.

Now change is on the way. Earlier this month, voters approved a sweeping package of constitutional reforms backed by Prime Minister Recep Tayyip Erdogan. The changes will make the military answerable to civilian courts and give Parliament control over the appointment of judges and prosecutors. The long-term impact of all this on Turkey's relationship with the West is impossible to tell at this preliminary stage.

President Obama's early visit to Ankara and outreach speech to the Muslim world, coupled with U.S. support of Turkey's still-unsuccessful bid to join the E.U., have all helped strengthen ties between the two nations. This, despite the fallout with Israel over the recent "flotilla" crisis off the Gaza coast and Turkey's deal with Iran on nuclear energy. Obama has characterized Turkey as a "critical" ally.

It is to be hoped that the U.S. can play a determinative role in mending the Israeli-Turkish rift, since both countries are vital and valued friends. Turkey's special role balancing and interpreting East to West and West to East cannot be overemphasized.

Unlike neighboring Southern Europe, Turkey has enjoyed something of an economic boom with reported growth of 11.4 percent in the first part of the year. Supported by a surging export trade, it now boasts a number of internationally competitive companies in automobiles, flat-screen TVs, food products and much more. The nation is fast growing into an entrepreneurial hub, reflecting Erdogan's combination of social conservatism and fiscally cautious economic policies.

Implications For Business

An economically vibrant, basically democratic nation like Turkey, which is a key political and strategic ally against Muslim jihadism, can make a great contribution to world stability—a big plus for global business and resulting investment opportunities.

The U.S./Russia "Reset"

The Cold War ended over two decades ago. Notwithstanding some unreconstructed, confrontational voices in both the U.S. and Russia who think otherwise, that is now a historical fact.

There surely have been bumps along the road: The crackdown on Russian media and journalists and other authoritarian measures taken by Moscow (although the Internet is unfettered and the dissenting press remains active); the uproar over the Georgia invasion (despite increasing evidence indicating Russia moved after Georgia attacked South Ossetia); NATO expansion plans to include Ukraine and Georgia; the proposed anti-missile defense installations in Poland and the Czech Republic, and the Russian view that the West often has ignored its security concerns.

But many of these contentious issues appear to have been resolved or at least tabled as the two nations work together on a number of global crises while coping domestically with major economic turmoil. The vaunted "reset" of U.S.-Russian relations is in fact happening.

Prime Minister Putin continues to hold great power and influence and has recently offered broad hints that he will run for president again in 2012, citing in a strange twist, Franklin Roosevelt's third term as his precedent. (The Russian constitution limits presidents to two consequent terms, but does not bar former presidents from returning to office.) Meanwhile, the man who succeeded Putin, Dmitri Medvedev, has proved to be an influential leader, one who is much more conciliatory with President Obama than Putin was with George Bush. How Medvedev will react if Putin tries to force him out after just one term in office is the great unknown of Russian politics. Russia will now cooperate in implementing severe economic sanctions against Iran to block development of a nuclear weapon. Its recent agreement to fuel an Iranian nuclear power plant includes strong provisions for Russia to remove the spent fuel and the International Atomic Energy Agency to oversee the entire venture.

Nuclear Pact

Russia has signed a crucial nuclear disarmament pact with the U.S., and one hears much less talk from Moscow about the nation's role as a dominant global power—what was once hailed as the Kremlin's "national greatness" project. The recent, swift, low-key resolution of the Russian spy episode was yet another indicator that both sides are committed to maintaining peaceful, constructive, mutually beneficial relations.

Russia, like most of the world, has not escaped the severe economic downturn. Its economy is still basically petro-driven. This summer's catastrophes—unprecedented heat waves and raging wildfires devouring thousands of square miles of countryside –have had a powerful impact on the nation's confidence and psyche. Meanwhile, unrest continues in several southern and central republics seeking to break away from the Russian Federation.

Implications For Business

The worst of the economic crisis seems to have passed and a moderate President Medvedev is pushing hard for modernization. His intention appears to be an overhaul of the economy in areas such as property rights, the rule of law, transparency, corporate governance and corruption in contrast to the more semi-authoritarian, state-capitalist system under the Putin presidency. Russia's eventual entry into the WTO also seems assured.

All this and the growing amity between the U.S. and Russia bodes well for current and future business investment. Russia, despite its shrinking population, is still a world power with a huge nuclear arsenal—the largest country on Earth in terms of land mass with the third largest oil and gas reserves.

India Vs. China—Closer Than You Think

For many years, analysts have compared China and India to the tortoise and the hare. China, which just shot past Japan as the No. 2 economy in the world, is, of course, the hare. India, with its per capita income of $1,170 against China's $3,620, is the tortoise advancing steadily but until now, more slowly. The comparison was convenient as well as colorful. A closer look suggests it won't be accurate much longer, if it ever was.

Different Systems

Despite China's move toward free-enterprise capitalism, many of its companies remain state-owned or, like Petro-China, partially state-owned with Party members sitting on the board. Many state enterprises in natural resources, heavy industry and transportation are money-losers kept afloat by subsidies to preserve jobs.

By contrast, India's companies are mostly privately owned and have to make it on financial performance and innovation. That's how outsourcing companies like Wipro, Infoysys and Tata Consulting created armies of offshore assistants who read MRI exams, tax returns and securities filings and write software for U.S. and European companies. Offshoring is now an $87 billion business developed by Indian companies.

India's private companies are frugal and efficient. They have to be. Energy is expensive. China's producers by contrast get heavily subsidized energy. Result: On average, a Chinese factory uses four times the energy of a U.S plant for the same level of production.

The Chinese Model

And for all the talk about China as a model for the developing world, its rule-by- decree system mainly benefits the West—from cheap goods for Wal-Mart (which accounts for 10 percent of all Chinese exports) to assembly plants for iPads.

India may actually have more of what developing countries want. For example, Tata has created a super-cheap $2,500 car—a 33-hp, 65-mph gas-sipper. The Nano, as it's called, is a kit car shipped to distributors and assembled when a buyer shows up. Its potential as a developing world vehicle is vast. While China is buying strategic minerals overseas, an India-branded car will be exported to the masses.

Investors in India can own land and buildings and take intellectual property disputes to court. The system is hardly perfect, but thanks to a strong judiciary and the rule of law, India provides potential litigants with a far better chance for adjudication than China.

The biggest hurdle for Indian progress remains government inefficiency and corruption. Red tape keeps foreign investors at bay, which helps explain why India attracts only one-tenth of what China receives in foreign investment. A 2010 survey of business leaders by the Political and Economic Risk Consultancy rated India "the most bureaucratic" of 10 Asian countries, behind even Indonesia and the Philippines. And because the central government is weak, mandates from New Delhi can be blocked at the state level. In China, orders from Beijing are never obstructed by local officials. Then, there is the issue of bribes. Last year, India was ranked 84th in the world for corruption by Transparency International. (China was 79th, the U.S. 20th.)

Unmet Needs

Both China and India have vast unmet social needs, especially in pensions, health care, the environment and education.

China will have to confront the problems of an aging population sooner than India because despite a thriving middle class of 300 million, it has failed to create a meaningful social safety net.
It also must face rising demands for help from the nation's rural population of 800 million. And because of its one-child-per-family birth-control policy, China will have fewer new workers entering the workforce to support any social security system.

India, which has no family planning, has the opposite situation. It has an ample supply of younger workers to fill jobs, and many are expected to earn pensions from their private-sector employers even while they maintain the national tradition of caring for their parents. China has done a much better job on basic education with a literacy rate of better than 90 percent, compared with around 66 percent in India.

Both nations will need to spend trillions to clean up degraded rivers, lakes and toxic air. How these "soft" infrastructure and ecology needs are addressed will be critical in shaping their destinies.
Implications For Business

The West has watched the rise of China with awe and concern. The emergence of India as a growth economy in the last ten years should open some eyes. China will probably stay on its impressive course, but India should be able to keep the race close. Western business leaders will want to think carefully, therefore, about how they invest in Asia's growth.

Bridging The Road To Understanding

There is no question that the fierce opposition to the proposed Muslim community center near Ground Zero has also triggered anti-Islam sentiment across the country and even some vandalism. But it is also relevant to take note of the considerable progress that has been made in improving relations between Muslims and non-Muslims since 9/11.

Interfaith initiatives have grown substantially since that terror attack, and the movement has adherents in all sectors of society, from government to the clergy, from business to academia and should be acknowledged.

A recent visible effort was the tour of the Persian Gulf by Imam Feisal Abdl Rauf, organizer of the Muslim community center. The tour was sponsored by the U.S. State Department to promote tolerance. Keen global interest in the Islamic center debate fueled high attendance at Imam Feisal's speaking engagements in Bahrain, Qatar and the United Arab Emirates.

Other government-led initiatives are also showing progress. A health partnership between America and the Organization of the Islamic Conference is credited with helping Nigeria almost eradicate polio; and the April Presidential Summit on Entrepreneurship drew the attendance of hundreds of business leaders from Muslim communities to discuss ideas and ways to create jobs.

Many Private Groups

Numerous private groups are also working to demonstrate that the faces of faith share more similarities than differences. Philanthropic institutions such as the Henry Luce Foundation, the Ford Foundation, the Sierra Club and the Bill & Melinda Gates Foundation give millions to underwrite global interfaith initiatives.

Theologians and academics are also effecting change. Lombard Theological School in Chicago is including Islam in its initiative to train clergy in the context of faiths other than their own, and Claremont School of Theology in California will add clerical training for Muslims and Jews to its curriculum this fall.

Georgetown University recently gathered 15 religious scholars from America and 14 teaching assistants from Al Azhar University—one of the most influential Islamic institutions in the world—in an effort to erase the perception among Muslims that Christianity dictates American foreign policy. Participants studied religious diversity and the legal foundations of democracy in the U.S. and met with political figures, including Rep. Keith Ellison (D-Minn.), the first Muslim-American elected to Congress.

Across the country, grassroots efforts to improve relations have sprung up.

The Omaha (Neb.) Tri-Faith Initiative is working to find a common site for Jewish, Muslim and Episcopal facilities. The New York-based Foundation for Ethnic Understanding is fostering ties between Muslims and Jews. Faith House Manhattan has distinguished itself as the only multireligious church in the country, a place where all faiths are honored and celebrated. And Utica, N.Y. is welcoming efforts to turn a former Methodist church into a mosque.

Still, a recent Time magazine poll, indicative of the man-on-the-street view, found that many Americans harbor animosity toward Muslims: Twenty-eight percent do not think Muslims should be eligible to sit on the Supreme Court and nearly one-third of those polled said Muslims should be barred from running for president.

Implications For Business

There are about seven million Americans who adhere to the Muslim faith. As interfaith initiatives increase, intercultural cooperation will gain cultural acceptance. Companies will have to adjust their operations to reflect a global world view. Business leaders will be called upon to promote tolerance, and corporations will be expected to host leadership activities and sponsor artistic endeavors and other efforts to foster cross-culture understanding.

Terrorism—Now A Global, Ongoing Reality

Terrorism is no longer a developing trend. It is with us as a way of life and will be with us for decades to come.

There are global conditions that stimulate power plays and uncertainty in the rest of the world: The changing of the guard in Egypt, where Hosni Mubarak is 82 and the Muslim Brotherhood still thrives; in Saudi Arabia, where King Abdullah is 80 and wealthy Saudis continue to finance jihadist terrorists in many Muslim nations; in Pakistan, where the militant Lashkar-e-Toiba, perpetrators of the 2008 Mambai massacre, remains a serious threat; in Iran, which has long funneled funds to Hamas and Hezbollah; and in many other regions of the world where home-grown terror operations underscore an existential global reality. All stimulate power plays in these nations and uncertainty in the rest of the world.

The United States, frequently with local help such as Saudi security professionals, has made significant progress in eliminating many terrorists and terrorist leaders. But al-Qaeda continues to flourish in Yemen, the Sudan and Somalia under the name al Shabaab and, in Iraq, where the Sunni Awakening Councils have been emboldened by the U.S. pullout.

Yemen in particular has become a focus of U.S. anti-terrorist activities since the al-Qaeda unit there was cited by the CIA as one of the most urgent threats to our security. With Predator strikes seriously weakening al-Qaeda in Pakistan, the Yemen franchise of the global terrorist organization has now emerged as a major target.

It's well-known that the terrorist leadership often comes from the ranks of the upper and middle classes. Expect more vigorous recruitment here. It is also well-known that the funding for terrorism is at a high level and that moderates in the Muslim world live in daily fear of terrorists.

Implications For Business

Awareness and alertness are vital for anyone doing business in a nation harboring terrorist cells whose members are often particularly resentful of Americans. The potential for terrorist activity should be factored into location decision-making. Every sector of one's business needs to be vigilant.

Iraq Is At A Fork In The Road

After more than seven years of a controversial war and occupation, all American combat troops have now been pulled out of Iraq although some 50,000 military are staying on as peace-keepers to protect American personnel, conduct counter-terrorism operations and train Iraqi security forces. That number compares with the 170,000 American troops in Iraq during the height of the 2007 surge. By the end of 2011, every U.S. soldier will be gone. For the present, however, U.S. influence and presence—including countless thousands of private American civilian contractors—remain formidable.

Disputed national elections six months ago keep the Shiite-dominated, some say pro-Iranian, Maliki caretaker government in power while sectarian violence continues to be a deadly reality. Almost every week one reads about another suicide bomber wreaking new havoc with mounting death and destruction. The departure of American combat troops may further energize the militants. Fear and distrust abound.

Sunnis and Shiites—not to mention the Kurds in the North—appear to be unable to compromise and form an effective unity government that could lead Iraq into the future. Observers point out that it took some 35 years after World War II for our ally, South Korea, to transition from a repressive dictatorship to a working democracy.

Huge Costs

The gains that have been made in Iraq are real and important, but they have come at a huge cost—both the human toll (American and Iraqi lives) and in treasure. Most Iraqis acknowledge they are happy to be rid of the dictatorial and oppressive Saddam regime, but there is also widespread anger and resentment about the carnage and destruction that came in the wake of the U.S.'s arrival. Compounding the difficulties, many of the country's professional class—60 percent of physicians—either fled to neighboring countries or were killed during the long insurgency.

The U.S. has already invested billions to rebuild the broken nation, but Iraqis still lack such basics as sufficient electricity—four or five hours a day is the norm—and unemployment is rampant, although the precise figure is hard to pin down. During the past seven years, the U.S. spent $44.6 billion to rebuild Iraq with about 50 percent of the total going to train, equip and support the country's military and police forces, according to the Special Inspector General for Iraq Reconstruction.

A significant level of stability has been achieved. Whether it can be maintained and advanced by the divided Iraqis as the Americans depart is now the big and currently unanswerable question.

Implications For Business

U.S. contractors are today everywhere in Iraq, but for new investors the landscape at the moment is problematic, to say the least. Iraq is a country rich in oil and a number of U.S. and foreign energy giants have already signed preliminary drilling rights agreements with the Iraqi government. But that government has yet to resolve the contentious issue of who has the ownership rights to that oil—especially in the disputed Kirkuk region claimed by the Kurds.

Did You Know?

A penny saved can truly be a penny earned. Investors often hear about the value of compounding. The following example really brings home its full power:

On June 10, Columbus, Ohio-based American Electric Power paid its 400th quarterly dividend—an entire century of payments. If an investor bought one of the first shares of AEP at its $50 price and reinvested all dividends by buying more shares of AEP, as of early May that $50 stake would have been worth $1.2 million. This amazing transformation is a compounded return of 10 percent annually—a combination of dividends, dividend growth and an appreciating stock price.

Think of it another way. Each penny that was invested in AEP in 1910 has grown to $216 today. So, a penny saved in 1910—thanks to the power of compounding and a successful company—has become 21,600 pennies earned!

Afghanistan's Critical Moment

A democratic nation cannot win a war without public support. During the long Vietnam era, an inflexion point was reached in the early 1970s when a large majority of Americans turned against the conflict in Southeast Asia. Soon the Congress adopted the Case-Church Amendment prohibiting the deployment of American forces in Vietnam after August 15, 1973.

Today, as the nine-year-old war in Afghanistan drags on, several recent national polls indicate that a majority of Americans, war-weary and more concerned about the domestic economy, now oppose our engagement there, favoring some kind of timely, safe, orderly redeployment. Some politicos and pundits are also having second thoughts, arguing that the U.S. and NATO should withdraw militarily and instead focus on diplomacy and financing Afghani reconstruction.

There is little argument that the Taliban is an evil enterprise capable of unspeakable crimes and atrocities—especially against women. Proponents of an open-end commitment argue that we should not abandon Afghanistan "for the second time" and that a premature withdrawal before our objectives are achieved will be viewed and promoted by Islamic militants everywhere as a jihadist victory and American defeat.

Opponents Question Strategy

Opponents of the big Obama troop escalation and counter-insurgency strategy contend that it cannot ultimately work; that the costs (in lives and dollars) of continuing the conflict outweigh any benefits of a Taliban defeat or the possibility that al-Qaeda may return—especially when this nation is still mired in the fallout from a major economic downturn.

And more and more Americans are asking why the U.S. is there.

Our stated military goal has been "to protect the population" while simultaneously training Afghani forces. But to many there does not appear to be any clear indicator of success fighting an insurgency while the performances of the Afghani national government—where corruption still abounds—and its defense forces continue to raise serious doubts.

Afghanistan, an impoverished nation of some 30 million, remains a country with very complex regional and ethnic rivalries, dominant tribal systems and loyalties, and a history of resistance to foreign armies of any kind. There have certainly been improvements in the economy, education and health care in Afghanistan's cities since the American arrival in 2001. But an apparent failure to win the hearts and minds of enough Afghanis has enabled the Taliban to gain significant support among the tribal populace—especially from Pashtuns in the Pakistani border areas, who have always been its major ally.

There are now approximately 140,000 coalition troops in Afghanistan. The original plan embraced by President Obama, who called the Afghani conflict "a necessary war," was to begin a drawdown of the 100,000 American troops next July with all military out by December 31, 2011. This was subsequently hedged by the President and others, including General David Petraeus and Defense Secretary Robert Gates, "subject to conditions on the ground at the time."

Petraeus, now the top U.S. commander in the country, has been outspoken about what he feels may be a premature pullout that will just encourage the Taliban to wait us out. Nor does it help that the Obama Administration has been sending conflicting messages and signals about the deadline and its commitment to the war.

Implications For Business

The troop drawdown, however modest, will begin next summer as planned but will meet considerable opposition from many on both sides of the aisle who assert that the counter-insurgency strategy is in fact working. A number of American contractors are now on hand, but taking a longer view once hostilities end, a poor, war-torn and undeveloped Afghanistan will be a country offering attractive investment opportunities. It's also noteworthy that Pentagon officials and geologists recently reported that Afghanistan has nearly one trillion dollars in untapped mineral deposits with vast amounts of iron, copper, cobalt, gold and industrial metals such as lithium.

Did You Know?

Many demographic specialists now believe that more than half the babies born since 2000 in France, Germany, Italy, Britain, Canada, Japan and the United States will live past 100.

Iran—The Nukes Dilemma

It's more than a year since disputed national elections in Iran touched off huge anti-government demonstrations that were brutally repressed by the Ahmadinejad regime. The protesters attracted global support, but that internal unrest did not overshadow the number one issue that continues to define the West's relations with Iran—development of a nuclear weapon. Equally concerned are some of Iran's Sunni neighbors—especially Saudi Arabia, which fears instability in the region and potential Iranian dominance there.

The issue remains at the core of an increasingly hostile climate surrounding this important Middle Eastern state. Today, Iran appears to be well on the way to gaining its first nuclear energy facility with an assist from the Russians while repeatedly insisting it is not pursuing a weapons agenda.

As noted elsewhere in this Report, Russia has arranged to fuel Iran's nuclear power plant with a proviso that the entire program be monitored by the International Atomic Energy Agency. But Russia has also agreed to join a new round of very tough sanctions against Iran by the U.S., the European Union, Canada and Australia. Those harsher sanctions are designed to end business contacts with all Iranian banks as well as with its critical oil and gas industry. China voted for the U.N. penalties, but demurred about investments in Iranian oil.

The Administration's basic policy in dealing with Iran is that any actual, identifiable nuclear weapons capability is unacceptable. However, until such a development is clear, it will emphasize strong, credible international sanctions and engagement based on the belief that Iran will need at least another year before it could produce a nuclear weapon if that is its intention.

Policy Challenged

That policy has been challenged by militant voices on the right, arguing that Iranian nuclear capability is imminent. Others call for a military response using Stealth bombers or missiles launched from ships or subs in the Gulf. Others believe that Israel should act as it did in Iraq decades ago and bomb any nuclear facility in Iran that may have the potential to make weapons-grade uranium.

Most knowledgeable observers believe that any military response now would be dangerously counter-productive, destabilizing the entire region, uniting the Iranian population, including domestic opposition forces, against the West and perhaps igniting a major Middle East conflict.

Launching direct talks with Tehran will probably need to be negotiated carefully based on minimal, if any, preconditions. Iran will have to prove to the world that it is not on the road to building a bomb. The Administration for its part must be very vocal and open in advance about what carrots are on the table for Iran in terms of economic benefits, security assurances, energy sources, etc., and what the consequences of developing a nuclear weapon will be.

Implications For Business

If successful—a long shot—the re-started Israeli-Palestinian peace talks may ease the situation with Iran somewhat, but until the nuclear issue is resolved, portents for U.S. business can only be negative. The tough new sanctions program underscores that reality.

Did You Know?

69 percent of respondents in a recent major poll said Americans are becoming "more rude, less civilized."

Africa—A Continent Of Opportunity

Because Africa is a continent, people tend to think of it as a single entity. In fact, it is three distinctive regions–the North, the South and Black Africa. The North, from Egypt in the east to Morocco in the west, is largely Muslim and relatively stable. The South is discussed at more length below. It is the black region that often attracts the most attention—notoriety, actually—because of the terrible suffering and bloodshed that afflict some countries. Yet there are many little-noticed positive developments as Africa emerges as a continent with great investment potential.

The continent's 1 billion people outspend India's 1.2 billion people, and its consumer base is growing more rapidly than any other on the globe. The continent's combined gross domestic product is competitive with Brazil's and Russia's and greater than India's.

Economic Outlook

Africa's economies grew twice as fast in the past decade as in the 1980s and 1990s. The continent is one of only two economies to continue growing during the recession, at 1.4 percent annually. Consumer goods and services revenues for 2020 are projected at $1.4 trillion. Some 316 million Africans—more than the entire U.S. population—have cellphones.

Investors are taking note. Global corporations such as Coca-Cola and Standard Bank have pledged commitments in billion-dollar increments. China has pledged more than $10 billion in loans and aid. And the U.S.-based firm Emerging Capital Partners, manages a $600 million African investment fund.

Africa is also a major source of the world's oil. By 2015, it is expected to be responsible for 25 percent of the U.S. supply. Nigeria—a country with $70 billion in foreign-exchange reserves—has already surpassed Saudi Arabia as the third biggest supplier of crude oil to the U.S.

In terms of natural resources, Africa is the third last (after the North and South Poles) major unexplored region on Earth. Subsoil assets are estimated at around $114,000 per square kilometer, and this does not count as-yet- undiscovered gold, platinum and diamond reserves. Experts predict that in the coming decade, Africa will have a $1.1 trillion economy based on natural resources and agriculture.

Political Summary

The quality of African governments—based on safety, rule of law, human rights, sustainable economic opportunity and human development—is measured on the Mo Ibrahim Index. Not surprisingly, results vary widely.

South Africa fares reasonably well. Its well-received hosting of the 2010 World Cup gives it an opportunity to build on that success as long as it continues infrastructure development, increases government transparency and fosters an environment conducive to business growth. However, a proposed measure to muzzle media coverage would be a serious step in the wrong direction. Elsewhere, several African leaders, including President Museveni of Uganda, President Kagame of Rwanda and Prime Minister Meles of Ethiopia, are committed to economic transformation of their nations through business development. Two countries of particular promise are Egypt and Nigeria.

As many leaders recognize, the continent needs to increase regional cooperation. Currently, only 10 to 12 percent of African trade takes place with other African countries. It's premature to talk of an African Union similar to the European Union, but it is a distinct possibility for the future. Africa has seen a 50 percent decrease in serious conflicts over the past decade. Many nations, however, remain in a state of collapse or near-collapse—notably, the southern region of Somalia, the Congo and Sudan. The latter teeters on the edge of civil war between the north and south even while Darfur continues to be a danger zone.

Implications For Business

Companies with international interests cannot afford to ignore the strategically important continent of Africa. Asians and Europeans are rushing to invest there, and U.S. investors will want to respond. Although challenges exist, companies can create business development and investment plans that can meet them.

Australia—An Important Ally

Watch this important ally closely as Labor Party Prime Minister Julia Gillard forms a minority government to address the country's first gridlocked, hung Parliament in seven decades. With only a slim margin, passing new legislation may be tricky.

Australia is important to the United States and its allies. The country has supported the West in every conflict since WWII, stands for the rule of law and has an important position in the Pacific. All this follows departed Prime Minister Kevin Rudd, who stepped down in June following a battle over taxes with the country's mining industry.

Australia's 21st Century destiny is to become a model inclusive society, where the diversity of its people is a national asset (more than 400 languages spoken) and every citizen is to be treated as first class. The Asia Pacific is a major source of global economic growth. Australia is the southern anchor of the region. A strong commitment to defense and 19 successive years of sustained economic growth continue to underwrite the security and prosperity of its Southeast Asian and South Pacific neighborhoods.

Whereas the United States and China share a mutual obligation towards global stability, Australia is mostly engaged with its neighbors, including enhancing moderate Islam in Indonesia. Reinforcing these long-standing relationships is Australia's recent transformation from a regional to a global energy supplier with a commendably diverse customer base that includes Japan, China, India and South Korea.

A Fiscal Surplus

Within the three-year term of the next Parliament, Australia is expected to return to fiscal surplus. Unemployment currently stands at 5.3 percent, which is almost half that of Europe and the United States. Australia's challenge is to develop a sufficient stock of skilled workers in alignment with significant economic expansion, including infrastructure. Australia attracts higher levels of foreign direct investments to comparable developed countries (36 percent versus 25 percent). The United States is easily Australia's number one economic partner in trade and investment. The top four source countries for foreign, direct investment in Australia are the U.S., the U.K., Japan and the Netherlands.

Australia already has abundant and diverse renewable energy resources, supported by world-class research and industry knowledge. Australian aspirations to become a major financial services center are bolstered by having the fourth largest pool of private savings, and its leadership role in G20 deliberations on future financial regulation. Australia is investing significantly in education and human capital formation, notably a connectivity platform to facilitate and sustain high community performance through 2050 and beyond.

Implications For Business

Keep a weather eye on what takes place down under. The Australian people are linked to the West as no others.

The New Villain On The Block

Wall Street has to move over and make room for a new villain on the block: public employees. To an increasing number of Americans, the new face of fiscal irresponsibility is the beat cop, the public administrator—even second-grade teachers. There are strong arguments to be made on both sides of this increasingly explosive phenomenon, but this much is certain: Many municipalities and states are so financially strapped that they can't hope to fund their pension/benefit liabilities. In extreme cases, as in Illinois and California, they can't even meet current operating expenses. And the solutions for those shortfalls are painful.

In the coming "Age of Austerity," this is shaping up to be THE battleground. It has already spread from municipalities to states in many instances. Illinois' state pensions are only 39 percent funded, a degree of distress that, were it private, would likely require federal intervention, and may well ratchet up to the federal level as the issue gains momentum.

Three main drivers of the debate are relevant. First, there is the resentment of private sector employees, who have had so much pain and sacrifice pushed their way over the last three years. They are now looking to their public counterparts and asking pointedly: Why should civil servants be unaffected by this crisis, especially if we have to pay higher taxes to bail out their cushy benefits? Recent horror stories such as Bell, Calif., , where a city manager was paid nearly $800,000 a year, making him the highest paid government manager in the nation, have added fuel to the fire. That may be an extreme example, but by far the more fundamental private resentment is over common public pay and benefit packages that seem to private workers both out of touch with the times and often simply unrealistic.

Second, the ideological wars that seem to infect every aspect of American life are playing out here as well. Each side has studies and statistics to prove its points, complete with scary headlines such as "Looming Class War over Public Pensions" (San Francisco's Bay Citizen). Economist Paul Krugman has taken up the cudgels for public employees, noting that "spittle flecked denunciations of unions" often stretch the truth and concluding "this is a phony issue." The National Review counters with examples of unions wreaking havoc on municipal budgets all across the land. "Public-safety unions have been able to buffalo the public into thinking that keeping the peace requires breaking the bank," the Review argues.

Third, and perhaps most important, are the simple economics, which are undeniably grim. State pension deficits are at least $1 trillion, and 21 states have funded 0 percent of their retiree health care and other non-pension benefits. Indeed, it is only now becoming apparent that widespread shortfalls in pensions/benefits have been gamed for years by many state and muni governments.

Witness the recent SEC fraud suit against New Jersey, which charged that the state sold $26 billion of bonds to investors over six years while completely misrepresenting the woeful state of its public pension funds. Many observers expect a wave of similar suits to follow.

Implications For Business

Inevitably, no matter how much belt-tightening is done, the problem is so overwhelming that desperate legislators will go where the money is, and that likely means tax increases on both a corporate and individual level. Legislation that would give small businesses tax credits and waive certain loan fees currently sits stalled in the U.S. Senate. The bill would also create a $30 billion fund to aid community banks that make loans to small businesses. Opponents say the fund is just another variant of the TARP, big-bank bailout program they originally warned against.

There is always the possibility of a partial Fed bailout, though this issue is a minefield even on non-budgetary grounds. (For instance, Californians have been paying a significantly reduced property tax since 1978, when Prop 13 passed, making any bailout there even more problematic.) In any event, it would invite scathing criticism and comparison to the bailouts on Wall Street and the auto industry. Finally, reducing public payrolls is a dicey proposition, since public employee spending boosts consumer demand and has been one of the few positive constants in the downturn. The potential effects of such measures on what is still a very fragile recovery are unknown.

Banks Say 'No' To Small Businesses

While many experts seem taken aback that the rebound in the U.S. economy is losing steam, the fact that the recovery was never as solid as advertised comes as no surprise to small business owners.

Since the start of 2010, small business owners have been telling researchers that credit conditions have been deteriorating. Although global credit markets have boomed over the past year, small businesses say it is harder to secure a loan now than it was at the worst of the financial crisis in 2009. Fifty-five percent of small businesses in the U.S. say it is harder to secure credit over the past 12 months. Included in that group are one-third of small business owners, who say it's now "much harder."

Research shows that owners of small companies regularly employ their credit cards to finance their businesses and are turning more often to friends and family for loans.

Legislation now pending in Congress would provide $30 billion to community banks to increase small business lending. But most banking experts expect such an allotment to have a minimal impact on actual lending levels for the country's more than 8,000 banks.

The inability of small businesses to secure credit is starving one of the main engines of job creation. Entrepreneurs starting up new companies and small businesses growing into established middle-market companies provided the U.S. economy and labor market with much of its dynamism. Without resumption in small business lending, expect this sector to continue to act as a drag on the employment rate and the economy at large.

Banks Hold Off

The simple truth is that many banks have dramatically reduced the scope of their small business lending. The reason: Huge losses in real estate and other businesses have put banks under financial pressure, forcing them to conserve capital and scale back lending. At the same time, regulators were acting to strengthen bank capital requirements, making it more expensive for banks to loan to small businesses with minimal business or credit history. As a result, banks tightened loan requirements significantly. These changes in bank lending practices coincided with an era when small businesses were getting pounded by a fierce economic recession. At precisely the moment that small businesses were seeing serious deterioration in their financials, banks were pulling back on loan capital and tightening lending requirements.

Compounding this problem, the small local and community banks that account for very substantial amounts of small business loans were among the institutions hardest hit by the real estate market collapse. A report from Congress published earlier this year found that smaller banks with the highest levels of real estate exposure—commercial real estate loans in excess of three times Tier 1 capital—provide around 40 percent of all small business loans.

Implications For Business

Small business owners waiting for bank lending to bounce back to normal levels should consider making alternative plans. Banks have resumed lending to middle-market companies with strong financials. But new capital requirements have fundamentally changed the economics of small business lending. There is a strong possibility that the credit dearth is more of a structural change than a cyclical anomaly.

Will Dodd-Frank Rein In Executive Compensation?

Companies are threading their way through the Dodd-Frank Wall Street Reform and Consumer Protection Act, knowing that regulators and lawmakers will now look at compensation committees with the same scrutiny they do at audit committees thanks to Sarbanes-Oxley. As with Sarbanes-Oxley, the new law will be the governance gift that keeps on giving, depending on one's outlook.

Dodd-Frank requires the SEC to enact rules on its gamut of executive pay issues: proxy access, compensation committee independence, more disclosure of pay policies and derivation, discussion of how pay consultants are selected and whether conflicts-of-interest exist.
The biggest issue is say-on-pay, especially as it applies to banks and financial firms. Effective with the 2011 proxy season, affected companies must hold a shareholder advisory vote on executive pay. Even though these votes won't be binding, they will send a strong message to an investing public little inclined to tolerate overly generous CEO paychecks.

Further, Dodd-Frank stipulates that the Fed must set standards on excessive compensation, forbidding "an unsafe and unsound practice" for banks, institutions and financial services firms. It is only a matter of time before variations of these rulings are adopted for a broad range of U.S. public companies, with the SEC taking a more hands-on role. Once again, shareholders will be involved in the thick of governance.

Impact on Board Searches

There is one other Dodd-Frank requirement with the potential to aggravate board searches. The SEC will adopt rules obligating companies to disclose whether their directors buy financial instruments designed to hedge or offset market value decreases of stocks they receive as board compensation.

The issue, of course, is whether directors have faith in the performance of companies on whose boards they serve. This is the kind of scenario that activists can make much of. Not only that, but it may also make it that much harder to recruit qualified board candidates.

Governance specialists, moreover, expect that within the next two years, the SEC will require boards to have at least one independent director on the compensation committee who is conversant in the field—similar to the financial expert requirement for audit committees.

Implications For Business

For good or ill, Dodd-Frank will influence the corporate landscape for years to come. Here are two active steps companies and boards can take now:
1) Require current directors to divest any hedge positions they own against company stock immediately. It might also be prudent to advise board headhunters that future directors may not hedge company stock awarded for board service or purchased on their own.

2) Expand the qualifications for outside directors, including candidates who have experience in executive pay—senior-level human resource officers, for example. Also, utilize pension-and-benefit experts in academia and other fields, as long as they have not previously consulted for the company or the board.

Mickey Mouse Reports For Teaching Duties

South Koreans are very focused getting their children to learn English—some parents have gone so far as to have tongue surgery done to improve pronunciation. Chinese parents may not go to that extreme, but in increasing numbers, they too see learning English as a critical goal. Some 30,000 companies or institutions now provide private English classes in those two nations, a doubling in the last five years. The spending runs to $3.1 billion, and demand grew by an estimated 12 to 15 percent in the last year alone. Children as young as 2 are being enrolled in classes.

All that, plus the sheer size of the two populations, is attracting large companies into the English-instruction business. Chief among them is Disney

English, a subsidiary of the Disney Company. With the aid of Mickey Mouse, Peter Pan and the Little Mermaid, Disney English now has 11 schools and plans to have 22 by the end of 2010.

EF Education First has more than 130 schools. New Oriental, a NYSE-listed Chinese company, operates 324 learning centers. The UK's Pearson has 39 schools in China and is expected to make a major push.

The competition and power of these large providers has taken a toll. At the end of 2009, a number of smaller language schools in Shanghai and Beijing filed for bankruptcy, leaving unpaid teachers and lost tuition fees. Despite the size of the education pool (300 million students), there are only 5,000 native-speaking English teachers in China. Disney English is recruiting qualified teachers and helping to arrange visas, while also recruiting within China, although many parents prefer native English speakers as teachers.

Implications For Business

This contrasts with the notable low rate of foreign language education in American schools. In particular, very few U.S. schools offer Chinese language training. Since mastery of foreign languages is a must in the global economy, this could be another area where the Chinese are gaining an edge over American rivals.

Did You Know?

Despite the battering that America's reputation has taken overseas in the past decade, the number of international students who want to study here continues to rise. According to the Institute of International Education, just over 200,000 new foreign students enrolled in U.S. universities for the 2008-09 academic year, a 15.8 percent jump in new enrollments over the previous year and a more than 50 percent increase over 2004-2005. The grand total of foreign students in the U.S. for '08-'09 was 671,616.

The top five countries from which foreign students came were India (103,260), China (98,235), South Korea (75,065), Canada (29,697) and Japan (29,264). Note that Canada is the only non-Asian country on the list.

The five most popular universities for foreign students were USC (7,482), New York University (6,761), Columbia University (6,685), Illinois at Urbana-Champaign (6,570) and Purdue (6,136).

An Education In Economic Reality

The so-called "Great Recession" has had a debilitating effect on America's public school system, where cuts in funding are forcing administrators to make difficult choices that will have far-reaching effects.

Since July 2008, local governments have cut 105,100 education jobs, according to the Bureau of Labor Statistics, and as many as 300,000 more of the nation's estimated 3.2 million public school teachers may receive pink slips in the coming year.

Sixty percent of school districts across the nation have cut staff in the past year, and 90 percent plan to make more cuts in the fall. The state-by-state statistics are sobering: 22,000 California teachers were laid off, 17,000 in Illinois, 15,000 in New York, 8,000 in Michigan. Forty percent of Detroit's educators fear for their jobs.

The cuts threaten to further erode the nation's competitive edge. A recent survey by the American Association of School Administrators found that 62 percent of school districts across the nation intend to increase class size; 34 percent may eliminate summer school; 13 percent may impose a four-day school week.

Many Programs Cut

Already, cutbacks have gone far beyond traditional budget-trimming efforts, affecting not just the arts and sports programs typically targeted in lean fiscal years, but anything that is not a core subject: magnet programs, library services, phys ed, pre-kindergarten, foreign language, summer school, bus routes and extracurricular activities. Teacher salaries are frozen in countless districts; and states like New York have done away with some standardized tests to save funds.

Desperate communities are trying every means possible to find even the smallest savings, including foregoing teacher raises and taking up parent donations. These short-term fixes do not, however, address the big issue of how the nation funds education.

With an earlier $100 million stimulus effort for education used up, the Obama Administration tried again to pass additional funding. The effort initially met resistance from lawmakers eyeing midterm elections and from taxpayers who balk at further increasing handouts in the wake of the bank and auto industry bailouts. But the House returned from its summer break in mid-August to pass a $26 billion measure that had received Senate approval earlier this summer.

Implications For Business

In the short term, corporations should expect to make changes as a result of the financing crisis in the nation's schools. Inadequate financial support for education will have a ripple effect on attempts to close the achievement gap. Since America is losing ground in areas like engineering to other countries, the current crisis will only make a bad situation worse and erode the nation's competitive edge, threatening further the creation of a skilled workforce that can compete in a global economy.

School districts across the nation will lean harder on corporate America to make up budget shortfalls; fund academic and extra-curricular programs; send their employees to volunteer in classrooms; and sponsor capital projects. In the long term, doing away with cultural and liberal arts programs will further erode our nation's competitive edge. Corporate America will find upcoming generations of workers and job applicants less well-rounded or qualified than employees of the past. Businesses may need to provide additional training to supplement their workers' schooling.

Did You Know?

According to the U.S. Census Bureau, the number of U.S. residents who have graduated from high school is 85 percent. The number with a bachelor's degree or higher is 28 percent.

Social Media Continue Torrid Pace

It is estimated that there are two billion Internet users worldwide and that three-fourths of all users access social networking sites each month.

Americans now spend nearly a quarter of their time online on social networking sites and blogs, up from 15.8 percent just a year ago.

By June 2010 the Facebook universe had attracted 500 million active users, some 70 percent of whom are outside of the United States. Fifty percent of active Facebook users log on each day, according to the company, and people spend 700 billion minutes per month on the site, which had more than 145 million unique visitors in July.

LinkedIn has more than 75 million members in over 200 countries. Executives from all "Fortune 500" companies are LinkedIn members.

In the past year, Twitter unique visitors increased from some 44 million to almost 93 million a month throughout the world, a growth of 109 percent. Indonesia is the country with the highest percentage of Twitter penetration with 20.8

percent of Internet users in the country visiting Twitter.com in a given month, followed by Brazil and Venezuelan President Hugo Chavez joined Twitter in April.

New players continue to enter the market:

• Ning, founded by Netscape co-founder and Silicon Valley investor Mark Adreessen, enables people to create their own custom, branded social networks.

• Earlier this year, Google launched Google Buzz, a social networking and messaging service integrated into the company's Web-based e-mail. More recently, it has made a number of acquisitions and hires in the social networking space and is rumored to have a project under way, "Google Me," specifically designed to enhance Buzz and more directly challenge Facebook.

• Foursquare, MyTown, Brightkite, Whrrl, Gowalla and Loopt utilize location-based social networks to help one connect with friends or nearby sales promotions using the GPS feature of a mobile device. Facebook also has just announced a location-based application.

• Tumblr is a blogging platform that allows users to post text, images, videos, links, quotes and audio to a tumblelog, a short-form blog. While users can follow other users, they also can choose to make their tumblelog private. The service emphasizes ease of use.

What is next? While it's impossible to predict, some observations:

1) Social sites' reliance on mobile devices keeps growing. Mobile Internet users in the United States grew from 51 million in 2008 to more than 85 million this year and are projected to grow to 142 million by 2014, or more than half of all mobile phone users. When you add in iPads and other tablets, mobile devices are rapidly replacing PCs as the computing choice of the future.

2) Social media are continuing to take a larger share of marketing dollars. Ad spending on social media is expected to grow 14 percent this year to $2.5 billion. It is one of the fastest-growing segments of the $55 billion online advertising market.

3) Social gaming as part of social media continues to show strong growth. In just two years, worldwide social gaming revenues have grown from $76 million in 2008 to $826 million this year, or more than 1,000 percent. There are 30 million farms in Zynga's gaming site, FarmVille, compared with only two million actual farms in the United States. Microsoft was able to gain 425,000 Facebook fans for its new search engine, Bing, in one day by offering free "Farm Cash" to FarmVille Farmers, according to The Wall Street Journal.

4) There will be growing concern about personal privacy. Fully half of all U.S. Internet users who have a profile on a social networking site are worried about their privacy. Facebook came under major attack for changing settings in a way that made it more difficult for users to protect their privacy.

5) Only 8 percent of social media site users find the advertising credible, compared with 24 percent on traditional media sites. And only 23 percent of consumers on social media sites are likely to believe the content as compared with 72 percent on traditional sites.

Implications For Business

Social media will continue their phenomenal growth, increasingly, on mobile devices. Every business needs to identify what its particular role and strategy is for this space. There will be big winners and losers as the industry evolves. Many of the eventual winners may not even exist yet—Twitter, for example, was founded only four years ago. However, privacy concerns and a resistance to traditional advertising on social networks will also continue to evolve and need to be addressed. Finally, with the explosive growth of the virtual world, will anybody be living a real life?

Environmental Action Through Regulation, Not Legislation

The big news in the environment this year was the Deepwater Horizon oil rig explosion and three-month-long release of oil into the Gulf of Mexico. The long- term effects may not show up for years. As of now, however, the major impact has been on those living along the coast who rely on fishing or tourism for their livelihood, not on the ecosystem.

The accident will result in more and stricter regulations being imposed on U.S. industries with the potential to create environmental or public health problems. None of these new regulatory initiatives will be submitted to Congress but will be imposed through the various agencies under Obama Administration control. As a consequence, overall industrial growth may be slowed and become more expensive. The cooperative, cozy relationship between industry and federal regulators under President Bush is gone for the duration of the Obama years.

The second big environmental story is something that didn't happen. The Senate in late July pulled the plug on legislation to reduce carbon dioxide emissions with a "cap and trade" system. As a result, any legislative action on global warming in the foreseeable future will have to be at the state rather than federal level.

On the public health front, actions by the EPA raise warnings of a new thrust in federal policy. In November 2008, the EPA—under the Bush Administration, it should be pointed out—lowered the acceptable air quality standard for lead from 1.5 micrograms per cubic meter to 0.15 micrograms. This was based primarily on findings from a study that showed a small, but statistically significant, decrease in children's IQ at the higher level.

Never before had the agency decided on an air quality standard based on IQ as opposed to more obvious evidence of physical harm.

The decision was challenged in court and the Federal Court of Appeals for the District of Columbia upheld the EPA's standard as reasonable. Bolstered with this decision, the EPA this summer set standards for mercury emissions from cement factories also based, at least in part, on alleged minor neurological damages in children.

Implications For Business

As the stalemate in Congress continues, look for the EPA and other federal agencies to use their regulatory authority much more aggressively in dealing with climate change and public health issues.

Violent Crime Rates Keep Falling

The first decade of the 21st century has not been an easy one: the tragedy of 9/11, two wars and a disastrous recession.

There is, however, one striking bit of good news: Man's inhumanity to man—at least when it comes to violent crime—keeps decelerating.

The conventional wisdom has it that when the economy sours, crime goes up. But in the first half of 2009, when the unemployment rate was dramatically increasing, reported murders, forcible rapes, robberies and aggravated assaults went down by 4.4 percent compared with the first half of 2008, this according to the FBI.

The drop in homicides was particularly noteworthy: down nearly 30 percent in Los Angeles, 14 percent in Atlanta and 10 percent in Boston. Last year, New York had its lowest murder rate since those statistics started being collected in 1963.

Why? It's impossible to give a single answer. It could be a result of the end of the crack cocaine era, tougher sentencing that kept more hardened criminals off the streets, or an aging population which tends to outgrow violent tendencies. Some are crediting the increased number of police on the streets. But New York's most recent downturn in murders happened while the NYPD shed 6,000 jobs.

Implications For Business

Many U.S. companies moved out of urban areas in part because of the fear of violent crime. Workers and executives alike did not feel safe once they left the confines of the workplace. Now, some firms might consider returning to cities. A combination of much lower crime, bargain rates on real estate, availability of infrastructure and tax incentives to relocate or expand in urban areas make the move back from suburbia, or even overseas, an attractive option. Tourism can only benefit if visitors feel safer. That, of course, has an immediate impact on hotels and restaurants, but can have a ripple effect on support business, too.

Did You Know?

So-called "citizen journalism" on the Internet has enjoyed explosive growth, but 99 percent of the links on blogs now circle back to the sites of the traditional mainstream press—specifically The New York Times, The Washington Post, BBC and CNN.

The Future Of Telecommunications

Telecommunications is more important today than it has ever been. Millions of Americans depend on reliable cellphone coverage and, increasingly, Internet access through cellular networks.

The cutting edge of Internet access through cellular networks is called "4G." 4G networks will rise in prevalence, especially in 2011. Sprint has already developed a reputation for its 4G network. It has also created the first 4G phone: the HTC Evo 4G. This new network promises speeds up to ten times as fast as 3G networks, delivering much faster downloads, and enabling the playing of streaming movies or television with ease.

New smartphone sales have risen sharply over the past three years, set off by Apple's original iPhone in June 2007. Apple's most recent version, the iPhone 4, sold 1.7 million units the weekend of its launch, causing Apple to stock out of the product in just three days. America's appetite for the latest smartphones is voracious.

The appetite for data downloads on cellphones is similarly large and has put a severe strain on cellular networks. AT&T's solution is to restrict data usage by introducing new, more affordable data plans for iPhone sales.

A primary need for carriers is to strengthen their networks to keep up with consumers' rapidly growing appetite for more data-heavy downloads. One way networks could relieve stress on their cellular networks is by enabling phone calls on smartphones over Wi-Fi. Enabling Wi-Fi-based phone calls becomes especially important as video calls on smartphones become more common. Video is the next step in the evolution of telecommunications. The new iPhone 4, through a feature named FaceTime, permits video calls over Wi-Fi. While Apple did not invent mobile video conferencing technology, it is popularizing the technology by making it easy to use. Whether or not FaceTime will be possible on 3G networks remains to be seen. More than just smartphones will be able to video conference.

Video conferencing on iPods has become possible. Front and rear-facing cameras are rumored to be on the fourth-generation iPod Touch. The second- generation iPad is also rumored to gain front and rear-facing cameras, affording FaceTime a much larger screen. Landline phones will become less important for home use if anyone with an iPod Touch can get a Skype number and unlimited calling in the U.S. and Canada for $100 a year.

In another noteworthy development, companies (including Cisco and Teliris) are continuing to popularize telepresence centers. Telepresence occurs when business people from one company sit in a conference room while video of one or more parties is being projected digitally to them through high-definition video screens.

Such technology may undermine the term, “face-to-face meeting,” as telepresence is technically face-to-face. As the technology becomes more widespread, more and more businesses will opt to use telepresence. Businesses can install the equipment in-house.

This investment will pay for itself over time, reducing travel costs. This is especially effective for international travel. Still, there will always be an important place for physical meetings and firm handshakes, especially as businesses forge new partnerships or make new deals.

Implications For Business

• Video, the next main medium for digital communication, will explode in popularity during the next five years, reflecting a dramatic increase in smartphone sales. Expect greater convergence of computers and phones.

• Conversing “face-to-face” with people is becoming cheaper. Over time, video conferencing may do to in-person meetings what e-mails did to letters. Business travel budgets, and airline revenues, will fall accordingly.

• High-quality video conferencing for smartphones over cellular networks will increase as more carriers build up and launch their 4G networks.

• As video increases, so will opportunities for semiconductor companies that create LED backlighting for screens. Other related industries will see expansion.

• Basic media playing devices like iPods will begin to permit free video calls over Wi-Fi. This will begin to challenge the classic cellular network business, potentially slowing its growth and negatively impacting carriers like AT&T, Verizon, Sprint, and T-Mobile.

• Carriers are adapting by enabling seamless switching between cellular and Wi-Fi networks on smartphones—at least for video calls. This will start a trend that adds value for customers by allowing them new ways to save minutes, while also reducing strain on their networks.

• Phone calls over Wi-Fi will become more convenient and secure. Software companies like Skype, Truphone and Fring will find offering minutes for Wi-Fi-to-phone calls will grow in demand. New partnerships with traditional carriers or cell phone manufacturers will become more lucrative.

Nanotechnology’s Big Potential

The consensus is virtually unanimous that the U.S. needs to create millions of new jobs to replace those lost because of outsourcing and the general decline of manufacturing. One answer may lie in the newly emerging field of nanotechnology.

Nanotechnology, in short summary, involves the control of matter on the molecular and atomic levels and the development of materials and devices on that minute scale. It is made possible by combining advances in biology, chemistry, physics and engineering. Many who have studied the field believe that it has the potential to create hundreds of thousands of high-tech manufacturing jobs.

How could one technology become such a powerhouse? Here’s one example of its potential, drawn from the bio-medical field:

Developments in nanotechnology are leading to fundamental changes in the way cancer is treated, permitting “personalization,” which will allow transferring drugs to the right part of the body, making treatment more effective than ever before.

Personalization of treatment is crucial because no two cancers are the same. With traditional methods of delivering drugs intravenously, only between one and ten parts per 100,000 reach their targets. With nanotechnology, drugs can be directed to the right place in the body. Such advances allow personalized care at the sub-cellular level.

The first challenge in this emerging field is early diagnosis because, if cancer is detected in the first stages, it can be cured in the majority of cases. The most promising technological developments revolve around new imaging agents, including "nanowires" and "nanocantilever arrays," that will enhance early detection of malignant and precancerous lesions, and "nanovectors" that will permit targeted delivery of drugs. Some experts predict that within 25 years there may be no more deaths from breast cancer.

Implications For Business

Nanotechnology promises to change the face of many industries, with health care among the most prominent. This is not lost on other nations. Since South Korea and Japan are moving aggressively in the field. U.S. business leaders will need to be aggressive and innovative to capture nanotechnology's full potential.

Closing Quote

Our greatest weakness lies in giving up. The most certain way to succeed is always to try just one more time.

–Thomas Edison

Appendix

Current Forecast in Key Economic Areas

FORECAST TABLE (Averages)

COUNTRIES	Indicators / Year	GDP	Private Consumption	Investments	Imports	Exports	Unemployment Rate	Consumer Prices	Budget Balance (% of GDP)	Current Account Balance (% of GDP)
Italy	2010	1,0	0,6	0,3	4,9	5,7	8,6	1,4	-4,9	-3,0
	2011	1,3	0,9	1,8	3,1	4,7	8,6	1,7	-4,3	-2,6
Germany	2010	2,1	-1,0	1,6	6,9	8,5	7,8	1,2	-4,9	5,5
	2011	1,8	0,8	3,0	4,9	6,3	7,7	1,6	-4,1	5,5
France	2010	1,5	1,2	-1,9	4,7	6,4	9,9	1,6	-7,6	-2,2
	2011	1,7	1,2	2,3	4,9	5,5	9,7	1,5	-6,4	-2,0
Spain	2010	-0,4	0,1	-6,4	2,9	8,1	19,9	1,6	-9,3	-3,6
	2011	0,7	0,7	-1,3	1,3	6,7	19,4	1,3	-7,1	-3,8
United Kingdom	2010	1,3	0,5	-0,1	6,3	4,7	7,3	2,8	-10,4	-1,6
	2011	2,1	1,4	2,5	4,1	6,0	7,2	1,9	-8,5	-1,0
Eurozone	2010	1,3	0,1	-1,7	5,9	6,9	10,2	1,4	-6,3	0,0
	2011	1,5	0,7	2,1	3,9	5,4	10,3	1,5	-5,4	0,3
USA	2010	3,0	2,3	1,9	10,6	11,6	9,6	1,7	-9,8	-3,4
	2011	2,8	2,5	6,5	7,1	8,2	9,0	1,4	-8,5	-3,5
Japan	2010	2,9	1,9	-0,7	8,9	23,4	4,9	-0,9	-8,4	3,3
	2011	1,8	1,1	4,4	8,0	8,9	4,6	-0,2	-8,3	3,0
China	2010	10,2	9,6	11,2	15,5	13,7	4,3	3,0	-2,7	4,7
	2011	9,2	9,7	8,5	10,8	11,8	4,2	3,2	-2,2	4,5
Brazil	2010	6,8	7,2	17,8	20,5	6,1	6,5	5,5	-2,8	-2,8
	2011	4,5	4,6	9,6	10,8	6,8	6,0	5,2	-2,4	-3,0
Russia	2010	5,1	4,8	4,9	15,0	6,0	7,5	6,7	-3,4	4,4
	2011	4,4	6,0	7,0	6,2	4,1	7,0	7,2	-3,2	3,0
India	2010	8,3	5,7	10,2	11,4	10,9	8,0	9,1	-7,0	-2,6
	2011	8,3	7,6	12,2	15,0	12,4	8,0	5,7	-6,4	-2,6

FORECAST TABLE

COUNTRIES		Italy		Germany		France		Spain		United Kingdom		EUROZONE	
Indicators / Year		2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
GDP	Intesa Sanpaolo	1,0	1,2	1,8	1,7	1,2	1,6	-0,3	1,0	1,0	2,1	1,1	1,6
	Goldman Sachs	1,7	2,0	2,2	2,5	2,0	2,7	-0,5	1,0	1,7	3,3	1,4	2,2
	Bank of America Merrill Lynch	1,0	1,5	3,1	1,9	1,5	1,7	-0,2	0,9	1,4	2,2	1,4	1,5
	UBS IB	1,1	1,7	2,2	2,0	1,5	1,9	0,2	1,1	1,3	2,4	1,5	1,9
	IMF	0,8	1,2	1,2	1,7	1,5	1,8	-0,4	0,9	1,3	2,5	1,5	1,7
	European Commission	0,8	1,4	1,2	1,6	1,3	1,5	-0,4	0,8	1,2	2,1	0,9	1,5
	OECD	1,1	1,5	1,9	2,1	1,7	2,1	-0,2	0,9	1,3	2,5	1,2	1,8
	BNP Paribas	0,9	0,2	2,0	1,4	1,4	1,0	-0,4	-0,6	1,4	1,0	1,2	0,6
	UniCredit Group	0,9	1,0	3,5	1,6	1,4	1,3	-0,4	0,6	1,2	1,8	1,5	1,3
	Morgan Stanley	0,9	1,1	1,9	1,3	1,3	1,4	-0,9	0,4	1,4	1,3	1,2	1,1
	Commerzbank	0,7	1,3	2,5	1,8	1,3	1,5	-0,3	0,5	1,2	2,0	1,2	1,4
	Average	***1,0***	***1,3***	***2,1***	***1,8***	***1,5***	***1,7***	***-0,4***	***0,7***	***1,3***	***2,1***	***1,3***	***1,5***
Private Consumption	Intesa Sanpaolo	0,2	1,0	-0,9	0,9	1,1	1,3	0,2	0,2	0,4	1,4	0,1	0,9
	Goldman Sachs	1,1	1,0	0,6	1,7	1,7	1,5	-0,1	0,3	0,4	0,8	0,5	1,2
	Bank of America Merrill Lynch	0,5	1,0	-1,0	0,9	1,4	1,1	0,3	0,6	0,5	1,5	0,0	0,5
	UBS IB	0,8	1,1	-1,2	0,8	1,4	1,6	0,4	-0,3	0,8	1,7	0,3	1,0
	IMF	0,9	1,2	-1,1	0,7	1,0	1,2	0,2	1,2	0,2	1,4	0,1	1,0
	European Commission	0,8	1,3	-0,7	0,9	0,6	1,3	0,2	1,2	0,6	1,5	0,0	1,1
	OECD	0,8	1,1	-1,4	0,7	1,2	1,5	0,5	1,0	0,3	2,2	0,1	1,0
	BNP Paribas	0,5	0,4	-1,4	0,3	1,3	0,8	0,1	2,7	0,6	0,5	-0,3	-0,3
	UniCredit Group	0,2	0,8	-1,3	0,4	1,2	0,7	0,1	0,3	0,4	1,1	-0,1	0,4
	Morgan Stanley	0,5	0,4	-1,6	0,7	1,1	0,7	-0,8	-0,2	0,2	1,2	-0,1	0,1
	Commerzbank			-0,5	0,5					1,2	2,6	0,4	0,7
	Average	***0,6***	***0,9***	***-1,0***	***0,8***	***1,2***	***1,2***	***0,1***	***0,7***	***0,5***	***1,4***	***0,1***	***0,7***

FORECAST TABLE

COUNTRIES		Italy		Germany		France		Spain		United Kingdom		EUROZONE	
Indicators / Year		2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Investments	Intesa Sanpaolo	0,7	1,1	0,9	3,3	-2,4	2,6	-6,2	-1,0	-0,5	1,5	-2,4	2,1
	Goldman Sachs	-0,9	1,2	2,5	2,9	-2,1	1,4	-6,0	-1,9	-0,5	7,7	-1,5	1,5
	Bank of America Merrill Lynch	1,2	2,5	1,8	4,1	-2,1	2,4	-6,5	0,3	4,8	1,7	-0,9	2,5
	UBS IB	1,4	4,0	1,1	3,8	-1,1	4,6	-5,5	1,1	6,9	6,6	-1,2	3,7
	IMF	1,7	2,4	2,9	3,2	-0,8	2,4	-5,1	-0,7	-2,6	4,7	-0,4	1,9
	European Commission	-0,1	2,5	1,2	2,9	-2,4	1,9	-8,3	-1,8			-2,6	1,8
	OECD	-0,5	3,8	1,5	2,0	-1,6	4,0	-5,5	-1,5	-3,2	0,3	-2,2	2,2
	BNP Paribas	1,0	-0,9	1,6	3,0	-3,0	-0,3	-9,0	-6,5	-2,5	1,5		
	UniCredit Group	-0,4	0,6	1,8	2,2	-2,1	2,3	-6,8	0,1	-1,2	1,3	-2,3	1,5
	Morgan Stanley	-1,0	1,0	0,9	3,0	-1,8	2,1	-4,8	-0,6	-2,1	-2,7	-2,1	2,0
	Commerzbank												
	Average	***0,3***	***1,8***	***1,6***	***3,0***	***-1,9***	***2,3***	***-6,4***	***-1,3***	***-0,1***	***2,5***	***-1,7***	***2,1***
Imports	Intesa Sanpaolo	6,2	4,3	7,8	5,7	4,1	5,4			6,4	3,3	6,1	5,8
	Goldman Sachs	3,9	2,1	1,8	4,3	2,8	2,1	1,0	-1,0	5,6	4,5	2,8	2,6
	Bank of America Merrill Lynch												
	UBS IB	7,0	4,5	7,2	4,1	4,8	6,2	4,6	4,3	7,5	5,6	7,0	5,0
	IMF												
	European Commission	2,8	3,5	4,6	5,3	4,1	4,5	-1,1	1,8	5,3	4,1		
	OECD	2,7	3,0	8,2	6,7	5,5	6,9	8,2	8,4	6,9	5,2		
	BNP Paribas	5,5	1,2	7,6	4,1	6,7	5,5	0,5	-7,3	7,5	4,7	6,5	2,5
	UniCredit Group	6,1	2,8	9,7	3,5	4,8	3,4	3,9	1,6	5,6	2,1	7,0	3,6
	Morgan Stanley			7,0	4,0								
	Commerzbank			8,2	6,8					5,3	3,2		
	Average	***4,9***	***3,1***	***6,9***	***4,9***	***4,7***	***4,9***	***2,9***	***1,3***	***6,3***	***4,1***	***5,9***	***3,9***

FORECAST TABLE

COUNTRIES		Italy		Germany		France		Spain		United Kingdom		EUROZONE	
Indicators / Year		2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Exports	Intesa Sanpaolo	8,6	6,5	7,8	7,2	6,2	6,3			3,6	5,3	7,4	7,8
	Goldman Sachs	5,0	6,2	6,2	5,0	3,2	4,1	7,4	6,7	6,3	7,8	5,1	4,6
	Bank of America Merrill Lynch												
	UBS IB	7,5	5,7	9,7	5,8	7,7	6,7	8,7	8,2	2,3	6,4	7,5	6,4
	IMF												
	European Commission	3,4	4,1	6,2	5,5	4,7	5,1	4,4	4,7	5,2	5,4		
	OECD	2,5	3,6	10,0	8,8	7,8	7,2	13,0	12,4	6,6	8,0		
	BNP Paribas	5,9	2,7	9,8	5,2	8,0	4,6	8,0	5,3	5,2	6,0	7,5	3,5
	UniCredit Group	7,3	4,1	10,0	5,5	7,4	4,5	7,2	3,1	4,3	5,9	7,2	4,9
	Morgan Stanley			7,4	4,5								
	Commerzbank			9,1	9,1					4,1	3,1		
	Average	***5,7***	***4,7***	***8,5***	***6,3***	***6,4***	***5,5***	***8,1***	***6,7***	***4,7***	***6,0***	***6,9***	***5,4***
Unemployment Rate	Intesa Sanpaolo	8,8	9,4	7,9	8,1	9,9	10,0			4,8	5,0	10,1	10,5
	Goldman Sachs	7,8	7,7	7,8	7,4	10,3	10,3	20,3	20,4	7,8	7,0	10,7	11,1
	Bank of America Merrill Lynch	8,3	7,8	7,0	6,3	9,6	8,7	20,0	18,3	7,9	8,1	10,0	9,7
	UBS IB	8,4	8,5	7,8	7,5	10,1	9,6	20,6	20,4	4,4	4,0	9,9	9,6
	IMF	8,7	8,6	8,6	9,2	9,9	9,8	19,4	18,7	8,2	7,9		
	European Commission	8,8	8,8	7,8	7,8	10,2	10,1	19,7	19,8	7,8	7,4	10,3	10,4
	OECD	8,7	8,8	7,6	8,0	9,8	9,5	19,1	18,2	8,1	7,9	10,1	10,1
	BNP Paribas	8,7	9,5	7,7	7,7	10,0	10,4	20,4	20,3	7,8	8,0	10,0	10,3
	UniCredit Group	8,8	8,7	7,8	7,5	10,1	10,2	19,3	18,8			10,1	10,4
	Morgan Stanley	8,8	8,5	8,2	8,0	9,2	8,1	20,7	19,7	8,3	8,6	10,2	10,2
	Commerzbank			7,7	7,4					8,3	8,5	10,2	10,7
	Average	***8,6***	***8,6***	***7,8***	***7,7***	***9,9***	***9,7***	***19,9***	***19,4***	***7,3***	***7,2***	***10,2***	***10,3***

FORECAST TABLE

COUNTRIES		Italy		Germany		France		Spain		United Kingdom		EUROZONE	
Year / Indicators		2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Consumer Prices	Intesa Sanpaolo	1,4	1,5	1,5	1,7	1,7	1,5	2,1	0,8	2,9	1,6	1,5	1,6
	Goldman Sachs	1,4	1,9	1,0	1,6	1,6	1,5	1,8	1,3	2,5	1,4	1,6	1,7
	Bank of America Merrill Lynch	1,3	1,8	1,1	1,6	1,4	1,5	1,7	1,7	3,1	2,6	1,4	1,6
	UBS IB	1,4	1,9	0,8	2,7	2,3	1,0	1,5	1,3	3,1	2,1	0,3	1,0
	IMF	1,5	1,7	0,9	1,0	1,2	1,5	1,1	1,0	2,0	1,7	1,2	1,5
	European Commission	1,8	2,0	1,3	1,5	1,4	1,6	1,6	1,6	2,4	1,4	1,5	1,7
	OECD	1,2	1,0	1,3	1,0	1,7	1,1	1,4	0,6	3,0	1,5	1,4	1,0
	BNP Paribas	1,5	1,5	1,3	1,5	1,6	1,4	1,6	1,2	3,1	2,0	1,6	1,4
	UniCredit Group	1,5	1,9	1,2	1,5	1,5	1,5	1,5	1,6	3,2	2,6	1,5	1,7
	Morgan Stanley	1,3	1,8	1,4	1,7	1,7	1,9	1,5	1,8	3,1	2,5	1,7	2,1
	Commerzbank	1,4	1,5	0,9	1,4	1,6	1,5	1,3	1,3	2,5	1,4	1,4	1,7
	Average	***1,4***	***1,7***	***1,2***	***1,6***	***1,6***	***1,5***	***1,6***	***1,3***	***2,8***	***1,9***	***1,4***	***1,5***
Budget Balance (% of GDP)	Intesa Sanpaolo												
	Goldman Sachs	-5,3	-4,9	-5,6	-4,5	-8,9	-7,5	-9,6	-7,3	-11,7	-9,5		
	Bank of America Merrill Lynch	-5,2	-4,1	-4,2	-2,6	-7,9	-6,4	-9,0	-6,0	-10,1	-7,7	-6,6	-4,6
	UBS IB	-4,7	-3,2	-4,8	-3,8	-7,0	-5,5	-8,0	-7,0	-10,0	-8,0	-5,5	-4,5
	IMF	-3,5	-3,4	-3,8	-3,7	-4,6	-4,5			-7,6	-6,2	-4,7	-4,5
	European Commission	-5,3	-5,0	-5,0	-4,7	-8,0	-7,4	-9,8	-8,8	-12,0	-10,0	-6,6	-6,1
	OECD	-5,2	-5,0	-5,4	-4,5	-7,8	-6,9	-9,4	-7,0	-11,5	-10,3	-6,6	-5,7
	BNP Paribas	-5,0	-4,4	-5,0	-4,5	-7,8	-6,0	-9,7	-7,0	-10,0	-7,8	-6,6	-5,3
	UniCredit Group	-5,0	-4,5	-4,8	-3,7	-8,0	-6,1	-9,5	-7,1			-6,5	-5,9
	Morgan Stanley	-5,0	-4,1	-5,2	-4,8	-8,0	-7,4	-9,5	-6,7	-9,9	-8,2	-7,2	-6,3
	Commerzbank												
	Average	***-4,9***	***-4,3***	***-4,9***	***-4,1***	***-7,6***	***-6,4***	***-9,3***	***-7,1***	***-10,4***	***-8,5***	***-6,3***	***-5,4***

FORECAST TABLE													
COUNTRIES		Italy		Germany		France		Spain		United Kingdom		EUROZONE	
Year / Indicators		2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Current Account Balance (% of GDP)	Intesa Sanpaolo	-2,4	-1,7	5,9	3,4	-2,6	-1,6			-2,0	-1,5	-0,1	0,5
	Goldman Sachs	-2,2	-1,4	3,5	3,4	-2,0	-1,6	-3,6	-2,0	-0,3	0,6	0,2	0,6
	Bank of America Merrill Lynch	-3,0	-2,0	5,1	4,7	-1,5	-1,2	0,0	-6,6	-2,4	-1,7	-0,3	0,1
	UBS IB			7,4	8,7	-1,7	-1,7	-3,9	-2,4	-1,5	-0,4	0,0	0,8
	IMF	-2,8	-2,7	5,5	5,6	-1,9	-1,8	-5,3	-5,1	-1,7	-1,6	0,0	0,1
	European Commission	-3,2	-2,9	4,8	4,8	-3,3	-3,6	-4,6	-4,5	-1,8	-2,0	-0,6	-0,5
	OECD	-3,6	-3,5	6,0	7,2	-1,9	-1,9	-4,1	-3,3	-1,6	-1,0	0,3	0,8
	BNP Paribas												
	UniCredit Group	-3,3	-3,0	5,2	4,9	-2,0	-1,9	-4,8	-3,8	-1,4	-1,0	-0,2	0,1
	Morgan Stanley	-3,2	-3,2	5,7	6,4	-2,8	-2,4	-2,6	-2,3	-1,3	-0,5	0,3	0,5
	Commerzbank												
	Average	***-3,0***	***-2,6***	***5,5***	***5,5***	***-2,2***	***-2,0***	***-3,6***	***-3,8***	***-1,6***	***-1,0***	***0,0***	***0,3***

FORECAST TABLE

COUNTRIES		USA		Japan		China		Brazil		Russia		India	
Indicators / Year		2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
GDP	Intesa Sanpaolo	3,3	3,4	3,4	2,4	9,0	8,8	6,3	4,5	4,5	4,2	7,8	9,0
	Goldman Sachs	2,8	2,5	3,4	1,7	10,1	10,0	8,3	4,5	5,8	6,1	8,2	8,7
	Bank of America Merrill Lynch	2,9	2,4	2,6	1,9	10,1	9,0	7,1	4,1	5,5	4,0	7,4	8,1
	UBS IB	2,8	2,8	2,9	1,6	10,0	8,7	8,2	5,4	7,5	6,0	9,0	8,0
	IMF	3,1	2,6	1,9	2,0	10,0	9,9	5,5	4,1	4,0	3,3	8,8	8,4
	European Commission	2,8	2,5	2,1	1,5	10,3	9,4	5,7	4,5	3,7	4,0	8,1	8,0
	OECD	3,2	3,2	3,0	2,0	11,1	9,7	6,5	5,0	5,5	5,1	8,3	8,5
	BNP Paribas	2,9	2,8	3,6	2,3	10,0	9,0	6,9	4,5	4,5	3,5	8,5	8,0
	UniCredit Group	2,9	2,2	2,7	1,8					4,7	4,3		
	Morgan Stanley	3,3	3,2	3,4	1,5	11,0	9,0	6,8	4,0	5,5	3,5	8,5	8,4
	Commerzbank	3,3	3,3	3,0	1,5	10,5	8,2						
	Average	*3,0*	*2,8*	*2,9*	*1,8*	*10,2*	*9,2*	*6,8*	*4,5*	*5,1*	*4,4*	*8,3*	*8,3*
Private Consumption	Intesa Sanpaolo	2,4	2,7	2,4	1,7	9,2	9,7	5,7	4,3	3,7	4,2	5,8	8,6
	Goldman Sachs	2,2	2,3	2,1	0,3	9,5	9,5	8,0	4,8	4,5	8,0	5,3	6,6
	Bank of America Merrill Lynch			2,0	1,4								
	UBS IB	1,5	3,0	2,0	1,3	9,7	9,0	7,8	5,5	5,0	6,0		
	IMF	2,4	2,1	1,3	0,8								
	European Commission	2,1	1,3	1,2	0,9					4,8	5,3		
	OECD	2,6	2,7	2,0	1,2					6,5	7,1	6,5	7,1
	BNP Paribas	2,4	2,9	2,0	1,3	9,8	10,5					5,3	7,9
	UniCredit Group									4,1	7,1		
	Morgan Stanley	2,5	2,4	2,2	1,3			7,4	3,6	5,0	4,5		
	Commerzbank	2,5	3,3	1,7	1,0								
	Average	*2,3*	*2,5*	*1,9*	*1,1*	*9,6*	*9,7*	*7,2*	*4,6*	*4,8*	*6,0*	*5,7*	*7,6*

FORECAST TABLE

COUNTRIES		USA		Japan		China		Brazil		Russia		India	
Indicators / Year		2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Investments	Intesa Sanpaolo					8,2	7,8	13,0	8,5	5,0	8,0	10,2	12,2
	Goldman Sachs	0,9	4,6	0,0	4,5	16,0	10,5	15,2	10,7	6,2	9,0		
	Bank of America Merrill Lynch												
	UBS IB	5,0	6,9	-1,4	3,4	10,0	7,1	24,8	10,8	7,8	10,5		
	IMF	1,8	9,3	-2,5	4,4								
	European Commission	0,3	4,3	-1,7	2,7					4,5	5,5		
	OECD	2,0	8,8	0,0	4,6								
	BNP Paribas	1,4	6,5	1,6	6,7	10,7	8,5						
	UniCredit Group									3,0	6,0		
	Morgan Stanley	2,0	5,1					18,2	8,5	3,0	3,0		
	Commerzbank												
	Average	***1,9***	***6,5***	***-0,7***	***4,4***	***11,2***	***8,5***	***17,8***	***9,6***	***4,9***	***7,0***	***10,2***	***12,2***
Imports	Intesa Sanpaolo	10,7	7,8			12,1	12,2	16,7	11,2	15,6	10,7	12,3	14,4
	Goldman Sachs	9,9	4,8	8,4	9,1	16,5	13,1	23,0	11,4			10,4	15,6
	Bank of America Merrill Lynch			10,2	5,5								
	UBS IB	11,8	8,8	11,1	9,8					21,8	6,0		
	IMF												
	European Commission	10,1	5,7	8,2	8,4	18,0	7,0			5,7	3,3		
	OECD	10,0	8,4	8,3	8,2								
	BNP Paribas	10,5	6,3	8,5	10,1								
	UniCredit Group									18,0	6,2		
	Morgan Stanley	10,3	5,9	8,6	7,5			21,9	9,8	14,0	5,0		
	Commerzbank	11,1	9,0	7,6	5,4								
	Average	***10,6***	***7,1***	***8,9***	***8,0***	***15,5***	***10,8***	***20,5***	***10,8***	***15,0***	***6,2***	***11,4***	***15,0***

FORECAST TABLE

COUNTRIES		USA		Japan		China		Brazil		Russia		India	
Indicators / Year		2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Exports	Intesa Sanpaolo	12,2	11,1			13,7	14,0	6,3	5,8	4,8	6,3	11,8	12,1
	Goldman Sachs	10,7	7,5	23,8	9,5	15,0	13,0	4,7	8,8			10,0	12,6
	Bank of America Merrill Lynch			25,0	7,8								
	UBS IB	12,6	8,3	26,5	11,5					10,4	5,0		
	IMF												
	European Commission	11,3	8,1	21,5	7,7	12,3	8,4			3,4	2,0		
	OECD	9,4	7,9	17,8	7,8								
	BNP Paribas	11,7	7,0	24,6	10,0								
	UniCredit Group									2,6	4,2		
	Morgan Stanley	13,7	8,6	24,5	9,3			7,4	5,7	9,0	3,0		
	Commerzbank	11,1	6,9	23,4	7,9								
	Average	*11,6*	*8,2*	*23,4*	*8,9*	*13,7*	*11,8*	*6,1*	*6,8*	*6,0*	*4,1*	*10,9*	*12,4*
Unemployment Rate	Intesa Sanpaolo	9,8	9,3			4,3	4,2					8,0	8,0
	Goldman Sachs	9,7	9,8	4,9	4,7			5,5	6,1				
	Bank of America Merrill Lynch			4,9	4,3								
	UBS IB	9,6	9,2	5,1	4,7	4,2	4,2	6,8	5,9				
	IMF	9,4	8,2	5,0	4,9								
	European Commission	9,7	9,8	5,3	5,3					7,0	6,5		
	OECD	9,7	8,9	4,9	4,7								
	BNP Paribas	9,6	8,5	4,8	4,2								
	UniCredit Group									8,1	7,4		
	Morgan Stanley	9,6	8,7	4,5	4,5			7,1		7,5	7,0		
	Commerzbank	9,7	8,8	5,0	4,5								
	Average	*9,6*	*9,0*	*4,9*	*4,6*	*4,3*	*4,2*	*6,5*	*6,0*	*7,5*	*7,0*	*8,0*	*8,0*

FORECAST TABLE

COUNTRIES		USA		Japan		China		Brazil		Russia		India	
Indicators / Year		2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Consumer Prices	Intesa Sanpaolo	1,7	1,9			3,5	4,3	5,5	4,7	6,6	6,7	11,5	4,8
	Goldman Sachs	1,4	0,3	-1,4	-0,4	2,4	1,3	5,5	6,6	6,3	7,7	7,5	6,0
	Bank of America Merrill Lynch	1,6	1,1	-1,1	-0,3	2,9	2,8	5,2	4,7	6,7	8,2	7,9	5,0
	UBS IB	1,7	1,7	-0,7	-0,1	3,0	4,0	5,2	5,2	5,9	5,8	8,6	5,9
	IMF	1,7	1,9	-1,1	-0,2	3,1	2,4	5,3	4,8	6,0	5,4	8,1	4,6
	European Commission	1,7	0,3	-0,5	-0,4	3,9	4,9			9,0	7,8		
	OECD	1,9	1,1	-0,7	-0,3	2,5	2,5	6,2	5,0			10,2	6,3
	BNP Paribas	1,7	1,0	-0,6	-0,2	3,5	3,0	5,6	4,8	7,0	8,5	7,4	6,5
	UniCredit Group	1,5	1,7	-1,0	-0,3					6,2	6,7		
	Morgan Stanley	1,8	2,4	-1,0	-0,1	3,2	3,5	5,3	5,7	6,3	8,0	11,3	6,7
	Commerzbank	1,7	1,5	-0,8	0,5	2,4	3,1						
	Average	***1,7***	***1,4***	***-0,9***	***-0,2***	***3,0***	***3,2***	***5,5***	***5,2***	***6,7***	***7,2***	***9,1***	***5,7***
Budget Balance (% of GDP)	Intesa Sanpaolo												
	Goldman Sachs	-10,4	-9,5	-10,6	-10,1	-1,9	-1,7	-3,2	-2,9	-3,9	-2,9	-8,0	-7,0
	Bank of America Merrill Lynch												
	UBS IB	-8,9	-7,3	-9,2	-9,1	-3,5	-2,0	-2,3	-2,0	-3,0		-5,5	-4,8
	IMF	-9,2	-7,3	-7,5	-7,4								
	European Commission	-10,0	-9,9	-6,7	-6,6					-1,6	-1,8		
	OECD	-10,7	-8,9	-7,6	-8,3								
	BNP Paribas	-10,0	-8,4	-7,6	-7,3	-2,2	-2,0						
	UniCredit Group									-5,4	-4,1		
	Morgan Stanley	-9,4	-8,3	-9,8	-9,1	-3,0	-3,0	-3,0	-2,4	-3,3	-3,8	-7,6	-7,3
	Commerzbank												
	Average	***-9,8***	***-8,5***	***-8,4***	***-8,3***	***-2,7***	***-2,2***	***-2,8***	***-2,4***	***-3,4***	***-3,2***	***-7,0***	***-6,4***

FORECAST TABLE

COUNTRIES		USA		Japan		China		Brazil		Russia		India	
Indicators / Year		2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Current Account Balance % GDP	Intesa Sanpaolo	-3,7	-3,7					-2,8	-3,2	4,4	3,5		
	Goldman Sachs	-2,8	-2,4	2,8	2,2	5,4	5,3	-3,1	-3,7	5,2	3,9	-3,7	-4,2
	Bank of America Merrill Lynch											-2,9	-2,5
	UBS IB	-3,1	-3,3	3,5	3,3	4,7	4,2	-2,5	-3,2	4,1	3,0	-2,7	-3,2
	IMF	-3,3	-3,4	2,8	2,4	6,2	6,5	-2,9	-2,9	5,1	4,6	-2,2	-2,0
	European Commission	-3,7	-3,7	3,1	2,5	5,6	5,7			3,9	2,2		
	OECD	-3,8	-4,0	3,3	3,5	2,8	3,4	-2,8	-2,6			-2,3	-2,8
	BNP Paribas					4,0	4,0	-2,7	-3,2	2,6	1,6	-1,7	-1,5
	UniCredit Group									5,5	3,8		
	Morgan Stanley	-3,7	-3,9	4,3	3,8			-2,6	-2,5	4,0	1,2	-2,8	-2,3
	Commerzbank					4,3	2,3						
	Average	*-3,4*	*-3,5*	*3,3*	*3,0*	*4,7*	*4,5*	*-2,8*	*-3,0*	*4,4*	*3,0*	*-2,6*	*-2,6*