
**CONFLICTING AGENDAS ARE
SHAPING THE NEXT GENERATION**

**THE STAKES ARE HIGH – EXPECT
AGGRESSIVE ACTION IN 2014**

**THE DILENSCHNEIDER GROUP
48th TREND/FORECASTING REPORT**

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Please receive this Trend/Forecasting Report – our 48th – and recognize that actions – not all positive – that will take place in the months ahead will materially shape the next generation.

The stakes are very high.

Leadership around the world has failed – in business, politics, and the social sector. Many new faces have emerged, but genuine new leaders have yet to be seen. A major question is who will step forward on the big issues – the economy, the Middle East, corruption, and more – and how will they do it?

It is very clear that young people around the world are basically optimistic about the future and are working to create a new and different world. Young people are unhappy with the situation created by their elders.

It is very clear that those at the middle and lower level of the income scale are not pleased with the income gap enjoyed by the rich, and something should be done about this. It is also very clear that people in disadvantaged countries do not hold positive feelings toward the West, particularly the United States. While diplomatic and other efforts are going forward, there is a significant shortfall in terms of hopes and expectations. The Middle East is a cauldron and the hoped-for positives of the Arab Spring have not materialized.

And it is very clear that nations like Russia, China, Pakistan, and others – notably in Africa – are working hard to create a new balance of power in the world.

Society should fear the implications of all this.

The issues demanding solutions are many: the economy, job creation, energy, climate change, education, immigration, terrorism, and more.

But the real concern is what does the future look like? A leader, who can define the future and begin to show results in terms of the way people live and what they hope for, will be very well received.

These fundamental concerns and dozens of questions are out there, including:

- Will Iran get nuclear weapons and what will be the international reaction if it does?
- What is the future of Egypt, Spain, Turkey and the region as a whole?
- Is terrorism on the decline (we say an unequivocal no) and what should be done about it going forward?
- Is China at the start of a slow decline?
- Is information safe and is there a way to stop hackers?
- What has happened to the professional journalism that is so critical to our democratic society, and what can we expect in the future?
- What role will Pope Francis play on the world stage with his heightened emphasis on the poor, capitalism, and developing countries?

Al-Qaeda today is much stronger and more determined than ever to change the world order. Its leaders play on the shame, humiliation, and anxiety of the Arab street. And there seems no easy way to turn this around.

It should be noted, too, that deadly terrorism, though usually associated in the public's mind with the Middle East, is actually a global reality, leaving chaos and destruction in its path whether here in the U.S., where many terrorist acts are both reported and unreported, in Europe, in Russia, in Indonesia, on the Asian continent, and almost anywhere else one can think of. These deluded, non-state actors, nursing long-held grievances against their perceived enemies and unafraid of death, are more dangerous than ever in this 21st century.

The climate is right for a misguided populism to assume power in many parts of the world and some bad actors are working to hasten this development.

While civilized people struggle with the issues, count on the rogue states to work to destabilize the world. This is their only route to success.

Amid all these issues, a great deal is going right simply because human beings will not tolerate inaction for too long, and much is happening without direct political involvement. Entrepreneurs, investors, and those intent on advancing social and economic justice have made the world a better place than it was five years ago.

Expect individuals, especially younger men and women, to assert themselves and do more in the coming year to effect change. There is a real potential for positive action out there.

With this broad perspective in mind, and based on our continuing discussions over the past 12 months with hundreds of experts in diverse fields, including business, finance, journalism, the arts, academia, and the non-profit sector, we have identified another set of noteworthy trends for 2014 and beyond.

This Report, then, as it has for more than 23 years, focuses on critical thinking and on how you might apply it in your life, your business, or 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.

N.B.: Some complain that these Reports are too long and too dense. We take these concerns seriously and have tried to make this Report "faster." However, we urge readers to pause and reflect on what follows as these are issues that can place you in harm's way.

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

Best regards,

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

Robert L. Dilenschneider

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"Each time a man stands up for an ideal, or acts to improve the lot of others, or strikes out against injustice, he sends forth a tiny ripple of hope, and those ripples build a current which can sweep down the mightiest walls of oppression and resistance."

– Senator Robert F. Kennedy
June 6, 1966
South Africa Address

BETTER TIMES AHEAD FOR THE ECONOMY, BUT NO BREAKOUT IN 2014

The global economy is now six years removed from the worst ravages of the Great Recession. In the United States, the recession that ended in June 2009 has led to a subpar recovery compared to previous post-World War II expansions. (The U.S. is not alone in this regard; growth remains tepid at best among the industrialized economies hardest hit by the financial crisis).

Notwithstanding this less than stellar record, as they contemplate the next 12 months many analysts and forecasters see more sources of optimism than worry. Part of this relatively sanguine attitude may be because policymakers and citizens at large have already weathered so much, and have learned some things in the process. But it may also be that six years after the financial crisis there has been enough structural change in the economy to foster feelings about the future that, more than in the recent past, have basis in fact.

The U.S.: More Certainty Now than a Year Ago

Twelve months ago, the prevailing worry – which in some corners bordered on outright belief – was that at some point in 2013 lawmakers in Washington would do serious damage to the economy. Fortunately, those fears were not realized, though the two-week government shutdown was not helpful.

What Washington *did* do was slow the economy down through a combination of tax increases and cuts in federal spending. Taken together, analysts at the Congressional Budget Office estimate those measures shaved growth in gross domestic product by around 1.5 percentage points last year.

Some comparatively small tax increases associated with the Affordable Care Act went into effect on January 1, but their drag on the economy will be negligible. Moreover, the two-year budget deal struck by Congress in December restores about half the spending cuts agreed to during 2012.

Further, the fiscal health of state and local governments, which spent an inflation-adjusted \$1.7 trillion last year, is improving. After falling for three straight years, state and local government spending rose 1.5 percent in the third quarter of 2013, the most since the second quarter of 2009.

Forecasts call for the American economy, aided by increased spending by government at all levels, to expand by 3.2 percent in 2014, nearly double the 1.8 percent rate of increase for 2013.

There are other reasons for optimism.

After five years, a great deal of debt has been erased from household balance sheets. Moreover, although the unemployment rate remains extremely high this far into an economic expansion, recent evidence strongly suggests the job market has strengthened, notwithstanding the disappointing 74,000 increase in non-farm payroll employment for December. Bad weather played a role in slowing down job creation last month. Still, it was the worst monthly figure in three years.

Nonetheless, since August, non-farm payrolls have increased by an average of more than 185,000 each month. (The December figures, which are subject to revision, are included in the calculation). That's up modestly from a monthly average increase of 180,000 for the first seven months of the year. Since employment's low point in February, 2010, the economy has added more than 7.5 million payroll jobs. And the unemployment rate has fallen by more than two full percentage points since the recession was declared over in 2009. Unfortunately, the 6.7 percent unemployment rate reported for December exaggerates the current state of the labor market, as it fails to take into account the thousands of discouraged workers who are no longer looking for jobs.

Taken together, an improving job market and healthier household balance sheets could help boost consumer spending, which represents about 70 percent of economic activity in the United States.

The Big Issues

These factors aside, the economy will benefit even more if answers to at least some of the following questions are positive.

- Will business finally shed its caution and start spending on workers and new equipment? Further improvement in the job market and rising household wealth could entice more hiring and spending by the private sector.
- Will politicians in Washington act as dealmakers, or revert to being confrontational ideologues? A big test will come in late February or March, when the federal debt ceiling will need to be raised. And failure to pass an extension of unemployment benefits will put a dent in the economy. Analysts estimate that if Congress cannot reach agreement on the issue, failing to extend benefits for the entire year could pare growth by 0.2 to 0.3 percentage points in 2014.

- Will upcoming events allow the Federal Reserve to continue a measured tapering of its quantitative easing policy?
- Relatedly, how will the housing sector adjust to higher mortgage rates? Worries about higher interest, supply constraints and tight credit, among other things, increased as 2013 unfolded. And sales of previously owned homes have fallen every month since July.

What will happen in the rest of the world? Exogenous shocks – from the Japanese earthquake and tsunami to the Eurozone’s debt crisis to the unrest inherent since the Arab Spring – have had an impact on the U.S. Those events were less numerous last year, but vulnerabilities remain. Another year of relative stability will benefit all economies, including America’s.

Better Times in Europe, Healthy Growth in Many Emerging Markets

Austerity is starting to recede in the Eurozone, after helping to deepen the longest recession since the currency began trading in 1999. With countries under less pressure from bond investors to curb excess spending, fiscal policy across the continent will likely not be restrictive for the first time since 2009.

In addition, surveys of manufacturing activity in various countries are rising and foreign capital is returning, even to countries such as Spain and Greece.

Germany, the continent’s largest economy, has set a strong pro-growth agenda, including a higher minimum wage, more government spending and tax incentives for housing and R&D. With the exception of France, growth is likely to turn positive throughout the Eurozone in 2014.

But the increase in activity will likely be far from robust; in its most recent forecast, the International Monetary Fund projected growth in the Eurozone at a mere one percent in 2014. Growth at that level will do little to bring down Europe’s jobless rate, which is above 12 percent.

In Asia, the IMF forecast calls for a slowdown in Japan, as the fiscal stimulus and reconstruction spending that were part of Abenomics are unwound and consumption taxes are increased.

Meanwhile, in China growth is expected to slow slightly to seven percent from 7.5 percent in 2013.

Overall, growth in the emerging markets and developing economies is expected to remain quite strong, expanding at a five percent rate on average, up slightly from 4.5 percent in 2013.

IMPLICATIONS FOR BUSINESS:

- Uncertainties remain, but the worry list is getting shorter.
- Governments are likely to continue to seek regional, not global, solutions to issues such as trade and investment.
- Improved household finances should translate into rising demand for goods and services.

DID YOU KNOW?

Although it has a population of only five million, Norway has won more Winter Olympics gold medals than any other competing nation.

DEBT AND THE MIDDLE CLASS

As efforts to raise the minimum wage gain momentum and rhetoric about ways to help shore up America's shrinking middle class heats up, it is important to monitor the state of household balance sheets – and to ponder what recent developments may – or may not – augur for the future.

The good news is that U.S. household debt, which peaked in early 2009 at nearly 150 percent of GDP, is clearly falling. Overall, the nation's indebtedness is about 11 percent, or more than \$800 billion, below the peak of five years ago. Mortgage delinquency rates fell to 4.3 percent in the third quarter from 4.9 percent in the second. Auto loan delinquencies have also declined, to 3.4 percent.

In tandem with low interest rates, the absolute reduction in debt has cut household debt payments (principal and interest as a share of disposable income) to well below 10.5 percent – levels not seen since the early 1980s.

Since strained consumer balance sheets were a major contributor to the depth and severity of the financial crisis, this deleveraging is welcome news, suggesting that Americans are now in a position to renew borrowing – and spending.

Recent statistics bear this out.

In the third quarter of 2013 household debt rose by \$127 billion. It was the first quarterly increase since the fourth quarter of 2012 and the biggest three-month rise in more than five years.

Unfortunately, there is little evidence to suggest that these gains will be more than transitory, or that Americans have better control over their balance sheets than they had previously.

Interest rates have been at or near lows not seen since the Great Depression since the onset of the financial crisis in late 2007. This trend will not last; indeed, rates are already trending higher.

More sobering is the realization that a number of the factors that have had such an adverse impact on household balance sheets remain in place.

Big Ticket Items

Between 1977 and 2012 consumer prices and family incomes almost quadrupled. But the costs of the so-called “big ticket” items that are critical to entry into the middle class – or to ensure that people remain there – rose much more over the same period.

The price of the average house quintupled. Meanwhile, personal health care expenditures and college tuition fees rose tenfold. The increase in student loan balances, which have roughly tripled since 2004, has some economists worried. About nine percent of all consumer debt is now student loans, up from three percent 10 years ago, according to the New York Fed.

Currently, there is scant evidence suggesting a slowdown in higher education costs. Much more promising have been recent developments in the health care industry.

Earlier this month the Centers for Medicare and Medicaid Services reported that, for the second consecutive year, the U.S. economy grew faster in 2012 than national health care spending. Since 2008, health care cost increases have risen at their lowest rate since the 1950s, when the government began to collect the data.

While it's hard to cite any one development as the reason for the slowdown in health care cost inflation, there are likely lingering effects from the Great Recession; a number of blockbuster drugs have come off patent in recent years; and the influence, if not the effect, of the Affordable Care Act may be playing a role.

Despite the recent progress, it is far too soon to declare that the era has come to an end when health care costs far exceeded wage gains or the general rise in consumer prices.

IMPLICATIONS FOR BUSINESS:

- If it continues, slowing medical cost inflation will eventually put more money into consumers' pockets.
- If it continues, ever-increasing costs for higher education will mean a less educated work force in the United States.
- The longer problems like sharply rising health care and higher education costs go unsolved, the more unsettled political and social discourse in this country will become.

POLITICS: THE NEXT 12 MONTHS

Pundits like to say that every political year is a crucial one.

That is certainly true this year. The 2014 mid-term congressional election cycle is by everyone's account more important than usual:

- One-third of the Senate and the entire House will be up for re-election. Because the nation is so closely divided politically, the Senate teeters between being controlled by Democrats and Republicans. Currently, there are 53 Democrats, 45 Republicans and two independents who mainly caucus with Democrats. With 21 Democrats up for re-election and only 14 Republican seats in challenge, a few changes either way in a few states could easily mean that Republicans take over control of the Senate. With the control of the House almost certainly likely to remain in GOP hands, this would mean President Obama would no longer have the Senate available to block GOP interests or to pass his own initiatives.

- With immigration reform, the minimum wage, the farm bill and food stamps, and a host of vital budget issues at stake, as well as complex foreign policy and trade issues, the nation could change course in some dramatic new ways if the entire Congress is controlled by Republicans. Also, Obama's already shaky legacy would not be enhanced if he has no allies in control in the Senate.
- Elections will be held for the governorships of 36 states.

The backdrop of the mid-term elections is the presidential elections of 2016. Even though they seem ridiculously far off, they dominate political thinking in D.C. The two big names remain Hillary Clinton and New Jersey Gov. and National Republican Governors Association chairman Chris Christie, still considered the GOP frontrunner despite the scandal over the Fort Lee, N.J., traffic lane closures, but this far out nobody knows who the two party nominees will be. Jimmy Carter did not emerge until much closer to the elections when he ran and won.

The far more serious issue in Washington remains the bitter partisanship, which neither side seems able to back away from despite the clear desire of voters that it stop. It is difficult to find anyone who has been in Washington for any length of time who expects a breakthrough this year on any of the major issues needing resolution.

Citing Income Disparity

One clear trend is the desire by Democrats to paint Republicans as callous when it comes to the increasing income disparity in the U.S. This is a theme President Obama intends to use repeatedly this year as he stumps for Democrats. The dichotomy is basic. Democrats say government must help the poor, including the working poor (extending emergency unemployment benefits to 1.4 million people without the need for offsets, holding the line on food stamps and raising the minimum wage to \$10 an hour, for example) and increasing taxes on the wealthy. Republicans tend to insist that de-regulating business and the markets to spur job growth is paramount, and programs to benefit the poor may not work and in any event must be paid for by spending cuts.

Part of the debate is whether low-income Americans still have the ability to "move up" the economic (and class) ladder. Many Democrats argue the evidence is growing that without giant employers that fueled the growth of the American middle class (e.g. the auto industry that once employed huge numbers), a child born to poor parents is likely to stay poor all his or her life.

They cite statistics showing that the median household income is almost 10 percent lower than it was in 1989 despite rising costs.

A major debate involving the fast food industry is whether such entry-level jobs are still a major way for young people to break into the job market or whether the norm is now for such jobs to be held by breadwinners supporting families. Clearly, the ramifications for society could be enormous.

Also, with the demise of pensions for millions, it becomes more difficult for Republicans to continue arguing that Social Security should be privatized or at least de-emphasized as the primary source of retirement funds. But curtailing the explosion of entitlement spending, as well as deficits, is still a major debate that many Republicans are eager to have. They also are not giving up their fight to repeal Obama's health care law, just starting to take full effect, or to provide more school vouchers to permit parents to put their children in the schools of their choice, not just the local public schools.

Rarely is significant social legislation passed in tight election years. Thus, few if any expect any hot-button issues such as new gun control measures or abortion restrictions to pass on a national level. Such issues are now prevalent and being fought out at the state level. But there will be increasing pressures on both Democrats and Republicans to forge out a compromise on the contentious issue of immigration, with everyone in agreement that the current system is completely broken. The betting is that there will be some piecemeal changes but no overarching new system, because House Republicans are still balking at anything that hints of immunity for 11 million undocumented immigrants.

IMPLICATIONS FOR BUSINESS: Continued gridlock in Congress, which fosters uncertainty, is a strong negative for business. Perhaps the curtailment of the filibuster process in the Senate will help. The upcoming 2014 elections will be critical.

THE SURPRISING NEW POPE

He's *Time* magazine's "Person of the Year." The newspaper headlines proclaim that he "made Catholicism cool" and that he is "transformational." His economics make Rush Limbaugh catatonic. And his photos go viral globally, something very rare for a 76-year old.

And somewhat like Socrates in ancient Athens, Pope Francis has provoked a firestorm of debate about moral values since being elected last March – the first non-European pope in 1,200 years.

Despite all this exposure, the world is still wondering: Is he a closet liberal or is he a closet conservative? Or is he a provocateur who likes to incite debate in the cause of spiritual growth? Many suggest that it's the media shaping the message when it comes to interpreting what Pope Francis is really all about.

This much is certain. In less than a year, the pope has captured the world's imagination. He has become iconic in the era of social media. A photo of him kissing a severely disfigured man, just as his namesake St. Francis embraced a leper, inspires multitudes and speaks volumes about his understanding of the Christian message.

The "Progressive" Pope

Much of the news coverage promotes the theme that "progressive" Pope Francis has finally gotten it right and supplanted everything his reactionary predecessors had to say – when, in truth, they often said the same things – most notably when it comes to the global economy. But their tone was different. Francis is clearly "a Pope of the people."

His first papal exhortation, *Evangelii Gaudium*, a document of more than 200 pages, provoked debate and criticism, particularly from conservative commentators and free market advocates, who said the pope was a naïve neo-Marxist, or equally harsh, "the Catholic Church's Obama."

Evangelii Gaudium – The Joy of the Gospel – criticizes the popular view that unregulated free markets "inevitably succeed in bringing about greater justice and inclusiveness in the world." Quite simply, he doesn't believe that market capitalism, despite its history of generating wealth, can cure the problems of society. The pope's economic view in many ways was tempered by history and decades of living with Latin America's extremist economic policies.

To Francis, “the person” is more important than the ideology, and a culture of consumerism is spiritually deadening. Capitalism can save, but it can also create gross inequalities. Moreover, he believes that materialism is no substitute for a personal relationship with God, no matter how much one has acquired. This, of course, is not economic theory. It is Christianity.

In addition to his critique of economic markets, Francis is motivated by the spirit of evangelism. “I wish to encourage the Christian faithful to embark upon a new chapter of evangelization marked by this job, while pointing out new paths for the Church’s journey in years to come,” he has said. Francis is committed to bringing more people back to the faith and bringing more people into the faith. And, if the buzz is correct, he’s succeeding.

Despite what liberals believe (a Daily Kos online headline proclaimed, “A Progressive Pope is Driving the Wingnuts Batty”), Francis is surely no adherent of the political left’s agenda. To this pope, abortion is still wrong; gay marriage is not permissible; and there won’t be women priests anytime soon. These are the flash points of the culture wars, and they are also the issues of strident debate that have traditionally impeded a dialogue between the Church and secular society.

Is the pope a revolutionary? Perhaps, but so was Jesus. Is the pope a progressive in a political sense? Highly unlikely. No politics, left or right or center, can capture the Christian message. Francis cannot be compartmentalized by the political left or the political right, just as the radical message of Jesus eschews political classification. Consequently, Francis has become a challenge for Catholics who make their faith and their politics synonymous.

A growing number of observers are starting to realize if you want to know what the pope’s vision is, read the Gospels.

IMPLICATIONS FOR BUSINESS:

- His expressions and exhortations will continue to make headlines and be a source of irritation for the establishment.
- He will take decisive action to deal with the prolonged sex-abuse scandal, the entrenched curia, and the scandal involving the Vatican Bank. There will also be a much more forceful emphasis on business ethics.

- Church leaders, wishing to adapt to the new pope will become kinder and gentler and less dogmatic.
- The pope will continue to upset the sensibilities of various ideologies, whether they are political, economic, religious or social, in the cause of spreading the Gospel. The relationship with the establishment, whether it is corporate or governmental, will come under serious scrutiny by Pope Francis. In addition, his emphasis on the poor will affect the world view of many religious organizations and developing countries

SYMPATHY FOR THE BANKS?

Who would ever have imagined that people would start to feel a little sorry for the big banks?

How so? Well, just compile a list of all the crisis and mortgage fraud-related suits and regulatory actions against big banks over the past five and a half years. And there seems no end in sight, with major new actions announced every month or two throughout 2013, despite the finality of press conference pronouncements that such-and-such a mega-billion-dollar settlement “finally holds banks accountable.”

Banks *should* be held accountable. But a major flaw in the very process of litigation seems to be emerging. There is precious little coordination of punitive actions among regulators, and each successful prosecution seems to inspire another attorney general in another state to try his/her hand in getting a share of what seems a limitless pot.

Nonetheless, the public is starting to get more than a touch of litigation fatigue, even outrage fatigue, on mortgage crisis-related actions. No pot is limitless, nor is the patience of bank investors for multi-billion-dollar events that can seemingly boil up from anywhere, at any time. This sense of randomness was summed up in a recent headline: “Largest U.S. Banks See Themselves in ‘Regulatory Spiral’ with No Clear End.”

This is not a situation that can or should continue indefinitely. The best oversight requires a healthy element of cooperation between supervisor and the supervised. As one bank regulator said recently: “We don’t want the supervisory relationship to turn into an adversarial relationship.”

Investors and the American public need to feel that big banks have been and are being held accountable, but they also need to understand that the process of doing so desperately needs streamlining – at the very least, an underpinning of order that eliminates the feel of an unending grab bag.

IMPLICATIONS FOR BUSINESS: Investors hate uncertainty above all else, and big U.S. banks continue to operate under a cloud of uncertainty that has no parallel in recent memory. It affects their ability to lend to small businesses, and their willingness to participate fully in the capital markets. At the end of the day, such uncertainty on the lynchpin of the free markets is a drag on the economic recovery. Even a sense that some order has been restored to the punishment process can only serve to help that recovery.

DID YOU KNOW?

Japan, which has strong prohibitions against gun ownership, reported only four gun-related homicides in 2012. The U.S. had 4,600.

A NEW MODEL FOR TECH START-UPS

An emerging new model for technology start-ups has significant implications for business and for society.

The maturation of the Internet and the birth of cloud computing have made it possible to develop technological solutions and launch technology ventures for a fraction of the capital that was required just 10 or 15 years ago. Capabilities and functions that once would require millions to build are now available from online third-party providers for a relative pittance. Meanwhile, the process of creating technology solutions has itself been simplified and compressed by the same advances – as evidenced by the boom in “app” development.

These changes have been so rapid and pronounced that they have, to some extent, left behind the traditional venture capital structure and gatekeepers. Company and technology development today often happens too fast and too cheaply ever to hit the radar screens of the traditional VC players. The result is no less than a new model for tech startups – a massive proliferation of companies experimenting with new technology in a much less organized and hierarchical marketplace.

There is another important wrinkle in this story: As so much of this innovation is being done by Millennials and other relatively young individuals, it has a pronounced idealistic streak. At the very least, there is a sense of social mission that is almost always acknowledged in one way or another in these ventures. This combination of technology proliferation and mission is giving rise to a wave of innovation aimed at addressing vexing social problems typically seen as the responsibility of government. Among the multitude of examples:

- Arrive Labs, a company that feeds public transit data and variables like weather into algorithms to predict congestion and provide riders with faster alternatives.
- Comcate, a company founded to help local governments streamline their complaint responses.
- Uber, Lyft, Sidecar, and other Internet-based car firm services created to provide transportation to people underserved by or unsatisfied with existing taxi or bus service.

While regulators in many cities are battling to keep out or limit Uber, some government officials have embraced new technology and are working to harness innovation to better the lives of their constituents. For example, South Bend, Indiana, partnered with the University of Notre Dame, local technology company Emnet and IBM to produce a new cloud-based system that decreased overflows of the city's sewer system. Not only did the new technology alleviate sewer back-ups, it saved South Bend almost \$115 million by eliminating the need for a comprehensive upgrade. San Francisco is looking to institutionalize this type of innovative development through its Entrepreneur-in-Residence program that helps startups create technologies that address urban issues.

IMPLICATIONS FOR BUSINESS: The acceleration of technology development and start-up has clear implications: No business and no competitive advantage can be considered safe. The ease and low cost of outsourcing critical technology and business resources has removed many traditional impediments facing entrepreneurs – to the point that the venture capitalists who traditionally funded these critical items are becoming less relevant. Given the pace at which new technologies will emerge and proliferate under these new conditions, it is not a stretch to say that, in order to survive, every company will have to be a tech company – at least as far as being able to identify and counter any threats to their business models from new technology.

The same frenetic pace of development and change will create new opportunities for companies to both do well and do good. Consider that one of Barack Obama's first actions as president was to sign the Memorandum on Transparency and Open Government, making data from all federal agencies available to the public through open application programming interfaces (APIs). Companies of all sizes should be mining that data for both information that can be leveraged for their businesses and for opportunities to apply their specific knowledge and capabilities to societal problems.

EXCESS CAPITAL, TOO MANY WORKERS, OVER-CAPACITY

America has entered a new time of surplus capital, surplus labor and surplus capacity that has already had a defining and largely negative impact on its overall economy. Small wonder then that the recovery from the Great Recession has been relatively sluggish while income inequality has escalated dramatically.

To the issue of surplus capital, a financial behemoth like China is a nation today where countless millions of workers, lacking any kind of social safety net, put most of any leftover income into record savings, raising Chinese foreign exchange reserves to a staggering \$3.4 trillion – that's U.S. dollars, not renminbi. Then there is the money printing/quantitative easing of the Fed here, the European Central Bank, the Bank of England and the Bank of Japan to the tune of over \$5 trillion USD. The unprecedented growth of hedge and private equity funds around the globe is yet another example of the vast sources of capital now available. Consider, too, the treasuries of U.S. multi-national companies swollen with huge, undistributed earnings made abroad that they keep in overseas tax havens. Indeed, the world is awash these days in cheap credit – and cheap labor.

In Trend Reports going back several years, we have highlighted the mounting problem of excess workers in this nation who may be permanently unemployed. Globalization and the cheap labor it affords in the developing world, plus a new era of exploding digitized automation around the globe, have likewise accelerated the deindustrialization of America and kept the jobless rate high. The sharp decline of unions, now representing only 7 percent of the American work force; generous, official immigration policies (over one million legal immigrants enter the U.S. every year); controversial free trade policies; and the massive entrance of married women into the workplace have also contributed to the surplus labor reality.

Meanwhile, significantly increased productivity in both the service and manufacturing sectors, coupled with stubbornly weak consumer and business demand and fierce foreign competition, have made substantial over-capacity the rule in most American workplaces these days.

IMPLICATIONS FOR BUSINESS: There are no easy solutions to these irrefutable, powerful realities impacting the U.S. But policymakers have too often skirted around the critical issues of over-supply. Going forward, they must be acknowledged and coped with.

Easily accessible capital should, on balance, be a plus for business. But its impact on the overall economy remains a source of concern. And, of course, a permanent jobless class has the real potential to trigger social unrest. As for all the unused capacity in both production and service industries, that can only be tempered by a substantial rise in consumer and business demand.

DID YOU KNOW?

Late last year, Maryland become the 18th state to abolish capital punishment. Meanwhile, over 3,000 convicted criminals await their fate on Death Row in many of the other states.

A VIEW TOWARD THE WEST

Around the world, people do not like what they see in the West, particularly the over-competition and over-spending. People expect more from U.S. foreign policy. Very few want to side with America.

The U.S. position on Syria, where tens of thousands have died, is not admired in other parts of the world. Nor are the U.S. positions on Egypt and Pakistan.

China, Russia, North Korea and others seem to test the U.S. every day. America's attitude toward Iraq and Afghanistan seems uncertain.

In the face of all this, the leadership this nation is counted on for appears lacking to many.

IMPLICATIONS FOR BUSINESS: Expect more dictators, tyrants, and autocrats to test the U.S., which will have negative effects on the markets and on trade.

TERRORISM: WHERE ARE WE?

We have written in this Report about terrorism for more than ten years, covering the roots and motivations of this issue, examples of what terrorists have done, and more.

It is clear that terrorism is here to stay. It is also clear that aside from efforts such as the CIA's steps to clean up Columbia, that little is being done to curb it.

The fact at this writing is that terrorism is increasing. As of 2012, the State Department lists 51 formal terrorist organizations globally. The Taliban alone was responsible for 525 attacks in 2012.

U.S. troops have been gone from Iraq for two years; al-Qaeda now occupies Fallujah.

The Muslim Brotherhood, branded as a terrorist organization in Egypt, is regrouping.

While many al-Qaeda fighters have been killed in the Syria conflict, the resolve of this group is stronger than ever.

And it is not just the Middle East that is a focus. Look to Indonesia, many parts of Africa and to continued efforts to destabilize the United States, the United Kingdom, and France.

In 2012, a total of 6,771 attacks occurred worldwide, resulting in more than 11,000 deaths and more than 21,600 injuries. Following 9/11, the New York City Police Department reports 16 documented cases of attempted terrorism in addition to numerous unpublicized incidents. The most recent major terrorist attack in the U.S. killed three at the Boston Marathon and injured more than 260. About \$1 million was spent on security at this year's New York City Marathon, double the usual amount.

IMPLICATIONS FOR BUSINESS: Whole new industries that combat terrorism have been born and will flourish, but the overall trend is negative for business, which must guard against terrorism aimed at its facilities and people.

ISLAMIST EXTREMISTS TARGET CHRISTIANITY

It is surely ironic that radical Islamists in the Middle East, birthplace of three of the world's great religions, are increasingly intolerant of the many Arab adherents to the Christian faith who reside there. Hostility to Jews can, of course, be traced back to the foundation of Israel in 1948 and the many Arab-Israeli conflicts that came in its wake. Scholars estimate that at least 330,000 Jews fled the Middle East in the ensuing years, migrating either to the U.S. or Israel.

But, in the first and second decades of the 21st century, it has been the remaining Christians who have experienced the anger and often violence of Muslim jihadists most aggressively in countries like Iraq, Egypt, Syria, and Yemen.

Wherever Christians live in substantial numbers across the Middle East, they are being continually persecuted by local militants. A century ago, Christians comprised some 20 percent of the entire Middle East population. Today, that figure is down to five percent and declining every year.

Those that stay and survive have been strengthened by their faith and fellowship with other Christians across the region. Many feel that forgiveness, at the core of Jesus' teachings, can play a key role in healing the sectarian rivalries that are now at the heart of a deeply divided Arab/Muslim-dominated part of the world.

In Egypt, the ouster of the Muslim Brotherhood from power by a military coup appears to have compounded the problem for the nation's eight million Coptic Christians, who were never fully accepted even under the old regime. Largely educators and merchants, they remained, for the most part, neutral during the Mubarak dictatorship and when the Muslim Brotherhood won control. The Christian minority has, nonetheless, been singled out by avenging Brotherhood members as an ally of the current military government. Some 40 Coptic churches have been vandalized or burned down by angry mobs, who also threatened Christian lives.

In Iraq, half of the estimated one million plus Christians living there have fled the country since the outbreak of the Sunni insurgency against the dominant Shiite sect, triggered by the U.S. invasion in 2003. The situation is no less dire in Syria. Christians make up about one fourth of the two million refugees, who have been forced to leave the war-torn country since the rebellion against Bashar al-Assad broke out 2-1/2 years ago.

Even in the once overwhelmingly Christian town of Bethlehem, where Jesus was born, his believers have been under siege. The same is true in Gaza, now ruled by the Palestinian Hamas party. Only Jordan and Lebanon – the latter still more than one-third Christian – appear to be exceptions to the growing anti-Christian sentiment in the Middle East.

IMPLICATIONS FOR BUSINESS: Any curtailment of human rights anywhere in the world – whether religious, political, economic, or social – must be viewed as a negative for business.

A CHANGING CHINA: SLOWING DOWN AT HOME, GETTING MORE AGGRESSIVE OVERSEAS

The express train that seemed to be speeding China and its 1.348 billion people to the No. 1 position among world economies is losing steam. Instead of eclipsing U.S. Gross Domestic Product within the next couple of years as many had expected, London's Centre for Economics and Business Research forecasts that China's ascent to first place won't be accomplished until around 2028. That's due to both the renewed strength of the U.S. economy (\$15.68 trillion GDP in 2012) and the relative slowdown of China's (\$8.36 trillion).

Another potential brake on the Chinese juggernaut: The total debt of its local governments has soared to nearly \$3 trillion, an astonishing jump of 67 percent from the end of 2010.

China's provincial, municipal, county and township governments have indulged in spending sprees, with massive investment in infrastructure, real estate, and other projects. Much of the money was poorly invested, and the ability of the local governments to repay even the interest on their debts, much less the principal, is questionable.

Nothing that President Xi Jinping has said so far suggests that he intends to bail out local jurisdictions if they reach the breaking point. Quite the opposite. He has been frank about his desire to eliminate costly state subsidies for losing enterprises.

Meanwhile, China continues to struggle with the deeply embedded corruption that plagues both the public and private sectors, sapping public morale. And environmental problems, especially air and water pollution, degrade the quality of life for millions and further erode confidence in government.

An Historical Reality

Nations throughout history have turned to military adventures and appeals to patriotic fervor to counteract sagging domestic support. China may be traveling down the same path. That Beijing has engineered a conflict with Japan over ownership of some uninhabited islands in the East China Sea is one piece of evidence. So is Beijing's insistence that all aircraft passing over the disputed zone notify Chinese authorities. Whenever the government needs an international incident to whip up public emotions, it can manufacture one by claiming some sort of violation.

And then there is the build-up of the Chinese military, including plans for a blue-water navy with the ability to project power throughout the region. That has become a special concern for the Pentagon as it executes President Obama's "pivot toward Asia." It is especially troubling to nations like South Korea, Japan, the Philippines, and Vietnam that would be directly affected by a more aggressive China.

The long-range issue is that China's muscle-flexing could trigger a regional arms race. This may be happening already in Japan where Prime Minister Shinzo Abe says he wants to end his nation's post-World War II pacificism. That, in turn, has alarmed neighbors like South Korea, where bitter memories of Japanese imperialism are still very much alive.

The world has seen this before, specifically in Europe after 1870 when the modern nation of Germany was forged out of wars with Austria and France. In response, the European powers all decided to create enormous standing armies. Their leaders eventually blundered into the horrors of World War I in large part because each was certain his army would win an easy victory.

There is no certainty that East Asia will follow the same destructive path, but the early warning signs are troubling. Preventing a dangerous escalation will be a major and ongoing challenge for American policymakers.

IMPLICATIONS FOR BUSINESS:

- Chinese businesses are becoming active overseas investors, putting \$12.2 billion into the U.S. during the first nine months of 2013, up from \$7.1 billion for all of 2012. That could offer promising opportunities for companies in need of fresh capital and for high-unemployment regions of the nation seeking outside investment.
- China continues to import dollars, sending 17.1 percent of its exports to the U.S. in 2012.

- The Chinese are also employing more Americans. Among U.S. acquisitions, Chinese companies bought AMC Entertainment – one of America’s largest movie theater chains – for \$2.6 billion, and Smithfield Foods, the largest pork producer and processor in the world for \$4.7 billion.
- China seems particularly interested in acquiring energy resources in the United States. For example, Guizhou Gouchuang Energy Holdings Group spent \$616 million to acquire the Triple H Coal Co. in Jacksboro, Tenn.
- A growing market for U.S. and international consumer goods, China is the largest new car market in the world. GM, with 11 joint ventures with Chinese companies, and is the second-biggest foreign automaker in the country, selling 3.16 million cars in 2013.

WARS – WORLDWIDE

While 2013 was spared from any major combat between nations, the world is nevertheless plagued by an alarming number of internal wars – armed conflicts resulting in violent deaths on a daily basis, heralding serious concerns for the coming year.

Headlines in 2013 were dominated by news of the Syrian civil war, which began in 2011 and claimed over 73,000 lives in 2013. Conflicts in Afghanistan are ongoing since 1978 and have by some estimates been responsible for over 2 million deaths. South Sudan is fast descending into civil war between the Dinka and Nuer tribes.

But the violence that makes the daily headlines is only part of the story. Across the globe, civil wars, public unrest, and other bloody clashes proliferate.

Thailand, once a beacon of prosperity for Southeast Asia, faces increasingly hostile actions by opposition protestors. North Korea faces worsening internal political instability as Kim Jong Un struggles to maintain power. Egypt, now under the rule of a military government, contends with internal terror operations predicted to cost thousands of civilian lives. Mounting unrest continues in the Ukraine, as Putin pursues Yankovych and the opposition rallies to join the West.

Resurgent Sunnis

As damages from the Syrian civil war accumulate, the country has become a breeding ground for terrorists, with a powerful resurgence of Sunni extremism and the al-Qaeda brand. Jihadist rhetoric is gaining traction across North Africa and the Levant.

There are currently no less than 40 wars being waged across the world. Other ongoing violent conflicts include: the Mexican drug war; the Iraqi insurgency; the war in northwest Pakistan, the Islamist insurgency in Nigeria, civil conflict in the Philippines; China's Xinjiang conflict; the war in Darfur; insurgency in the North Caucasus, and post-civil war violence in Libya, to name a few.

The regions at greatest risk for increased conflict in 2014 are the Middle East and North Africa, South Asia, and East Asia. In the past month alone, conditions have deteriorated in Egypt, Yemen, South Sudan, the Democratic Republic of Congo, the North Caucasus, Thailand and the Korean peninsula, as well as between China and Japan.

Expect conflict in these regions to worsen in 2014 due to three factors: failing states; an upsurge in new and unconventional threats (ranging from terrorist tactics to cyber assaults); and the growing role of autocratic forces in managing regional issues.

IMPLICATIONS FOR BUSINESS: U.S. firms will face obstacles in countries like France, Germany, and Brazil, who are reluctant to do business with corporations that share information with the NSA. Declining U.S. multilateralism may weaken U.S.-led trade coalitions. Uncertainty about America's global allegiances may take its toll as foreign corporations attempt to balance interests between the U.S. and China. Shifting power structures globally and the continuing fragmentation of the Internet will lead to the formation of new unilateral and bilateral security arrangements. Amidst new alliances and a less regulated financial environment, the U.S. may lose credibility as the driver of a unified global market.

DID YOU KNOW?

An estimated 40,000 new state laws, regulations and resolutions were approved by state legislatures in 2013, many of which took effect on January 1, 2014.

NEW INDEPENDENCE MOVEMENTS GAINING IN EUROPE

Independence movements have long been a force in world affairs. As the destructive civil war in Africa's newly formed South Sudan shows, gaining nationhood is no guarantee of success. Still, the aspiration burns brightly in many places, from Quebec's sovereignty drive in Canada to the continuing quest of Kurds scattered across Turkey, Syria, Iraq and Iran to coalesce into their own nation. And Europe is providing its share of independence movements.

In Scotland, a referendum will be held in September to determine whether it will become independent or remain part of the United Kingdom. In Belgium, Dutch-speaking Flanders in the north is eager to break away from French-speaking Wallonia in the south.

Spain, having fought off a separatist movement in its Basque region, now faces a more potent threat from Catalonia on its Mediterranean coast, centered in the city of Barcelona. Even though the Catalans are already politically autonomous, they want out from Madrid's control to become a free nation.

The one place where change is definitely not on the horizon is the Russian Federation, where President Vladimir Putin puts down would-be defections with maximum force. That is particularly the case in Chechnya and Dagestan, both part of Russia's North Caucasus region where the Winter Olympics will be held.

IMPLICATIONS FOR BUSINESS: Despite events in South Sudan, the rule is that newly independent nations tend to be more democratic than the countries they break away from. That could be significant in considering investments and business deals.

THE GREENING OF GERMANY

Chancellor Angela Merkel, the only leader of an industrial democracy other than President Barack Obama to be re-elected in the wake of the financial crisis, will likely be spending a great deal of political capital in 2014.

The German leader is making a big bet on a successful, non-inflationary transition to renewable energy. Countries around the world will be watching to see if her gamble pays off.

Up until 2011, nuclear power accounted for about 25 percent of German energy. The earthquake and tsunami at the Fukushima Daiichi plant in Japan so soured the German public on atomic energy that Mrs. Merkel immediately closed the country's eight oldest reactors.

The Germans had been planning to phase out nuclear over an extended period, but the Japanese disaster prompted Merkel to speed up the process by about 10 years. The Chancellor has launched Germany on an ambitious – some might say impractical – shift to renewable energy.

Currently, Germany gets 23 percent of its energy from renewables, including offshore wind farms. If all goes according to plan, by 2050 that figure will jump to 80 percent.

The shift is not sitting well with German industry or the utility companies that traditionally have supplied much of the power. They say that surging energy prices are threatening jobs and investments, and cost companies about 30 million euros a day.

Profits at E.On, the largest German utility, and rival RWE have plummeted in the wake of the reactor closings. (The two companies owned most of the nuclear plants Merkel shut down.)

And to encourage investment in renewables, the German government has lavished subsidies on clean energy developers financed by consumers and companies that have to pay surcharges on their power bills. In 2014, the average household will spend about \$300 to support renewables. Overall, the shift to clean power could cost Germany more than \$750 billion. Analysts say that 2014 will be a pivotal year for the program. The challenge: expand renewables while making sure energy prices don't go through the roof.

The government claims it can pull this off. Already, more than 22,000 windmills are in operation and some 1.3 million solar panels have been installed on rooftops from Bavaria to the Chancellery in Berlin.

In what some saw as a stunning personal victory, in September Mrs. Merkel was returned to office for a third four-year term by German voters.

IMPLICATIONS FOR BUSINESS: In the short term, there is good news for coal companies looking to export to Germany. But if Germany and the Eurozone take the lead in advancing climate change reforms, that could be bad news for the U.S. and for American business.

SYRIA: STALEMATED AND EXHAUSTED

War-torn, long-suffering Syria remains a muddle. After more than two-and-a-half years of fierce civil war, this once proud Middle East nation seems exhausted; death and destruction are everywhere. Well over 100,000 lives have been lost; millions of refugees have been created; its economy has been shattered; and the devastation of war wreckage meets the eye wherever one looks.

Syria has paid a heavy price in a seemingly endless, indecisive, and brutal conflict that initially pitted moderate, democratic forces (largely Sunni) against a dictatorial president, Bashar al-Assad, and his Alawite followers, who are related to the Shiites. Today, however, the competing sides are fragmented. Rebel fighters have been infiltrated by a veritable army of militant jihadists who, it now appears, have even taken the lead in battling the regime.

This has stayed the hands of the U.S. and Western powers in providing the rebels, known as the Syrian National Coalition, with more direct military aid. A few influential observers, including the former American ambassador to Syria and Iraq, Ryan Crocker, have advocated making common cause with Assad against the Islamic jihadists fighting with the rebels. That poses a serious dilemma – especially for the U.S. Even some humanitarian aid has been cancelled when it was discovered that food and medical supplies were falling into the hands of the terrorists/jihadists fighting the Assad forces.

Obama Will Decide

President Obama has been, and will continue to be, the principal Western decision-maker dealing with the Syrian crisis. Obama is not an ideologue or a pacifist. He is essentially a pragmatist, who recognizes the horrific human costs of war. He also senses that the American public is now very war-weary, as most polls show. That may explain why the U.S. did not intervene early in the conflict when it might have made a difference. At this juncture, though military supplies from the U.S. are still coming in, any direct intervention could probably cause more deaths and destruction and might even bolster the jihadists.

Obama's mind-set probably also explains why he significantly stepped up the use of drones in the broader struggle against terrorists instead of ordering American boots on the ground, placing them in harm's way. The death toll of American servicemen and women in Iraq and Afghanistan has now reached more than 6,500, while more than 30,000 have been seriously wounded.

Obama appears to instinctively favor diplomacy. As a United States senator, he voted against going to war in Iraq – a war he eventually ended. And he is winding down this nation's commitment in Afghanistan where all combat troops are now slated to be withdrawn by the close of 2014.

Meanwhile, use of chemical weapons by Assad's army last year almost forced Obama into direct military intervention, as long advocated by Sen. John McCain and others in Congress, but which the American people overwhelmingly opposed. Russia, then a close ally of Assad, played a central role in implementing a plan calling for the disposal of Syria's entire chemical weapons arsenal under U.N. inspection. In this instance, diplomacy worked, but it had to be supported by a credible threat to use force if necessary.

Going forward, Russia, which has its own terrorism problems, will be a key player in determining the future of Syria. Still, it is always dangerous to forecast almost anything in the turbulent Middle East these days. In the end, there may be neither victors or vanquished on either side.

IMPLICATIONS FOR BUSINESS: Any lessening of violence in the Middle East and restoration of peace, however fragile, must be viewed as a positive for business and investment. Re-building Syria will be a challenging task, to say the least.

AFGHANISTAN: THE END MAY BE IN SIGHT

The conflict in Afghanistan – this nation's longest war, which began in October of 2001 – will, technically, be concluded by the end of this year when all U.S. combat troops are scheduled to leave.

However, any final agreement with the Afghanistan government is being blocked by President Hamid Karzai. According to the terms of the proposed accord, the U.S. will keep 8,000 to 12,000 troops in Afghanistan for up to ten years to protect its interests there; to train the Afghan army; and also have the option of maintaining as many as nine military bases across the country.

Karzai objects to a provision of the agreement that immunizes American soldiers from Afghan law for alleged criminal acts. He also insists that Washington begin peace talks with the Taliban. Earlier, in fact, a council of Afghan tribal leaders, clerics, and national and local officials called by Karzai had approved the pact.

Arrogant by nature and steeped in surrounding corruption, Karzai has always been something of a problem to his American allies. He has continually raised objections to U.S. Special Forces raiding Afghan homes with the attendant loss of civilian lives. Nonetheless, despite additional objections from progressives here at home, who urge complete withdrawal, President Obama will prevail and see that his pledge to remove all American combat troops by the end of 2014 is fulfilled. The U.S. has paid a huge price in blood (over 2,000 military dead) and treasure (countless billions) to defeat al-Qaeda in Afghanistan and battle the insurgent Taliban. Those billions did build hundreds of schools and raise the status of Afghan women who now attend them. Yet, the Taliban opposition forces remain far from subdued to this day.

The Administration had hoped to make a similar deal in 2011 with Iraq to maintain a limited military force there, but Prime Minister Nouri al-Maliki would not yield on this issue and all U.S. troops were ultimately removed. Today, Iraq is once again the scene of destructive Shiite/Sunni rivalry and a resurgent al-Qaeda. The death toll last year ran into the thousands.

Maliki, who has repeatedly purged Sunnis from his Shiite-led government, may now regret his decision about American troops in the wake of the recent resurgence of major Shiite/Sunni conflict at home, leading to the takeover of the key city of Falluja and parts of Ramadi by al-Qaeda-linked Sunni forces. What is happening in Iraq today could likely influence any decisions about details of the Afghan withdrawal.

IMPLICATIONS FOR BUSINESS: The presence of some American troops may help stabilize Afghanistan, but there is little doubt that the Taliban will continue to control certain regions of this beleaguered nation. A peaceful Afghanistan is obviously a better place to do business, but some kind of diplomatic solution between the Afghan government and the Taliban, brokered by the U.S., would seem to be called for to assure a genuine end to hostilities.

DID YOU KNOW?

According to the latest figures certified from the U.S. Census Bureau, there are now an estimated 425,000 Americans who have reached the age of 95 or older. One of the most notable of these seniors is Irving Kahn, who marked his 108th birthday on December 19, 2013, and who is still professionally active as chairman of the Kahn Brothers Group, a privately-held investment advisory and broker-dealer firm.

PAKISTAN: WHAT'S REAL, WHAT'S RHETORIC?

U.S./Pakistan relations have been problematic ever since that Muslim nation broke off from India and became independent – especially as Pakistan is one of the few countries in the world that possess nuclear weapons. America has a vital interest in seeing to it that this nuclear weapons capability is safe and secure. Our strong ties with neighboring India, Pakistan's historic enemy, have also been an ongoing source of friction and contention.

More recently, however, the issue of drones employed in Pakistan air space and other alleged violations of that nation's sovereignty have, on the surface, strained relations between Pakistan and the U.S. To date, at least 300 strikes into Pakistani air space have been made by unmanned drones seeking to kill al-Qaeda and Taliban leaders. Collateral damage – meaning innocent civilians also killed – has inevitably angered the Pakistani public. Even when a strike recently took out the head of the Pakistani Taliban, high-ranking officials there, including the minister of interior, denounced the action.

Government officials and the Pakistani people also protested vigorously after American forces killed Osama bin Laden in a secret raid on a safe house where he had been living for years. only miles away from Pakistan's major military academy.

Polling Pakistanis

A Pew Research Center poll taken his past summer found that the vast majority of Pakistanis dislike and fear America. A Gallop poll here at about the same time showed that most Americans view Pakistan, along with North Korea and Iran, as a real or potential enemy.

Yet much of this apparent ill will is facade designed to appease popular sentiment in both countries. Pakistan remains an essential ally in the struggle against terrorism and the Taliban in that country and in Afghanistan. It was absolutely critical for the U.S. military to have unfettered access to Pakistan to keep vital supplies flowing into bordering Afghanistan. Pakistani citizens see an almost endless fleet of trucks, mostly outsourced to private contractors, delivering supplies to Afghanistan every day.

In return, Pakistan continues to receive billions in aid from the U.S. Whatever differences are reflected in public statements, the sometimes shaky alliance between both nations is the reality, not the belligerent rhetoric often heard, because it serves each one of the parties' purposes. Typically, both nations are aligned against the Taliban, which has been steadily increasing its attacks against the Pakistani military. Also, with the approaching withdrawal of U.S. combat troops from Afghanistan, Pakistan will be playing a greater role than ever in maintaining stability in the region.

IMPLICATIONS FOR BUSINESS: Alliances with countries that share geo-political goals with the U.S. are always a plus for business and investment.

IRAN: SOME LIGHT COMING THROUGH

No Trend Report would be complete without some commentary on Iran, whose enmity with the U.S. goes back to the cleric-led revolution of 1979 that brought down the Shah and established an Islamic republic. We have written at length over the years about this troublesome Middle East nation.

Today's hot-button issue is, of course, the ongoing Iranian project to build what could turn out to be a nuclear warhead rather than what Iran insists is a peaceful nuclear energy capability. The U.S. has, nonetheless, stated repeatedly that Iran's possession of even a single nuclear bomb is "unacceptable" and it will take any necessary action to ensure that such a development never happens.

As we write, the frayed U.S. relations with this still-powerful, non-Arabic, Muslim nation may have reached something of an inflection point thanks to the ascension of a more moderate national leader in Hassan Roshani, replacing the fiery, extremist Ahmadinejad, and, more critically, Iran's new interim six-month agreement with the U.S. and the West, to halt uranium enrichment to weapons grade under direct U.N. supervision and inspection.

In return, some of the very harsh sanctions imposed on Iran's battered economy have been temporarily lifted. Skeptics both here and abroad have raised doubts about the pact, arguing that Iran will begin enriching uranium again as soon as the agreement expires.

That may be so, but the agreement, however minimal, would seem to be a small step in the right direction. Any effort to constrain Iran diplomatically (and peacefully,) before resorting to a military solution, should be encouraged and supported.

IMPLICATIONS FOR BUSINESS: A relaxation of tensions with Iran, one of the largest and most populous countries in the Middle East, will be a positive for business and investment.

QATAR: SMALL, BUT INFLUENTIAL

The nation of Qatar is quite small in territory and population (two million), but extremely wealthy from vast energy resources, with a per capita income near \$100,000. Of that two million, however, only some 240,000 are citizens, who, incidentally, do not pay any taxes. The overwhelming majority of the population is made up of immigrant workers from Asia and Africa, enjoying no rights of Qatar citizenry.

Qatar is, in fact, an increasingly important player on the Middle East stage. Americans know about this tiny nation on the northeastern Arabian Peninsula bordering Saudi Arabia because it is the underwriter and headquarters of Al- Jazeera, probably the most influential media outlet in the Middle East as well as the newest U.S.-based cable news channel.

Qatar has also captured attention here for its big-bucks promotion drive on behalf of Qatar Airways and as a home to many prestigious U.S. universities such as Cornell, Georgetown and Carnegie-Mellon, which have all established thriving campuses in the country.

Socially cohesive and politically stable with little or no sectarian violence, this former British protectorate is also an absolute monarchy featuring a maze of contradictions that combine modernity with ancient ways, ruled by an emir and a small circle of advisors. Its capital city, Doha, overflowing with luxury shops, looks to many like a massive construction site these days thanks to a forest of high-rise towers, built and being built.

Qatar now exercises considerable clout in Middle East affairs far beyond neighboring Arabic states such as Bahrain and Kuwait. Free of Sunni-Shiite conflict and otherwise peaceful, the country represents a strongly moderate voice in the region.

First, and perhaps foremost, it is an integral part of the U.S. security umbrella in the Middle East and Persian Gulf. A neutral nation, it has also been able to act as a referee between opposing Arab states and a conduit for back-channel negotiations between the U.S. and the Taliban – roles that are vital to the ultimate achievement of regional stability.

IMPLICATIONS FOR BUSINESS: Based on the prodigious wealth of this nation and its individual citizenry, Qatar continues to be a prime target for investor dollars.

RUSSIA: NEITHER FRIEND NOR FOE, BUT NOT A THREAT

During President Obama's first term in office, while Dmitry Medvedev was still president of the Russian Federation, the concept that came to be known as “reset” guided Russian/U.S. relations. Those relations deteriorated after Vladimir Putin captured the office for a third term. Putin is hard-nosed, tough, a resolute, passionate Russian nationalist, and someone who does not accommodate others easily. He often speaks nostalgically about restoring the old Soviet Union.

Since Putin's return to often absolute power, there have been a few positive developments and several negative ones. Russian relations with this country have been undermined by a series of troubling events including the recent Ukraine crisis, the anti-gay climate surrounding the upcoming Winter Olympics, the NSA/Snowden affair, the pending U.S. withdrawal from Afghanistan, the ban on adoptions of Russian orphans by Americans, clashing responses to the Arab Spring, and numerous vetoes on the U.N. Security Council. There is also the long-simmering issue of NATO anti-missile installations along Russia's European border. In sum, a rather formidable roster of disturbing disputes.

On the positive side, Russia played a crucial role in resolving the Syrian chemical weapons crisis; has been cooperating fully in the global "war on terrorism"; released Mikhail Khodorsky from prison after 10 years; and, as one of the world's largest producers of oil and natural gas, has worked hard to keep channels open to all existing and potential customers. Putin even subscribed to a number of democratic values in a special op-ed piece that ran under his name not long ago in *The New York Times*. A prime Putin concern right now is providing absolute security at the 2014 Winter Olympics that get underway in Sochi next month. Finally, Russia is a valuable ally with the U.S. in its war against terrorism, as noted elsewhere in this Report.

That said, the negative developments might seem to outweigh the encouraging signs. True, today's Russian Federation can be unpredictable, unsettling, and often arbitrary, but it is also fundamentally unthreatening to U.S. interests and occasionally collaborative – this despite a few unreconstructed Cold Warriors in the media and U.S. government who are still fighting that battle.

IMPLICATIONS FOR BUSINESS: Good relations with Russia are good for American business, which already has major investments in that country. With its large population, Russia is also an important market for the world's goods and services.

JAPAN CLIMBS OFF THE MAT

Japan, as the world's third-largest economy and America's most important ally in Asia, is an essential catalyst for Asian growth and global prosperity. It will remain one of the most important economies in 2014, and after nearly two decades of stagnation, the current outlook appears encouraging.

Seven Signs of Promise From 2013

- Japanese shares closed 2013 at a 57 percent annual gain for the strongest showing since 1973.
- The yen weakened against the dollar, boosting Japanese exports for nine consecutive months to November 2013. Much of this gain was in auto exports to the U.S. and China.
- Topix market shares rose in December beyond the important 1,300 mark for the first time since August 2008
- The Japanese Government set in motion a 18.6 trillion yen (\$182 billion) stimulus package in December that includes 5.5 trillion aimed at offsetting a planned consumer tax hike.
- With a CPI rise of 0.3 percent in October, the hope of exiting deflation is showing signs of promise.

- M&A activity picked up, including deals such as Tokyo Electron's \$6.8 billion merger with Applied Materials and Sumitomo Mitsui Financial Group's acquisition of the U.S. railcar leasing business Perella Weinberg Partners LP for a price estimated at between \$290 and \$490 million.
- The economy grew by about 3 percent in the second half of 2013, one of the fastest growth rates among the developed nations.

Seven Issues to Watch in 2014

- A consumption tax hike planned for April could take in about 8 trillion yen. The increase is a central part of the "Abenomics" overhaul of the economy, and the hope is that the government spending that accompanies it will offset any drag on the economy. A similar tax rise had a negative effect in 1997.
- A corporate tax rate cut to 35.64 percent from 38.01 percent. The expectation is that the tax relief will translate into greater capital spending and wage hikes for workers that in turn will lead to increased consumption.
- The potential for equity markets to remain strong: Japanese stocks on the Nikkei trade at 1.5 times book value, which is about a 40 percent discount to the U.S. stock market.
- Progress in the Trans-Pacific Partnership (TPP). If Prime Minister Shinzo Abe can get the powerful farm lobby to go along, completion of the three-year-old negotiations could help grow the economy.
- An increase in M&As throughout Asia. Japanese firms, which were left relatively unscathed by the financial crisis, have pushed into global markets in finance, manufacturing and technology. Japanese banks especially have been buying assets overseas in their search for growth beyond domestic shores.
- The 2020 Summer Olympics, which will be held in Japan. Infrastructure spending for the Games should give the domestic economy a further boost.

- An expected focus on strategic sectors: 1) Energy – Japan is the world’s largest importer of liquefied natural gas. 2) Agriculture, forestry and fisheries – Asian markets beckon. 3) Transportation and logistics – Japan’s advanced technologies can satisfy the latent demand in developed and developing nations.

Three Challenges

- Japan’s ability to power economic growth with a viable energy policy in the shadow of the 2011 Fukushima nuclear disaster is still an open question.
- So too is the ability of Japan to respond to competition from China and South Korea. Huawei telecommunications equipment, Samsung electronics and Hyundai automobiles may matter more to global consumers than Softbank, SONY or Honda.
- Issues like Japan’s World War II legacy and territorial disputes may take leaders’ focus away from critical economic issues.

IMPLICATIONS FOR BUSINESS: Seen in the context of two decades of malaise, Japan’s economic reemergence in 2013 is a tribute to Prime Minister Abe’s economic reforms. Despite the geo-political and security issues making the headlines, the present trajectory gives rise to cautious optimism for a bullish 2014.

DID YOU KNOW?

The average U.S. four-year college graduate now holds \$28,000 in student loan debt upon graduation.

THE “NEW POWER”: PIPE DREAM OR THE NEXT BIG THING?

Just before the millennium it was the “New Economics” – until people realized that the old laws of economics had not been repealed. Dot.com stocks crashed, wiping out \$5 trillion in market value.

Now, perhaps on the cusp of wider public notice, is the “New Power” – nothing to do with energy, but rather a concept that focuses on how collaborative organizations boosted by advancing technology might replace traditional power-wielding structures in society and the economy.

Rather than “just a digitally enhanced version of yesterday,” a paper by Jeremy Heimans, Co-Founder & CEO of Purpose – “a revolutionary social business that builds movements driven by people and enabled by technology,” and Henry Timms, Deputy Executive Director of New York City’s 92nd Street Y – calls the “New Power” a “more human transformation ... one driven by a growing tension between two distinct forces – old power and new power.”

While the Old Power “is held by few” and “is closed, inaccessible and leader-driven,” the “New Power,” it says, “works like a current ... It is open, participatory and peer-driven.”

Airbnb Thriving

As a “New Power” example, the paper notes that Airbnb, a six-year-old technology start-up, is expected to become the world’s largest provider of short-term accommodations, surpassing global hoteliers like Hilton, Intercontinental and Marriott. It also cites the crowd-funding platform Kickstarter, which passed the National Endowment of the Arts as a funder of U.S. cultural project just three years after being launched.

Will the “New Power” replace traditional hierarchical structures with collaborative, participatory management? Can a ship at sea reach port without a captain commanding the crew?

That remains to be seen. But it is worth noting that some of the “New Economics” notions from the dot.com era have survived. Consider the ability of social networks to amass as many as a billion followers. If those networks can be monetized – as Facebook and Twitter appear to be doing – then they will replace abstract theory with tangible value.

Who is to say that the “New Power” may not be able to do the same?

IMPLICATIONS FOR BUSINESS: Established and old-school businesses have to be continually on guard against a start-up that will challenge or even replace their business model. Organic innovation remains critical, but companies need to be ready to buy what they cannot build themselves. Time to implementation is shrinking, and so is time to obsolescence.

INCOME DISPARITY STOKES SERIOUS PUBLIC RESENTMENT

A Pew Research Center survey in late 2012 found that about two-thirds of the public, 66 percent, believes there are “very strong” or “strong” conflicts between the rich and the poor – an increase of 19 percentage points since 2009.

This conflict ranks ahead of three other sources of group tensions – between immigrants and the native born; between blacks and whites; and between young and old.

In a major address on the economy in early December, President Obama said this divide between the nation’s very rich and the poor threatens to undermine the American way of life. The wide disparity, he said poses a “fundamental threat” to the American dream.

A UC Berkley report last September found that the top 10 percent of earners – those with household income above \$114,000 – collected more than half the nation’s total income in 2012, the largest proportion since the government started gathering such data in 1917.

In November, Bill de Blasio won the New York City mayoral race by the largest margin for a non-incumbent in the city’s history, due in large part to his “tale of two cities” message about income inequality. Many believe resentment among the poor and middle classes for the rich drove them to vote for the candidate they felt would represent their interests.

This same view that they are being squeezed out by an economy that caters to the wealthiest sparked the "Occupy Wall Street" movement.

IMPLICATIONS FOR BUSINESS: The perception of income disparity and resulting resentment may influence the choice of candidates in the 2014 and 2016 elections. Mirroring the de Blasio mayoral victory, Democrats may be perceived as more attentive to the "99 percent." Resulting legislation and policies could have a detrimental effect on American business as we know it.

YOUTH UNEMPLOYMENT

Starting with the good news, youth unemployment in the United States is decreasing in proportion with overall unemployment numbers.

Looking back to January 2010, just under four million 16-24 year olds were unemployed. At the beginning of 2013, that number had fallen to just above 3.6 million. And as of November 2013, youth unemployment was under three million. Still, if one stretches the age boundaries from 16 to 24, the jobless rate remains quite high—15 percent, or more than twice the overall national unemployment rate.

Today, many young people are experiencing financial hardship due to accrued debt, often sparked by the cost of education. They have taken loans to pay for college and then failed to find jobs after graduation that allow them to service the debt, significantly affecting their financial future.

IMPLICATIONS FOR BUSINESS: With currently limited opportunities and spending power, young people are going to continue to force changes in current social and economic norms. In addition, expect the feelings and emotions from the past few years to have a continued effect on their spending habits and behaviors.

Technology is allowing some young entrepreneurs to exploit opportunities that were previously inaccessible to individuals or smaller companies. Funding mechanisms like KickStarter Inc. and Indiegogo Inc. have given young people the power to design and produce successful products and services. This is still a small movement, but it is growing and providing job opportunities for the younger generation.

METHANE HYDRATE: GAME-CHANGER OR GAME OVER?

It's found in almost inaccessible places: in the permafrost and thousands of feet beneath the ocean floor.

And yet it is thought to be the biggest energy source ever. It's called methane hydrate – bubbles of natural gas frozen into crystals sometimes known as “fire ice” or “flammable ice.”

Some call it a “game-changer” that “could potentially add significantly to the world’s gas supplies and transform the global gas market and its trade flows.”

Others call it “game over,” claiming, “If methane hydrates begin to get tapped en masse, our shrinking hopes of curbing climate change are gone.”

In fact, safety, logistical, and environmental issues do make methane hydrate very difficult to extract and highly controversial. Methane hydrate is unstable when removed from the high pressure and low temperatures of the deep sea, it begins to escape. Drilling can destabilize the seabed, some geologists contend, causing huge landslides of sediment that could result in massive tsunamis.

Skeptical Scientists

Some scientists are convinced that extracting methane hydrate would intensify global warming. “In the absence of climate-change mitigation measures. . . [extracting methane hydrate] would increase mean global climate impacts by \$60 trillion,” a Cambridge University scientist claimed.

Nevertheless, efforts to tap into the huge potential of this energy source are going forward, especially in Japan, where the cost of a British thermal unit of natural gas is \$16, four times as much as in the U.S. India, and China are interested, as well, and both countries have reported massive discoveries of methane hydrate deposits off their coasts.

This growing interest has not been lost on the U.S, which has teamed with Japan to dip its toe into the methane hydrate waters. While tests did recover natural gas from the North Slope deposits, ConocoPhillips cautioned: “The present technology does not exist to produce natural gas economically from hydrates.”

Still, in the fall of 2013, Japan asked the U.S. to move forward on the two countries' bilateral agreement to cooperate on methane hydrate development, and the Department of Energy has funded further research.

IMPLICATIONS FOR BUSINESS: While it's fair to say methane hydrate development is in its infancy, it is a trend business people will want to watch. The U.S. is moving towards energy independence through domestic oil and natural gas production, but experience shows the energy field is full of surprises, and methane hydrate might offer future opportunities for investment or as an energy source.

DID YOU KNOW?

Currently, the U.S. minimum wage is lower in inflation-adjusted terms than it was in 1956.

SOUTH OF THE BORDER: THE NEW MAGNET FOR AMERICAN RETIREES

That Americans have been moving to the "Sun Belt" has been a demographic fact for many decades. Texas and Florida are today the nation's second and fourth largest states with a combined population of some 46 million.

But another, lesser-recognized trend by American citizens, mostly retired Baby Boomers, is south of the border to Mexico, Costa Rica, Panama, Guatemala, and other Central American nations, and even South America – particularly, Columbia. Adapting the new cultures and customs is evidently proving quite doable for many Americans.

Some are "snowbirds." Substantial numbers of older folk from northern states have been choosing to move to Latin America for a few months every year as an inexpensive alternative to Florida to escape the cold weather.

Mexico says that over one million U.S. expats are now living in that nation – three times the total that resided there in 2000. Some Latin-American countries are, aggressively seeking to lure U.S. migrants with attractive incentives.

Factors such as much warmer climates should not be discounted, though the reasons for this latter-day exodus are largely economic. For example, Americans of middle-class status, who could never afford even a single servant back home, are able to hire needed help in many Latin-American lands.

U.S. citizens living outside of the country or its territories are not eligible for Medicare benefits. To compensate, their Social Security checks eliminate the usual deductions for Medicare. Substantially lower living and health care outlays are big magnets.

American retirees still receive their Social Security and 401(k) monthly payouts, but they can stretch them much farther.

IMPLICATIONS FOR BUSINESS: Expatriates can still, and often do, make major online and phone purchases from U.S. suppliers of selected goods.

DID YOU KNOW?

*U.S. annual charitable giving is over \$300 billion,
twice that of the next closest nation (the U.K.)*

WHAT IS HAPPENING TO INNOVATION?

To compete in today's lightning-speed business climate, large businesses will have to start thinking small. Not small in terms of *vision*, but small in terms of the entrepreneurial mindsets and practices that facilitate both innovative thought and the execution of innovative ideas.

Many large companies have lost sight of their entrepreneurial roots. They have grown complacent with their successes and, as they grew, bloated themselves with layers of management and cumbersome approvals procedures. Small, entrepreneurial companies, on the other hand, are often in a constant battle for survival and act accordingly.

A recent study identified four key areas where small businesses enjoy advantages over more established ones: necessity, opportunity, ingenuity and agility. In essence, smaller, entrepreneurial companies have no choice but to be innovative.

Does this mean it is impossible for large businesses to be innovative? Not at all. While many large businesses accomplish innovation through acquisitions, others have taken affirmative steps to get innovation back into their DNA.

Google's "intrapreneur" program creates hundreds of small startups within the company. Employees are encouraged to spend 20 percent of their time on projects that interest them personally. These initiatives have resulted in some of Google's most successful initiatives including Google News and Gmail.

PricewaterhouseCoopers launched "PowerPitch," a firm-wide contest to produce ideas for a new line or a radical rethinking of an existing service. The initiative, involving 800 teams, resulted in 2,500 unique ideas of which 300 have been identified for implementation and 72 have been put in place.

General Electric's Commercial Council requires senior marketing and sales executives to submit at least three "Imagination Breakthroughs" a year, thus making innovation part of one's job description.

Many companies now invite innovators to speak to their executives and managers and even support "entrepreneur in residence" programs. And some large companies are changing the way they hire. Where in the past entrepreneurial candidates were seen as quirky or difficult, innovative companies now see them as critical to their future success.

IMPLICATIONS FOR BUSINESS: It is only by creating an atmosphere that allows for, accepts, and even embraces failure that businesses will spur real innovation. Executives must institutionalize innovation, creating both the mechanisms that facilitate innovation and the personnel policies that encourage and reward risk-taking.

BIG DATA

“Big Data” has been around for a while, but wasn’t fully on the public’s radar until the National Security Agency’s massive campaign of surveillance and data mining dominated the headlines in the wake of the Snowden revelations.

“Big Data” refers to the volume, velocity and variety of information being generated every second of every day. Sources include mobile devices, web behavior and transactions, social media, and devices equipped with sensors.

Hidden in this data are nuggets that can give businesses a huge competitive advantage. Big Data allows for highly personalized segmentation of customers and much more precisely tailored products, services, or marketing.

Ads we see on the Internet are based on sites we have previously visited. Amazon uses Big Data to suggest book purchases; LinkedIn it for “People You May Know.” Credit card companies use Big Data to detect fraudulent purchases.

More Data Coming

Today’s technologies for data collection, segmentation, and analysis are far beyond anything we have had in the past, and we can expect real strides this year as a great deal of attention is paid to developing new and better data-related technologies.

Last year, an estimated \$3.6 billion was injected into startups such as Palantir, MongoDB, and Hortonworks focused on Big Data. Acquisitions of Big Data companies also were common. Google, Apple, Wal-Mart, Facebook and IBM all bought companies that specialize in Big Data analysis.

While Big Data technology has provided unprecedented access to information, most businesses lack the resources to turn that data into actionable insights.

There is an enormous shortage of top-tier data scientists. McKinsey says the U.S. has a shortage of 140,000 to 190,000 people with the necessary analytical experience and another 1.5 million with the skill sets to make business decisions based on such data.

The other huge issue is security. As the recent data breach at Target illustrates, without proper security measures in place, Big Data can create more harm than good.

IMPLICATIONS FOR BUSINESS: While many businesses collect as much data as they can, businesses need to become more sophisticated in how they analyze and utilize it. Companies that best take advantage of Big Data in the coming years will be the ones that enjoy the most explosive growth.

COMMUNITY COLLEGES AND THE MANUFACTURING SECTOR

Revitalizing the U.S. manufacturing industry is vital to the Country's economic growth, especially as making things in this Country becomes more competitive with lower-cost regions of the world. But 82 percent of U.S. manufacturers report a moderate to serious "skills gap," and 74 percent have determined that this skills gap has negatively impacted their company's ability to expand operations.

Even more alarming, an estimated 2.7 million U.S. manufacturing employees, nearly a fourth of the total, are 55 or older. Unless there are skilled workers available to replace those retiring, the jobs may be shipped overseas.

America's community colleges are on the front lines in solving these issues, using a set of industry-recognized credentials to create certification programs to train students for jobs as varied as the manufacturing of orthopedic devices to repairing wind turbines. The cost of tuition is low for programs that require less than a year – around \$5,000 – and many students are eligible for Pell Grants, which covers most of their expenses. While it is not a college degree, certification can lead to immediate employment at a manufacturing job with a starting salary around \$45,000.

In addition, manufacturers have created partnerships with community colleges to train their future workforce. Siemens developed the Design Technology Program associate's degree at Iowa Western Community College providing students with the skills to "effectively translate ideas from inventors, engineers, planners and designers into visual graphic form."

At Ivy Tech in Indiana, a unique Advanced Manufacturing co-op program provides students with valuable on-the job experience with some of Indiana's top manufacturing and logistics companies working as interns two days a week. When they complete their degree, many of these students get jobs at companies where they served their internship.

Community colleges, particularly those like Norwalk Community College in a corporate center such as Fairfield County, Connecticut, are known for being flexible and willing to work closely with local businesses. Their faculty is often also employed by local manufacturers so they know firsthand how to prepare students for jobs. These schools are in the vanguard of insuring that well-paying manufacturing jobs stay in the community.

IMPLICATIONS FOR BUSINESS: Before making a decision to close a plant or ship jobs overseas, manufacturers should look for a solution in their own backyard. Community colleges have demonstrated that they are a resource for local business – a resource that can move rapidly to create customized curricula that will train both present and future employees.

THERE IS SOME GOOD NEWS IN THE FIGHT AGAINST GLOBAL POVERTY

In 1990, 43 percent of the population of developing countries lived in extreme poverty, or 1.9 billion people living on \$1 a day or less. By 2010, that number had been cut by half to 21 percent, or 1.2 billion, living on \$1.25 a day or less,.

The reductions have led to an ambitious goal by the World Bank to reduce poverty further to 9 percent by 2020, the first time it would have ever fallen to single digits, and complete elimination of all such poverty by 2030.

A recent U.N. report found that the most impoverished countries in the world could see poverty eradicated within 20 years if they continue at current rates and that “the world is seeing an epochal global rebalancing with higher growth in at least 40 poor countries, helping lift hundreds of millions out of poverty and into a new global middle class. Never in history have the living conditions and prospects of so many people changed so dramatically and so fast.”

Among the top performers in the U.N.-Oxford study were Rwanda, Nepal, and Bangladesh, while close behind with reductions in poverty levels were Ghana, Tanzania, Cambodia, and Bolivia.

IMPLICATIONS FOR BUSINESS: The rapid movement of hundreds of millions of people into a more middle-class life in the developing world presents great opportunities for business. However, continued progress depends on policies that sustain strong growth and limit corruption and income inequality in those countries. And the developed world needs to continue to explore how it can help to bring its own extreme poor into the mainstream.

ENDING THE DOUBLE-BIND PARADOX FOR WOMEN

There are two categories of human behaviors that are especially important to all leaders: warmth (empathy, likeability, caring) and authority (power, credibility, status). “Warm” leaders relate in a way that makes their teams want to do a good job *because of* that personal connection, affection, and respect. But followers also look for leaders who project power, stability, and authority; who make them feel secure, and who they believe can follow through and achieve results.

As males rise in rank and status at work, they retain (and often increase) their perceived likeability so they can be both powerful and likeable. The Double-Bind Paradox states that women must project authority in order to advance in the business world, but when they do, they are too often seen as less likeable.

Blame it on the stereotypes we hold of women as nurturing, sensitive and collaborative. When they behave this way they are liked, though not seen as especially powerful. When they exude power and authority, they are perceived more negatively. A frequently cited Stanford study shows that when a highly assertive and successful leader is described to grad students (of both genders), that leader is seen as far more appealing if she’s given a male name instead of a female one.

Another, more encouraging study found that businesswomen who are assertive and confident, but who can turn these traits on and off, depending on the social circumstances, get more promotions than either men or other women. This suggests the most successful women have a strategic ability to read a situation and alter their behavior accordingly.

IMPLICATIONS FOR BUSINESS: The best strategy for organizations that want to increase the number of females in the boardroom – and one that may signal the end of the Double-Bind Paradox – is to coach emerging women leaders to display competence and power signals when the situation requires it, and to be seen as more empathetic and inclusive when it is more effective to do so. The recent appointments of women to head the all-powerful Federal Reserve System and as CEO of General Motors suggest progress is being made, if only marginally.

MILLENNIALS WILL HAVE A PROFOUND IMPACT ON CORPORATE PHILANTHROPY

2013 marked a shift in corporate philanthropy.

The year's largest corporate gift came from Facebook founder Mark Zuckerberg and his wife, Priscilla Chan – 18 million shares of Facebook stock with an estimated value of \$990 million to the Silicon Valley Community Foundation, which provides grants to education, immigration and other community needs in Northern California. It was the first time that donors under the age of 30 have made the nation's largest philanthropic gift.

According to the Pew Research Center, Millennials, young people between 18 and 29, are far more likely than older people to describe themselves as liberals, believe that improving the position of women and minorities is important even if it means giving them preferential treatment, and are more tolerant of immigrants. 57 percent said that they had volunteered in the past 12 months.

How will the ideals of the Millennials impact on corporate philanthropy? As these young people take on more influential positions in American business they will bring beliefs about social responsibility with them. Expect them to question supporting prestigious institutions of higher education that already have large endowments. Anticipate a shift away from large organizations like the United Way and the American Cancer Society to more grassroots charities such as community groups. Rather than giving money to established opera and orchestra companies, expect them to support causes that help women and minorities.

The Millennials will be more hands-on with their philanthropy. They will demand accountability and will create the tools to measure what impact corporate philanthropy has on solving a problem, whether it is raising educational test scores or saving wildlife. They will also rely on social media to call attention to causes they believe in and enlist the support of others.

They may signal the end of the line for traditional philanthropy and the beginning of a more inclusive philosophy of corporate giving.

IMPLICATIONS FOR BUSINESS: Corporations may want to bring the Millennial into the decision-making process when choosing which nonprofits to support, whether with monetary gifts or pro bono help.

DID YOU KNOW?

There are now 230 million people living outside their countries of birth, and more than 700 million migrate within their countries.

Remittances from expatriates to people in developing countries are expected to reach \$414 billion this year, up more than 6 percent from in 2013.

Remittances sent home by migrants to developing countries comprise more than three times the amount of official, government-funded development assistance.

THE THREAT OF GLOBAL ANTIBIOTIC RESISTANCE

Until the widespread introduction of penicillin and other antibiotics beginning in the mid-20th century, infectious diseases were the leading cause of death worldwide. With the advent of antibiotics, most bacterial infections became easily treatable. This allowed routine surgery to become much safer, and treatments such as chemotherapy for cancer and immune suppression following transplant to become feasible.

"The spread of antibiotic-resistant bacteria should be of concern to everyone in the world, especially in the West where medical advances have outpaced the rest of the world," according to Dr. Clive Meanwell, a widely-recognized expert on this topic.

The major pharmaceutical firms have successfully discovered a stream of effective new agents to combat the problem of drug resistance even as regulatory authorities in the U.S. and Europe raised the bar to meet ever more exacting standards of safety and efficacy. This increased the difficulty and expense of clinical trials, which, combined with uncertain demand and low reimbursement rates, led many pharmaceutical firms to exit the space in favor of more financially rewarding opportunities in oncology and orphan diseases.

Unfortunately, over the past decade, bacteria have staged a remarkable comeback that has imperiled the state of global health care as we know it. Strains of common bacteria such as E. coli that are resistant to all known antibiotics are increasing, and mortality rates from these resistant infections can reach 50 percent. One recent outbreak of antibiotic-resistant bacteria nearly caused the closure of the NIH Clinical Center.

Growing Physician Concern

This alarming increase in bacterial resistance is a growing concern among physicians in the U.S. and U.K. over how aggressively they can continue to use chemotherapy in cancer patients and immune suppression in transplant survivors. In one major city in India, resistance has become so widespread that chemotherapy is no longer used in cancer patients. Resistance around the world has risen so quickly that both the U.N. and the WHO now consider antibiotic resistance to be an urgent threat to global security.

What can be done? One area all agree on is the desperate need for new antibiotics that can combat resistant bacteria, but the pharmaceutical industry's pipeline of new antibiotics is largely dry.

Regulatory agencies in the U.S. and Europe are moving aggressively to encourage developers to re-engage with innovative new clinical trial designs. However, this alone will not be enough to achieve the level of effort needed until the economic rewards for developing new antibiotics approaches that seen today with successful new drugs in other afflictions such as cancer. Policymakers must recognize that failure to offer such rewards increasingly risks a devastating global health crisis.

IMPLICATIONS FOR BUSINESS: In addition to the significant human costs associated with the high mortality of resistant organisms, the economic costs can also be overwhelming. Among in-patients who contract a hospital-borne infection and survive, studies have shown costs can increase by more than ten-fold and the loss in workdays can stretch to weeks or months. As these rates of resistant infections continue to rise, what until recently had been routine medical procedures or treatments can become life-threatening, with detrimental effects on work force availability, commerce and society.

HOW WE EAT AND DRINK

Look for accelerated discussion of what we ingest nearly every day, and the role the companies that make and serve our food and beverages are being forced to take. This trend, first cited in this Report over a dozen years ago, is now reported almost daily in the press and through new laws and regulators.

For example, just one Big Mac has 150 percent of an individual's recommended maximum daily intake of fat. Long-term consumption of very fatty foods may well result in serious health issues with huge individual and societal costs.

Concerned corporations have for years been talking about this trend and what to do about it. Leaders like Michael Bloomberg have alerted individuals and families, who are deeply concerned.

Expect more and tougher focus on these problems and look for applause in some sectors for those food and drink producers who address them and seek solutions.

IMPLICATIONS FOR BUSINESS: Investors will take a hard look at companies that are coming under pressure.

DID YOU KNOW?

*U.S. home prices in 2013 rose 13.6 percent,
the largest gain in more than seven years.*

WHAT IS HAPPENING TO THE FAMILY?

When it comes to the American family, there's no shortage of research and census data to make us wonder just what is happening to the traditional married couple with the proverbial 2.5 children, which not long ago was how every family on your street looked.

That model, it should come as no surprise, has been upended in a very short time. In recent years, the rise in cohabitation, same-sex marriage, remarriages and interracial marriage has changed what society views as "the norm." Today, families are much more diverse. And the so-called "typical" family is an evolving paradigm, or more accurately, a moving target.

One research organization characterized this cultural phenomenon as "The Decline of Marriage and the Rise of New Families."

Not only is the fundamental structure of the family evolving, the roles of its members are also changing. In a major cultural shift, America's working mothers have become the primary breadwinners in four out of 10 households that have children. In 1960, only 11 percent had that distinction.

Such "breadwinner moms" are often single moms; however, in an increasing number of families, married with kids, the women earn more than their husbands.

Part of the trend stems from record low marriage rates and the fact that 40 percent of births are now out of wedlock (four times more than in the 1970s) to typically low-income women with little education. At the same time, America's birthrate is half that of 1960, and hit a record low in 2012.

Fewer Mothers

Fewer women become mothers (80 percent of those at childbearing age, compared with 90 percent in the 1970s) and they average two children each, down from three in the 1970s.

There is some good news for the institution of marriage: The divorce rate has decreased to 40 percent for first marriages, down from 50 percent.

For couples who are middle- and upper-middle income, fewer than one in three marriages is expected to end in divorce. Baby Boomers are a different story. Their divorce rate, as they enter their senior years, has passed 50 percent.

For gay couples, the legalization of same-sex marriage in almost 20 states has led to new adoption policies and what has been called a “gayby boom.” Over the past 10 years, the number of gays with kids has doubled to more than 100,000 couples.

Views on the role of women in the household have also changed since the “Father Knows Best” era. According to Pew, 79 percent of Americans are opposed to the notion that women should return to the traditional role of homemaker in the family.

Nevertheless, 3 in 4 adults say the growing number of women working for pay has made it more difficult for parents to bring up their children.

Some 62 percent of Americans think that in the ideal marriage, both husband and wife would work for pay and share household chores and child care.

Predictably, family experts suggest that the traditional family of breadwinner-homemaker will never be the norm again.

IMPLICATIONS FOR BUSINESS:

- The growing number of single mothers who are breadwinners will mean increased emphasis on creating policies that are family-friendly.
- Paid family leave will be in greater demand along with support for child care.
- There will be increasing pressure for pay parity between men and women.
- There will be more vocal pressure from women influencers and policy-makers to promote women to senior management positions.

*"It's Important to Maintain
Standards, Because Once They Are Gone,
They Will Never Come Back."*

- From the Television Series "Downton Abbey"

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