HERE WE GO AGAIN!

BUT WHERE?

THE DILENSCHNEIDER GROUP
46th TREND/FORECASTING REPORT

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Please receive this Trend/Forecasting Report—our 46th—and recognize that much is taking place in the U.S. and the world that will shape the generation ahead.

People around the world, especially in the West but also in the Middle East, Africa, and Russia, are yearning for leadership in business, politics, and the social sector. Leaders are stepping forward—Obama in the U.S., Hollande in France, Abe in Japan, Putin in Russia, a host of new men in China, and elsewhere, as well as some women heads of state. In many countries, however—Italy, Venezuela, Greece, Spain, and a dozen more—we are waiting for someone forceful and charismatic to emerge.

Many of these untested leaders are stepping out into a world that is vastly different from a decade ago and which will be struggling to define itself.

Young people, especially, are not pleased with the current state of affairs. Their protests have gone nowhere and society should fear the implications of its inaction on their complaints. The issues are many: the economy, job creation, energy, climate change, education, terrorism. The list goes on and on.

Adding to these fundamental concerns are dozens of questions, such as:

- Will Iran get nuclear weapons and what will be the international reaction if it does?
- What is the future of Spain, Greece, and Egypt, and what role will neighboring states play?
- Is terrorism on the decline (we say an unequivocal no) and what should be done about it going forward?
- How will the growing tensions between China and Japan be resolved?
- How do we kick-start economic growth around the world?

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

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. As noted, terrorism is still with us and will be for decades to come.

Many believe that al-Qaeda is more dangerous today than before the death of Osama bin Laden—under different control, and less centralized.

And hundreds of millions of the world's citizens are still living below the poverty line. They are not happy and may try to do something about that.

Amid all this, there are many positives, specifically:

- In the U.S. there have been six straight quarters where GDP has risen and demand for oil has fallen;

- The U.S. is on a path to becoming energy-independent;

- In Japan, look for a stimulus package that is intended to jolt the economy out of recession;

- Infrastructure development in Africa is finally underway. Look for GDP to double in this part of the world in the next decade;

- The fourth quarter in East Asia was good, and the economy in this region is expected to continue to prosper;

- The number of democracies in the world continues to rise. (See our December 2011 report on the last surviving dictators;)

- The number of the world's people living with hunger has dropped by some 132 million, from nearly 19 percent of the global population in the early 1990s to 12.5 percent last year;

- In most EU countries, crime levels have decreased consistently since about 2002, while American violent crime, despite Newtown, is near a 40-year low;

- In 1950, in underdeveloped nations, the average person's life expectancy was 46.6 years. Today, it is 67.6 years.

So, a great deal is going right. We need to keep these and other positive trends in mind as we move forward.

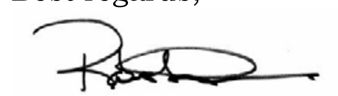
With this broad perspective in mind, and based on our continuing discussions over the past 12 months with hundreds of experts in diverse fields, including business, finance, journalism, the arts, academia, and the non-profit sector, we have identified another set of noteworthy trends for 2013 and beyond.

There is much we do not know. President Obama has yet to deliver the State of the Union address. His adversaries suggest he is packing his advisory team with those who will nod agreement and not offer different views. We wait for China's new leaders to spell out their policy imperatives. There seems to be no strategy to sort out the Middle East. 2013 will be a hard year for Germany. The economic troubles of the EU remain intractable. No one is able to divine Russia's intentions, and more.

This Report, then, as it has for more than 21 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.

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

Best regards,



Robert L. Dilenschneider

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"YOU DON'T GO BACK.

YOU GO ONWARD."

- *Sammy Cahn*
  Songwriter
  1913-1993

FISCAL FOLLIES, CIRCA 2013—
A DANGEROUS GAME

"Something has gone terribly wrong when the biggest threat to our American economy is the American Congress."

Senator Joe Manchin III (D. W.Va.)

It has been a long, brutal experience, but the U.S. economy is recovering from the Great Recession. The process, however, is not yet over. More healing—and time—are required to finish the job.

Under different circumstances, it would be reasonable to assume the recovery, which began in 2009, would continue to make halting but largely unabated progress again this year. Unfortunately, Congress has played a significant role in the interruption of that progress.

Worries about the looming fiscal cliff of spending cuts and tax increases that were set to go into effect earlier this month had an adverse effect on economic activity in the final quarter of 2012. And the way Congress addressed the issue virtually insures uncertainty about the future will continue through the first quarter of this year, and possibly beyond.

Since business conditions elsewhere in the industrialized world remain very soft, the potential for elected representatives in the U.S. to inflict a body blow on the global economy is very real.

Growth Stymied

Currently, analysts forecast growth of about 2 percent in 2013.

Still, there is a foreboding that number could be pared, largely due to a renewed lack of confidence in Washington's ability to do the right thing by the economy.

The deal struck on January 1 to raise taxes by $600 billion over the next 10 years was hardly elegant, and left few observers confident in the ability of lawmakers to strike a constructive bargain on the weighty issues that were not addressed. The political jockeying that has taken place since the start of the year has done nothing to relieve that sense of unease.

As far as the economy is concerned, the tax deal is the worst of all possible worlds. The tax hikes subtract stimulus in the short-term, but by making so many of the Bush tax cuts of 2001 and 2003 permanent, the deal worsens the long-term budget outlook.

Still to be dealt with are the triple threat of a deadlock over raising the debt ceiling, the need to deal with potentially destructive automatic spending cuts (otherwise known as "sequestration"), and a potential conflict over the expiration of the law that keeps the government funded.

At the moment, economists estimate the tax hikes—the largest of which is the $125 billion increase in payroll taxes now that the tax holiday has expired—will slice about 1 percent off of growth for all of 2013. Depending on what actions Congress takes in coming months, that forecast could get worse.

Housing, Energy, Manufacturing: Sources of Strength

The government sector will almost certainly be a drag for the third straight year, but other components of the economy are showing signs of revival.

The most notable is housing, which appears poised for major, multi-year growth. In large measure, the improvement follows an extended period of horrific weakness: Between 2000 and 2004, an average of 1.4 million single family homes were built each year. That number fell to 500,000 in the aftermath of the financial crisis, and remained there until recently. Overall residential investment, which accounted for 4 percent of gross domestic product in the U.S. from 1980 to 2005, has averaged only 2.5 percent since 2008. Happily, early in 2012 the numbers started to turn. Reflecting an improving outlook, household formation is picking up as young people are finally moving into their own homes. And more Americans—about 3 to 4 percent—are moving to other parts of the country than at any time since before the start of the recession.

Some estimate that new construction and home remodeling could add one percentage point to annual GDP growth and as many as 4 million jobs to the economy. Demand is also rising substantially, with an attendant order uptick in lumber and other related building materials.

In addition to housing, the nation's energy producers will continue to thrive, due in large measure to sharp increases in output of natural gas.

Last year U.S. natural gas output reached 65 billion cubic feet per day, a 25 percent increase from five years ago. Meanwhile, the production of oil and other liquid hydrocarbons, such as biofuels, rose by 7 percent in 2012, the biggest single-year increase since 1951. Recently, the Department of Energy forecast that liquid hydrocarbon production will increase by another 500,000 barrels this year, even as the International Energy Agency projected that the U.S. will surpass Saudi Arabia as the world's largest oil producer by about 2017.

These trends, if continued, could add several percentage points to gross domestic product over the next five to 10 years; create millions of direct and indirect jobs; and cut America's oil import bill, thereby reducing its balance of payments deficit.

Further increases in domestic oil and natural gas production should also provide an additional boost to the manufacturing sector.

Since 2010, roughly 500,000 new jobs have been created in manufacturing after a painful but necessary restructuring following the Great Recession. As a result of the downsizing, unit production costs are down by 11 percent in the U.S. compared to 10 years ago, even as they continue to rise in many other industrialized countries.

These changes are most visible in the automobile sector.

In 2005, hourly labor costs for American automakers were 40 percent higher than those of foreign producers operating plants in the United States. Today, those costs are virtually identical, helping the Big Three regain market share in North America.

Consumers: Gasping, But Still Buying

The outlook for consumers is somewhat more problematic. Consumer spending has risen by 7.7 percent on an inflation-adjusted basis since the end of the recession in 2009, compared with a 5.3 percent increase in incomes.

Continued low levels of inflation and further efforts to reduce household debt have allowed consumers to keep buying. On the negative side, unemployment remains high, wage gains are negligible, and the impact of the payroll tax increase will likely be negative, at least in the first half of the year. Any additional steps by Congress to cut spending or raise taxes could have further adverse effects on consumer attitudes. The reduction in consumer debt is particularly welcome news.

Last month, the Federal Reserve reported that in the third quarter American households spent 10.6 percent of their after-tax income on debt payments.

Nonetheless, outstanding consumer debt remains considerable, at $11.3 trillion, or 95 percent of disposable income. A decade ago, outstanding consumer debt represented 88 percent of disposable income.

Exports: A Tough Year

Exports were a major bright spot in the American economy during the early stages of the recovery that began in 2009. However, for some time the growth rate has been steadily decelerating, as growth in foreign economies has turned sluggish or worse. Indeed, it appears as if export volumes actually contracted in last year's fourth quarter.

Analysts at JPMorgan expect "some stabilization and modest firming" in growth among America's major export markets, but add that the "pace of growth will likely remain subpar, thus limiting the degree to which the U.S. can 'hitch its wagon' to global growth."

With Europe, the United Kingdom, the United States, and Japan mired in debt and difficulty, the global economic outlook is not sunny.

Downside Risks Rising

In its semi-annual forecast, released in October, the International Monetary Fund said that "downside risks are now judged to be more elevated than in the April 2012 report. A key issue is whether the global economy is just hitting another bout of turbulence in what was always expected to be a slow and bumpy recovery or whether the current slowdown has a more lasting component. The answer depends on whether European and American policymakers deal proactively with their short-term economic challenges."

The Fund projected that world output would expand by 3.3 percent this year, down from 3.8 percent in 2011 and a sharp reduction from 2010, when global output increased by more than 5 percent. As it has in the recent past, much of the growth will be generated in emerging markets and developing economies, the IMF forecasts. But the rate of increase is slowing sharply, from 7.4 percent in 2010 to a projected 5.6 percent in 2013.

In the current environment, <u>the risk of trade wars is likely to increase.</u> This is so because debt problems in many industrialized countries have largely taken fiscal policy off the table as a way of stimulating growth. Similarly, important central banks are constrained from relaxing monetary policy because interest rates are already at close to zero.

That leaves exports—trade—as a source of growth.

Countries with large trade surpluses such as Germany, the Netherlands and China should be stimulating demand but have little incentive to move quickly. Others, with large trade deficits, need to act fast to stimulate growth, but have limited options.

Central Banks: Easy Money To Continue

Faced with these conditions, policymakers at the Federal Reserve and other major central banks around the world have little choice but to maintain the extremely lax approach to monetary policy that has been the norm for a number of years.

While one can debate the efficacy of such an approach, the absence of any signs of a resurgence in inflation and the continued reality of sky-high unemployment make a change in policy quite unlikely. Indeed, one can make the argument that the Fed has done about all it can do to help stimulate growth, a point Fed chairman Ben Bernanke has made repeatedly during recent appearances before Congressional committees. To date, Mr. Bernanke's pointed remarks have not struck a chord among Republicans. They may never.

However, even as the federal budget deficit has declined as a percentage of GDP over the last three fiscal years, to an anticipated level of between 5.5 percent and 6 percent in FY2013, the fact that government spending has become a drag on the economy presents lawmakers with a distinct opportunity.

Federal budget deficits threaten American prosperity and waiting to do something about them is dangerous. That said, caution is critical because a deep dive into austerity would have negative consequences.

IMPLICATIONS FOR BUSINESS: The chances of trade wars are rising and a Washington-based contingency plan is essential for the first three months of the year, at least. Competitive labor costs and higher transportation costs make siting operations in North American much more attractive than in the past. Inflation should remain tame, helping profit margins.

POLITICS—MORE OF THE SAME

If there is a common consensus in the political outlook for 2013, it is that this year is likely to bring more of the same—confrontation, political standoffs, brinkmanship—all leading to uncertainty that Washington can get its act together.

While everyone may yearn for statesmanship in Washington, what happened in the Capital is but a microcosm of the nation at large—a simmering cauldron of polarization in which compromise is seen as dirty and intransigence is a sign of strength.

The coming struggles over the continuing resolution to fund the government or shut it down, the battle over raising the debt ceiling, and the impasse over the budget will not be resolved easily. Even the threat of Congress refusing to raise the nation's borrowing limit resulted in a downgrading of its credit rating. If the debt ceiling is not increased and the nation defaults on its legitimate debts, the ramifications will be huge and unsettling around the globe.

The nomination of Jack Lew as Treasury Secretary, succeeding Timothy Geithner, is telling. President Obama is signaling that he is ready for the fight and has chosen as his right-hand man a loyal ally skilled in the ways of Washington and committed to the idea that the debt ceiling has nothing to do with spending or the need for spending cuts. But Obama's vow not to negotiate on the debt ceiling is vague and troubling; it is far from clear what leverage he has to win.

Chuck Hagel Challenged

The White House is convinced that its most controversial nomination—former GOP Nebraska Senator Chuck Hagel to be Secretary of Defense—will go through the Senate. But the confirmation process will not be easy. Obama cannot afford to lose on this. Hagel's comments on the power of the Israeli lobby in Washington, his forced apology for offensive past statements about a gay ambassador and his stand questioning the effectiveness of sanctions against Iran will be examined exhaustively. Also, his plans (Obama's plans) to reduce Pentagon spending will be controversial as the details become clearer.

Despite the decisiveness of Obama's election victory, the players in Washington remain the same and in just about the same situation as they were in 2012. House Speaker John Boehner is caught between his inherent pragmatism and the Tea Party activists who rejoice in the idea of shutting down the government and causing chaos. They relish the idea of finally curtailing what they regard as abhorrent spending excesses even in the midst of recovery from the worst recession since the Great Depression.

Some moderate Republican voices have urged their extremist colleagues to accept the fact that Obama is president for four more years and get back to the bargaining table to make government work. But some of the most strident do not want to hear that. It is telling that Boehner could not find enough votes to avoid the fiscal cliff and that it fell to GOP Leader Mitch McConnell and Vice President Joe Biden, old friends, to cobble together a deal that in essence pleased nobody. Sadly, there are fewer and fewer "old friends" in Washington to get things done.

Obama remains determined to get something done on immigration reform, gun control (if only enforcing current gun laws more effectively through executive action) and winding down the war in Afghanistan, as well as streamlining the ungainly Pentagon and changing the tax code. But if he has to spend all his time and energy avoiding financial chaos, he will not get much done.

The president urgently needs Russian assistance to get U.S. troops and arms out of Afghanistan at a time when relations with that country are becoming increasingly strained. Despite cooperation on Iranian sanctions, the reset doctrine appears to be under considerable pressure.

One major sore point today is the sudden ban on American adoptions of Russian orphans, seen as retaliation for a U.S. law targeting Russian human rights violations. Whatever, those moves underscore the underlying distrust both nations have for each other. Russia also continues to provide critical military aid to Syrian dictator Assad and is still simmering over U.S. plans to build a missile defense system in Europe.

Meanwhile, Vladimir Putin easily won a third term as president last year, confirming his complete control of the state as anti-government demonstrations fizzled out. With a veto in the United Nations Security Council, he is well-positioned to block U.S. global goals if he so chooses.

Back at home, there is serious concern that Obama's second term could resemble the lack of progress on major issues, such as entitlement reform, that former President Clinton's second term embodied due to impeachment proceedings that tied up the nation despite economic stability and lack of civil unrest or war abroad.

There are some encouraging signs that, if legislators learn to compromise, slow but steady economic growth will continue, unemployment will decline, and the nation may get down to the real task of governing and deciding how to pay the bills of the retiring Baby Boomer generation.

Simpson-Bowles Looms

That could include embracing the basic tenets of the bipartisan Simpson-Bowles Commission, which recommended a package of steep cuts and changes to Medicare and Social Security, as well as tax reforms and tax increases. After Obama's cold shoulder to their original recommendations, Alan Simpson and Erskine Bowles are now seen as the new whiz kids, who should be listened to and even lionized.

Second terms have been notoriously bad for American presidents, either because of scandal, bad economic times, war or the mere fact that not having to worry about re-election, they feel free to pursue their own agendas unencumbered by the will of the electorate. Suddenly, the outspoken governor of New Jersey, Chris Christie, is seen as the rising GOP star, ready to do battle with presumptive Democratic nominee Hillary Clinton. That started even before the electors in the epic 2012 drama had officially met to re-elect Obama. Some things never change. But there are more hopeful candidates preparing to come onstage.

The public is restive. The demand for compromise, common sense and a kitchen-table approach to budgeting is growing. While redistricting and gerrymandering have made the system precariously partisan, the American people are fed up with lack of progress in job creation, financial stability, tax fairness and restoration of the housing market. They are exhausted by the constant threats that we are falling over the side of cliffs.

This is an important year for Washington, which must show that it can act in the nation's best interests. Next year the political games start all over with the mid-term elections and every member of the House and one-third of the Senate facing the voters. Not a happy thought: Continued uncertainty, and in some areas significant short-term possibilities, loom.

<u>IMPLICATIONS FOR BUSINESS:</u> Ongoing political dysfunction and polarization in Washington does not bode well for business. Most economists argue that such gridlock can only stall much-needed growth and perhaps even fuel a new recession.

GLOBAL TRADE WILL DEFINE THE FUTURE

A subtle effort led in the United States, by fear in many cases, is underway to limit global trade. The emergence of China, terrorism, a Muslim Brotherhood on the rise, and a dozen other phenomena have given populists a platform to speak from. But it would be a huge mistake.

Consider these moments in history:

- In the 16th century, the Chinese were the most cultured and powerful nation in the world. The Chinese then cut off trade with most of the globe and are only now, many centuries later, recovering.

- In1820, Britain and France dominated global commerce. Neither nation kept pace with the U.S., and today, Western Europe, while powerful, has not fulfilled its potential.

- In the 1970s, Japan's growth was accelerating dramatically and many in the world became anxious. Today, the view of Japan's trade prowess is much more even-handed.

- Social media are here to stay. They will continue to grow and alert people around the world to what could be done on their behalf.

While China may soon become the most robust global economy, the U.S. will remain, for decades, the wealthiest country in the world. That may be offset by current government policies that make it more costly to hire new employees; expensive procedures generated by the rules over stimulus, health reform and financial legislation; the challenges to raising new capital influenced by increasing levels of governmental deficit financing; estimates that the U.S. public debt will rise from the current level of 70 percent of GDP to 100 percent in 2025; and unprecedented Treasury borrowing that makes it more difficult for private firms to borrow at reasonable rates, and more.

Opinion on what to do about this abounds on all sides. What is clear is that the U.S. will need to move quickly and aggressively to address its fiscal future, and global trade will be a major part of the solution.

IMPLICATIONS FOR BUSINESS: Short term, expect a struggle of enormous proportion. But long term, American ingenuity is likely to prevail.

THUNDER OUT OF CHINA

The rumbling out of contemporary China is far different from the noise Theodore H. White and Analee Jacoby wrote about so many decades ago as they chronicled events in a country caught in the grip of revolution and war and torn from its feudal past. But in many respects, the import of the change and challenges facing the country and its new leadership today are no less profound than was the transformation that began in the late 1930s.

That paragraph may shock those who view China with a mixture of envy, awe, and fear—envy at the jaw-dropping rate of growth in its economy; awe that the growth has been sustained for such an extended period; and fear that America's place in the world will be usurped by the Chinese.

Until fairly recently, those feelings were entirely understandable, since they were based on considerable empirical fact. But other, heretofore less visible or understood social currents that are very much a part of 21st century China, are leading to a revisionist look at what had been conventional wisdom. There is no doubting the recent historical record. But there are very good reasons to doubt that the past will be the prologue to China's future.

Major GDP Growth

From 2002 through 2011, a span which represents much of the tenure of outgoing leader Hu Jintao and Wen Jiabao, his premier, China's gross domestic product grew from $1.5 trillion to $7.3 trillion while maintaining an average annual growth rate of 10 percent. As the economic pie expanded, overall income surged. Average annual earnings among urban dwellers rose from $1,000 in 2002 to $3,500 in 2011. On a percentage basis, rural residents saw their incomes rise even more sharply, but they started from the incredibly low base of $300 per capita in 2002.

At base, two factors underlying Chinese life strongly suggest a continuation of hyper-growth is extremely unlikely. The first is China's rapidly aging population. The second is its increasingly urban workforce.

Today, China's population is too large and aging too rapidly to continue the nation's dramatic economic expansion. Over half of its more than 1.3 billion citizens migrated to cities over the past 20 years, indicating that China's surplus, rural-based labor supply is steadily becoming exhausted while the nation's labor force is also shrinking due to its still-standing, controversial one-child-per-family policy.

Wage pressure is accelerating in China's coastal manufacturing regions. Indeed, this is happening with profound implications for China's burgeoning trade sector.

In 2000 it cost just 32 cents an hour to employ a Chinese manufacturing worker, versus $1.51 for a Mexican worker. By last year, Chinese wages had quintupled to $1.63, whereas Mexican pay grew to only $2.10. The minimum wage in Shanghai and Qingdao is now higher than in Mexico City and Monterrey.

China is changing big-time. Xi Jinping, its new leader, faces huge economic challenges that will have vast geopolitical ramifications. Even as these changes in China's social fabric threaten to alter its economic parabola, China's leadership will also have to cope with increasing pressure to somehow manage the financial stratification created by a decade of seemingly unfettered growth.

Shift to Capitalism

The Chinese are very quiet about internal issues, but what has occurred is remarkable. Consider that:

- The country is heavily invested around the world and significantly shapes financial markets. China has publicly disclosed that it has invested in 593 deals in the U.S. valued at more than $22 billion.

- Wealthy Chinese are starting to take positions where they can influence policy—Wang Jianlin of the Dalian Wanda Group, worth $10.3 billion; Liang Wengen, with an estimated fortune of $7.3 billion, and Zhou Haijiang, with an estimated $1.3 billion family fortune—are three examples. Some 160 of China's richest people, with a net worth of $221 billion, were seated in the Communist Party Congress. They are also in the legislature and a prominent advisory group called the Chinese People's Political Consultative Conference.

  The Chinese middle class derives at least 20 percent of its income from sources other than salaries or bonuses—in other words, corruption.

  This is a dramatic turn from the China that Mao created and it remains to be seen how people in the street will react.

- State-owned Chinese companies accounted for 90 percent of the value of investments in the U.S. industrial-machinery, aerospace, automobile, and logistics industries.

- China has moved from an underdeveloped, rudimentary nation to one of the most modern and sophisticated the world has ever known—in less than 30 years.

- Growth has been slowing in the world's second-largest economy, and in the third quarter it dipped to 7.4 percent, slowing for the seventh straight quarter and marking the slowest pace since 2009. However, the slowdown was accompanied by a stronger emphasis on restructuring and a faster pace of industrial upgrading.

- The world's longest high-speed rail line (predicted in this Report in 2009) has opened between Beijing and Guangzhou (1,200 miles). Expect more developments like this in 2013 and beyond. Notwithstanding, there are still hundreds of riots—in the countryside in particular—every month.

- Beyond its borders, the Chinese have taken espionage to a high level and steal intellectual property on a regular basis. China has also tightened controls on Internet users, requiring them to register their names. Expect crackdowns in the future.

This list can go on for pages. Suffice it to say, China has a new leadership and the direction these men will take the nation going forward remains unclear.

China will shape the world and cannot be ignored. The country represents a vast potential market. It is a nation to watch—carefully.

The Chinese economy is on the cusp of a major transition. The era of abundant, low-cost capital and labor is coming to an end. There is little question the country faces problems that, if left unaddressed, could lead to instability or much worse.

At a recent conference in New York sponsored by the National Committee on United States-China Relations, Qin Xiao, Chairman of the Boyuan Foundation and a member of the Chinese People's Political Consultative Conference, said: "China's current problem is that the government-dominated economic structure has led to the collusion of public power and capital, and special interests have formed."

In his remarks at the conference, Qin presented a dozen areas he claims need reform in the next two to three years. Many of these changes have been endorsed by the incoming leadership. But adoption and implementation at the local government level, where officials are evaluated based on how well the economy they manage performs, will "take time."

IMPLICATIONS FOR BUSINESS: The cost of doing business in China is going up, but a wealthier, more consumption-oriented population should offer significant selling opportunities. While wage rates have risen, outsourcing manufacturing to China will remain economic for many American companies. Also, stay alert for signs of social unrest.

DID YOU KNOW?

There are now 129 publicly-traded Chinese-based companies listed on NASDAQ and 84 traded on the New York Stock Exchange.

AMERICA HAS CHANGED—
THERE IS NO GOING BACK

The U.S. has re-elected President Obama for another four-year term, and business needs to recognize and understand what is coming. The Obama administration will enact hundreds of changes in virtually every part of American life.

With two years until the next national elections—and probably only one year until the next national election cycle begins—there is not much time to understand and act upon what is unfolding.

Consider the rise of influence of minority voting blocs:

- President Obama handily captured the Hispanic vote by a margin of 71 percent to 27 percent. Hispanics constituted 10 percent of the electorate, double that of 1996. At least three million additional Hispanics will be eligible to vote in 2016. And the number will go up further after that.

- Asians are the highest earning ethnic group in the U.S. (more than whites). Mitt Romney did win the vote of those making more than $100,000 a year by some 10 percentage points. But overall, the Asian vote went 73 percent to 26 percent for Obama. Asians appear to be more Democratic than Hispanics.

- African-Americans voted Democratic 9-1; Asians 3-1; Hispanics almost 3-1. All of these groups will be even larger and more influential in 2016.

- In addition, women voters swung to President Obama by 55 percent to 44 percent.

- Young voters, representing 19 percent of the electorate, voted in favor of the president 60 percent to 37 percent.

IMPLICATIONS FOR BUSINESS: Business needs to learn how to reach the new America. Those organizations that do will enjoy well-earned success.

DID YOU KNOW?

Some 47 percent of all Americans do not pay any federal income tax.

TWO WILD CARDS IN THE DEVELOPING RALLY

A meme that developed during the 2012 presidential election held that whoever won would likely have the immense good fortune of presiding over a long-awaited recovery. That prospect seems more and more plausible in the early days of 2013, as legacy issues from the financial crisis fade, Europe achieves at least a temporary sense of stability, unemployment eases and corporate profits continue to click along. However, that rosy outcome is threatened by two developments—wild cards, in essence—whose effects are simply unknown at this point.

One is the fourth-quarter swoon in commodities. Normally, the prospect of a true and widespread economic recovery would lift all boats in commodities, as traders and end-users ramp up for the surge in demand to come. That simply hasn't happened—not in basic metals, not in oil, not even in wheat, which saw a mid-year, drought-driven rally slide into the Q4 downspin that afflicted virtually all commodities. Even railroad weekly traffic stats were off, somewhat inexplicably. There were often plausible explanations attached for the drop in each of the markets, but in the end, the reasons mattered less than the cumulative effect: If the global economy was gaining strength at the end of 2012, why were commodities selling off? Thus far, no one quite seems to know why.

Institutional Investors Challenged

The other wild card development lies squarely in the path of institutional investors, and its effect on them and on the rally itself is, at this point, not entirely clear. The background in a nutshell: As 2012 wound down, big institutional investors found themselves in a near frenzy to own bonds—all bonds, not just the government variety. Those bonds were safe, true enough, but came with laughably low, even negative yields. Meanwhile, the very nature of fixed-income trading at big banks underwent a shocking metamorphosis in 2012. Most big banks gave up or cut back on their traditional role as warehousers of fixed income product (far too expensive in this capital-obsessed age) and are now morphing into true middle-men, matching buy and sell orders for bonds.

Now comes the kicker: Due to the changes in market structure brought on by new bank capital rules, when the recovery takes hold in earnest and markets soar, all those safety-obsessed institutional investors may well end up with no buyers for their low-yielding bonds, not even the banks. In short, they may well be stuck with them. It is hard to envision a scenario in which they won't lose out. This will greatly hinder their ability to rotate assets out of fixed income to take advantage of recovery-driven rallies in equities or other asset classes, leaving them with portfolios stocked full of bonds whose yields fall far short of what is required to fund long-term pension and other obligations.

How will that affect a burgeoning economic recovery? Again, it's unknown at this point, but as the mortgage crisis proved, the negative effects of liquidity crises in fixed income markets can extend far beyond institutional portfolios.

IMPLICATIONS FOR BUSINESS: While the many signs of a recovery continue to emerge, there are still very sound reasons to temper enthusiasm. Companies that are well-positioned now are the ones that were managed carefully and prudently during the worst of times. Don't ease back on the very traits that got you here when the good times start to roll again.

TWITTER AND THE NEW EARNINGS CALLS

The explosion of real-time commentary through Twitter and other social media is changing the way audiences respond to public communication. That change will demand an equally dramatic adjustment in the way companies prepare for and communicate their messages to the marketplace. Even at highly scripted events such as quarterly earnings conferences, for example, the message received by the audience will be shaped not only by the presenter, but also by a chorus of instantaneous external voices. The result: Once the presentation starts, you won't have nearly the control you used to have, thus preparation becomes all-important.

The number of people using Twitter doubled from early 2011 to early 2012, and anecdotal evidence would seem to suggest that the Twitter adoption rate accelerated dramatically from that level in the second half of last year. That explosive growth demonstrates just how fast the influence of instantaneous social media is building.

The health of Twitter itself is not important. Twitter will, of course, eventually be replaced with a new application, but the trend will continue. Public discourse has moved into real time, for good.

While the rise of Twitter is hardly news, the implications of that development have probably not yet registered with corporate executives, politicians and other public figures. A key feature of social media is that it has shortened the time of the news cycle to just seconds. The most vivid example of how the proliferation of real-time commentary is changing the nature of public communications occurred during the first presidential debate last year. In that debate, President Obama was bested by challenger Mitt Romney.

There is no doubt that President Obama was not at his best—he seemed oddly disengaged throughout—and media coverage over the next weeks portrayed the president as having not just been beaten, but trounced. The case can be made that the president's performance that night, while lacking, was hardly catastrophic. He was bested, yes, but not embarrassed. So what explains the near-universal media consensus that Barack Obama had failed so badly that he had put his very re-election at risk?

The answer is simple: social media. The first presidential debate of 2012 was also the first presidential debate of the Twitter era. When the debate started, pundits hovering over their Twitter send buttons were shocked to see the president stumbling and Mitt Romney—who had to that point proven an ineffective and awkward candidate—scoring points on the attack. This level of surprise triggered an avalanche of sensational and at times desperate commentary. This commentary immediately became the frame through which other observers—also glued to their Twitter accounts—assessed the event. Before the debate was three-quarters over, the media narrative had taken shape and metastasized: Obama's Epic Fail.

IMPLICATIONS FOR BUSINESS: The implications of the debate results and the broader rise of real-time reaction are not limited to businesses. Indeed, they extend to politicians, journalists, analysts, lobbyists, activists, and anyone else who regularly communicates important information to the public. Therefore, when preparing public presentations, companies must account for the fact that external observers will instantly be disseminating their views of what you are saying—and influencing your audience's reaction—as you are speaking.

This is a profound development that will require changes in the way public presentations such as corporate earnings announcements are written and delivered. A weak start could well doom any effort. Failure to address key topics early in a presentation could touch off a barrage of criticism that cannot be overcome. From now on, delivering a successful public presentation will require that the presenter immediately win over the "Twitterverse"—or whatever digital system eventually replaces Twitter—if he or she has any hope of persuading a broader audience.

NATIONAL SECURITY—
SHOULD YOU BE CONCERNED?

The United States is divided on all types of policies and issues today. While we are struggling to come together, the messages that reflect adversarial views about tax and spending policies, how to address the federal deficit, gun control, gay marriage rights, and a dozen other critical topics are all-too-obvious.

National defense is high on the list of concerns, and the actions taken by President Obama and his newly appointed Secretaries of State and Defense and others will be crucial going forward.

Why? Because the United States is facing serious challenges.

In the Middle East, power is going to militant Islamists who are hostile to the U.S. and Western Europe and who do not accept our way of life. Moderates are losing in Egypt, Libya, Syria, Jordan, and Tunisia. Saudi Arabia may be affected one day soon.

Iran is poised to acquire nuclear weapons—one of the most significant challenges that will be joined in the year ahead. American diplomats are being targeted (Benghazi) and protection of U.S. business assets is more and more problematic. China, still a communist country, is building its military and stealing patents and secrets from the U.S. and Western Europe.

And then there are North Korea, Venezuela, and the other rogue states—none of which want to help the West. In the face of this, the U.S. is dramatically cutting its defense allocations.

IMPLICATIONS FOR BUSINESS: The businesses that benefit are insurance and reinsurance. All others are at risk and should be very careful.

CYBER TERRORISM—HERE TO STAY

Rare is the business these days that has not experienced serious cyber attacks—often thousands a day, and unacknowledged. Most companies will not discuss cyber terrorism because it brings more attention and oversight from the government. But it is happening with increasing frequency and is often being advanced by criminal types and by rogue governments working to destabilize the West.

Cyber terrorists come from all over the world, but the Iranians, Russians, Chinese and Middle Easterners are in the first rank. Attacks now come regularly against electric utilities and banks. Experts say that half of the computers in the world have no effective security features.

Criminals undertake in-depth research of their targets online, drawing on information people readily share about themselves, as well as their friends, on Facebook, Twitter, and other social media.

These cyber terrorists start by inserting a software code and positioning themselves in a targeted network. That code, known as "malware," can lurk for years in systems, and when the moment in right, the terror/attack is launched.

IMPLICATIONS FOR BUSINESS: Expect more, much more, cyber terrorism. Businesses are working overtime to protect themselves, but remain vulnerable as increasingly skilled hackers find new ways to breach even the most secure systems.

DID YOU KNOW?

80 percent of consumers used mobile devices or tablets for their recent holiday shopping.

POLITICALLY-DRIVEN TERRORISM

As long as rogue states and rogue individuals exist, terrorism will be with us. It is happening all over the world.

Security forces everywhere are on high alert as terrorists turn from the United States to other locations and aim at sowing fear and unrest that the U.S. and the West feel compelled to respond to. There is no appetite in the West for full-scale engagement, although the U.S. pursues a policy of selected drone attacks and Special Forces operations.

Security forces just recently, for example, arrested a cell of UAE and Saudi Arabian citizens planning to carry out terrorist attacks in both countries and elsewhere.

Look for terrorists to focus on high-profile assaults and on creating problems among people unable to defend themselves. Here in the U.S., there is some pride that there has been no major terrorist attack since 9/11. But that is not because there have not been attempts. Security in the U.S. has worked, but terrorists will be with us for decades to come.

Around the world, others have not been as fortunate. Terrorist attacks—often against U.S. targets—are a regular occurrence in Western Europe and the Middle East.

Who is behind these terrorists? Look to Pakistan and selected regions of the Middle East. The financing certainly comes from the Middle East and, specifically, from the Wahhabi network.

Terrorism will always be aimed at killing people and disrupting operations, but it has taken on other destructive forms—as detailed in the previous trend on cyber terrorism.

IMPLICATIONS FOR BUSINESS: Terrorism is now a fact of life and will be with us for the foreseeable future.

DID YOU KNOW?

Factoring in takeovers, consolidations, and closures over the decades, the number of commercial banks in the U.S. has shrunk from 18,000 in 1985 to today's 8,000.

SHARIA—A GROWING TREND?

Because Sharia law could become an increasingly critical issue in many parts of the world, we provide some background on this phenomenon.

Sharia, as we know it, is the severe moral code and religious law of Islamic society as defined in the Koran and by the examples set by the Islamic prophet, Mohammad. For the minority of Muslims who accept it today, Sharia is all-encompassing, covering family, civil and criminal law, politics, the economy, the military, etc., while also dictating almost every aspect of personal behavior such as sexual conduct, hygiene, diet, prayer, and fasting.

Sharia is considered by its adherents to be the infallible law of God overruling human interpretation. By most civilized standards, it has also been viewed as an excessively harsh, repressive, restrictive, intolerant system of human control in stark contrast to free, democratic, pluralistic societies.

Yet, imposing Sharia law has been the unrelenting objective of extremist Islamist movements in Muslim countries for many decades. They have had limited success to date, but this could readily change. Though it is practiced by a minority, there is also little doubt that Sharia's acceptance and implementation in parts of North Africa and the Middle East, specifically, is growing dramatically. Religion-based and driven, it remains unlike anything we know in the West. There are an estimated 1.6 billion people of the Muslim faith around the world who could be targeted.

Mali is Latest Target

Mali is a land-locked, West African nation bordering on Algeria that one does not often hear or read about. Now, its northern region is where ruthless, extremist Islamists have taken control and begun to make Sharia the law of the land. With virtually no rights, countless Malian women have been beaten and raped; numerous schools have been closed; and scores of children forced into an army to fight a jihadist war in the name of Sharia.

The punishments meted out by Sharia law since extremist Islamists took over the northernmost sections of this large country of more than 15 million have been particularly offensive to Western values and sensibilities: hands and legs amputated for minor thievery; floggings for public smoking; stoning to death for adultery or having a child out of wedlock; prohibition of virtually all artistic works except for Koranic verses. The litany of horrific punishments is long and savage by any humane measure.

The United Nations Security Council has finally taken action, recently voting for intervention in Mali to deal with these atrocities, and the French Air Force has already made at least one strike against Mali Islamists. Still, it will probably take some time before actual peace-keeping forces arrive while the mayhem continues.

Certain elements of Sharia have even been introduced in Western countries where Islamic immigration is significant. Muslim immigrants in the West often employ Sharia family law privately to resolve disputes. The Muslim Arbitration Tribunal in Great Britain is one example. But its rulings are relatively mild in comparison to what has been unfolding in some parts of Africa and the Middle East.

What is happening in Mali may be only the beginning. Look for stepped-up enforcement of Sharia law in many other countries. Know, too, that Sharia law may affect the financial community and investments in nations that include its rule.

IMPLICATIONS FOR BUSINESS: Repressive political and religious systems that deny individual freedoms and the rule of law are inherently tyrannical and contrary to any kind of enlightened business growth and development. Look for continued controversy over whether U.S. courts should consider Sharia law in their decisions.

DID YOU KNOW?

5.8 billion people—around 84 percent of the world's population—have a religious affiliation. Of the 1.1 billion unaffiliated, many profess some belief in a higher power.

EGYPTIAN DEMOCRACY? TOO EARLY TO TELL

There is little question that Mohammed Morsi, the elected president of post-Mubarak Egypt, is now the most powerful single voice in the Middle East—especially in the wake of the key role he played (along with Hillary Clinton) in brokering the cease-fire in Gaza between Israel and Hamas, plus his apparent support—at least for the present—from Washington. Preservation of peace with neighboring Israel will be a central test for Morsi's government in maintaining critical U.S. financial aid and acquiring a much-sought-after, multi-billion dollar loan from the International Monetary Fund to bolster the nation's battered economy.

Meanwhile, Morsi has succeeded in pushing through a draft constitution he favored thanks to a very low voter turnout. His new stature solidifies the primacy of the authoritarian-inclined Muslim Brotherhood as the nation's dominant political force. This is the current Egyptian reality, despite mounting opposition from women, liberals, and secularists, frequent street clashes and demonstrations, and an alienated Christian Coptic minority that represents about 10 percent of the population.

It is estimated that the Brotherhood itself probably numbers little more than a quarter of the country's voters. It was, however, the only recognized, well-organized political organization vying for control in the wake of the 2011 revolution.

After decades of isolation and persecution, the Brotherhood is now reveling in its new power—power that historically has tended to corrupt. Morsi narrowly won the presidential election in 2011 due to a lack of unity among competing secular parties. Today, Egypt is a society very much in flux, suggesting that ongoing civil strife may be a likely scenario for the immediate future.

As the uprising that helped spark the Arab Spring approaches its second anniversary, the unanswered question remains: Will the Middle East's largest nation, with a population of some 80 million, finally achieve some sort of tolerant, enduring, democratic society? Upcoming parliamentary elections in about two months should provide meaningful clues about the nation's future.

Egypt continues to be a deeply polarized land with democrats and other secularists aligned against the ruling Muslim Brotherhood. A still-powerful army is yet another wild card in the Egyptian puzzle, although, under a new command, it is nothing like Syria's murderous, sectarian military.

Morsi Pulls Back

After disbanding the first parliament, Morsi did, indeed, retreat. He rescinded an order suspending the judiciary's right to negate his dictates and won popular approval—though contested—of a long-awaited, new constitution.

The constitution does not directly enshrine restrictive Sharia law. In fact, it details certain basic human rights. But it also states that those rights must be balanced against traditional Islamic moral and social values and constraints as determined by clerical authorities. Such a declaration has inevitably raised Western fears about potential, repressive limitations on personal freedoms, including women's and minority rights.

In Egypt, mosque and state now appear to be intimately bound. That can make a huge difference in a country where a deeply conservative strain of Islam known as Salafism has considerable clout.

Large, sometimes violent demonstrations have erupted in Cairo because of the continuing fear that a Muslim Brotherhood-led government is bringing autocracy back to this ancient land under the guise of Islam. Ironically, the Brotherhood played only a late, relatively minor role in the popular uprising almost two years ago that ended the many decades of harsh dictatorship under Hosni Mubarak.

IMPLICATIONS FOR BUSINESS: Any increasingly autocratic Islamist rule will not help business. Upcoming parliamentary elections could prove decisive. In 2011, Islamists won 70 percent of the body's seats. Although the political opposition remains strong, at this stage, the odds in favor of a truly democratic Egyptian regime emerging are not promising.

THE SCRAMBLE FOR AFRICA—THE WEST LOSING GROUND

The world's new powers are engaged in a heated scramble for African markets and resources. China wants the continent's mineral resources to secure its economic growth and political stability. It also wants to purchase United Nations votes on issues of national security. India has started to play catch-up with major forays in a variety of markets, and is set to become a force. The playing field in Africa is shifting significantly.

China's bilateral trade with Africa has grown to more than $100 billion annually, overtaking France to make it Africa's second largest business partner, right on the heels of the U.S., currently Africa's biggest partner. China has committed or proposed more than $100 billion to Africa since 2010, with 90 percent of that sum going towards natural resources or construction projects.

China's success is built on a strategy of close relations with African governments and easy financing from its state-owned banks. Unscrupulous about human rights or domestic politics, China has built, on behalf of several African countries, mammoth prestige projects—stadiums, highways, sculptures, dams, and even created parliaments. These visible benefits put African leaders in good stead with their populaces, thus cementing their power.

New Indian Projects

India lags in comparison. Its trade with Africa stands at only $20 billion annually, but India has made a few recent major moves in a more diversified portfolio. Bharti Airtel has become Africa's second-largest mobile operator. India will be setting up a $1.2 billion fertilizer plant in Ghana. Tata Motors has an automotive assembly plant in South Africa. India is also involved in large IT projects across the continent and moving quickly into retail and agricultural markets. China is almost absent from all these sectors, underscoring an interesting division of African markets between the two Asian powers.

China has successfully obtained from African presidents unprecedented access to mineral resources: oil in Angola, copper in the Democratic Republic of the Congo and Zambia, iron ore from Guinea, Sierra Leone and Liberia.

These are just a few of the lucrative deals China has been able to secure. Almost all of these deals are opaque. Many are reported to contain a level of corruption. In addition, Africa contains 40 percent of the world's known gold reserves, and 80-90 percent of its chrome and platinum metal resources.

In the face of such cutthroat competition, both the U.S. and China have begun to supply in increasing quantities what African leaders covet: weapons. The renewed and rapid militarization of the continent presents a growing risk.

China is welcomed by Africa in part because of failed past Western policies there. All too often, money provided by the World Bank, the IMF, and in bilateral aid agreements with the West was—knowingly—consumed by corrupt politicians, leaving African citizens without the promised road, dam or bridge, plus a large loan to repay. China's practices may be less than ideal or democratic, but it has delivered on its commitments, and African citizens have benefited.

The Chinese strategy carries some risks. China's state-owned banks have provided tens of billions of dollars in loans—with the encouragement of Beijing—to projects based more on the whims of African leaders than on sound economics. These loans may not perform.

There is also a small but significant anti-China sentiment in Africa, stemming from the poor treatment of African workers; a sense that the Asian giant is "colonizing" the continent anew; and that Africa's resources are being given away on the cheap. The poor quality of Chinese construction has also occasionally left local populations seething.

Human Rights Uncertain

The West has a lot to lose. It retains an emphasis on human rights and democracy—bitter pills that African leaders have swallowed in the past in order to attract money. Now it appears the Africans no longer need to listen to such lectures.

Africa remains one of the world's great undeveloped markets, offering huge opportunities. It is the next big frontier for business. Western countries, distracted by their deficits, fiscal cliffs, and low growth rates, are losing ground in Africa. Many have begun to cut aid to the continent, which means investors from those nations lose leverage as well as guarantees that Africa's unpredictable laws will not turn on them. Some businesses may inevitably cut investments to the continent because China has already taken over the significant infrastructure sector, which American, European, and Japanese companies once dominated.

Africans are well aware of the manner in which China has changed the game. The economic rules on the continent are shifting and numerous global enterprises are now looking at Africa as a potential source of new revenue.

IMPLICATIONS FOR BUSINESS: African economies are set to outpace the developed world in the coming years. The African consumer is on the rise. A new playing field is developing as the next frontier of business is staked out by the Chinese in long-term resource agreements. Most importantly, Chinese projects have given Africans a new sense of self-worth and prestige, something that years of Western aid failed to accomplish. The West would be wise to change its strategy and act similarly if its businesses are to remain a force on the continent.

SAUDI ARABIA— STILL A MIDDLE EAST FORCE OF CONSEQUENCE

This country of 28 million, either through individuals or as a matter of government policy, takes an interest in virtually every important matter in the Middle East.

Pressure on this highly unbalanced Middle Eastern nation is building. Jeddah, Mecca, and Medina in the West, and Dammam on the Persian Gulf—account for more than two thirds of the Saudi Arabian population and are places to watch.

On the one hand, religious leadership in Saudi Arabia springs from a branch of Hanbali Islam known as Wahhabism—a radical system rooted in Sharia law, which has spawned terrorism and negative actions toward the West. At the same time, young people, particularly educated women, are calling for change, for rights currently denied them, and for relationships with the West.

The monarchy, led since 1953 by a group of brothers, and today, by the aging King Abdullah (he has been in office for seven years), is trying to build a bridge to the future. Saudi Arabia has armed the rebels in Syria, linked to the Muslim Brotherhood in Egypt, and also sent a police force to dictatorial Bahrain to stem any revolt there. Many believe that Saudi money helps fund terrorism.

Top Trading Partner

The U.S. does more trade, principally in oil and weapons, with Saudi Arabia than with any other country in the Middle East, including Israel. A signal of what may be coming will be how Saudi Arabia addresses al-Qaeda cells based in Yemen.

Despite its control of the largest petroleum reserves in the world, Saudi per capita income is a fraction of that in smaller Persian Gulf countries. Fully 75 percent of Saudis are under 30, and 40 percent of Saudis under 25 are unemployed.

Young men are driven to al-Qaeda. Poverty, use of drugs, and street violence are on the increase in this country, which has a housing crisis and suffers from chronic inflation.

Social media keep Saudis connected. In the region, only Egypt has more Facebook usage. Saudi Arabia now uses Twitter and YouTube more than almost any other nation in the world. Apparently, the nation also has some 7,000 princes in the royal family, and each receives some share of the mostly hidden national budget. Many in this country find this annoying, to say the least.

Meanwhile, the King has sent more than 100,000 Saudis abroad to study, hoping that one day the country will make progress in weaning itself from oil.

IMPLICATIONS FOR BUSINESS: Pervasive corruption is rooted in this country, but the stability of Saudi Arabia is crucial to the future. It is one of the more volatile nations in the region. If and when the oil runs out, expect more disruption. But until then, look for a constantly shifting focus in terms of the political and business objectives of the West. Also, the United States has a real chance of becoming energy-independent by the end of the decade. That will drastically alter the factors underlying the U.S.' current relationship with Saudi Arabia.

DID YOU KNOW?

The United States deported more than 400,000 illegal immigrants in 2012.

SYRIA—THE 11th HOUR

The protracted Sunni-led rebellion in Syria, once the center of the Islamic Empire, has resulted in as many as 60,000 deaths, not to mention hundreds of thousands of refugees and widespread destruction.

From a humanitarian perspective, the violence in Syria has taken an appalling human toll in a quest for what one hopes will be more democratic governance. Once proud and historic cities like Aleppo have been reduced to near-rubble. Now, however, the deadly Syrian civil war, more or less stalemated, may be drawing to some kind of resolution that many predict will see the exile of President Bashar al-Assad.

What happens after Assad is critical and some players who are not friendly to the West are jockeying for position. Many have urged the U.S. to intervene militarily against Assad by enforcing a no-fly zone to limit the slaughter. But uncertainty about the make-up of the rebel forces has stayed the hand of the Obama administration. Few will dispute that al-Qaeda and other jihadists have made common cause with the rebels against the ruling, authoritarian, basically secular (although Alawite/Shiite) government.

Meanwhile, the Israelis, still occupying the Golan Heights, have expressed considerable concern about a future Sunni-based Islamist regime on their border. The Russians, on the other hand, have been Assad's staunchest allies—both diplomatically and by supplying the Syrian army with military hardware.

Nonetheless, the U.S., France, the U.K., the Gulf States and Turkey have now recognized the main opposition group—the National Coalition of the Syrian Revolution—as "the sole legitimate representative of the Syrian people."

Can the coalition hold on? A huge question. Recently, the growing isolation and weakening of President Assad's regime has been exacerbated by serious defections of high-ranking Army personnel and government figures—including Prime Minster Riyad Farid Hijab. Perhaps more significantly, the Russians appear to be wavering in their support of Assad, expressing a willingness to take up the diplomatic cudgels. On record is the statement that Russia would accept some kind of "transitional" government in Syria.

The international envoy to Syria, Lakhdar Brahimi, not long ago offered a bleak analysis of the nation's future, and Assad has made no response to peace proposals. Informal discussions have also been held between Russia and the U.S. as to where Assad might be exiled—havens such as Russia itself, Belarus, the United Arab Emirates, or Venezuela.

Western governments have been pressuring Russia for many months to ease the Syrian leader's departure by arranging some form of asylum for him and his family. Exile would now seem to be the most realistic, feasible solution rather than spontaneous execution, as with Libya's Qaddafi, or a trial in the International Criminal Court.

IMPLICATIONS FOR BUSINESS: Since economic sanctions have been applied by the West against Syria and the nation is in general turmoil, a return to some degree of normalcy and a freer, less-state-run economy will be a positive for global business generally.

DID YOU KNOW?

The Muslim Brotherhood's Mohammed Morsi, Egypt's powerful new president, is no stranger to the U.S. An engineer by training, he received a Ph.D. in materials science at the University of California, taught engineering at California State University, and even was employed by NASA for a time.

WILL IRAN BECOME A NUCLEAR POWER?

U.S./Iranian relations have been deeply frayed for more than three decades, ever since the 1979 revolution that brought down the Shah and installed the Islamic Republic. Relations have deteriorated even more in this century with the bellicose, intemperate Mahmoud Ahmadinejad at the helm and a government bent on achieving nuclear capability.

A Persian, Shiite-majority country, Iran stands at odds with all of its Sunni-based, neighboring Arabic nations—most particularly, Saudi Arabia, Jordan and the Gulf States—and allied with the Shiite rulers of Syria and Iraq, as well as Hezbollah in Lebanon.

As the New Year unfolds, the nuclear issue continues to be at the heart of Iran's defiance of the Western democracies. The West's principal fear is that, were Iran to actually build a nuclear weapon, the result would be a dangerous nuclear arms race throughout the Middle East with unpredictable consequences for world peace.

What Israel might do independently to derail that possibility is also a wild card that would dramatically impact future developments. Iran keeps on insisting it is only seeking to acquire nuclear energy for peaceful internal pursuits, but its oft-repeated hostility toward Israel is real and cannot be ignored.

A Red Line

Here in America, President Obama, with U.N. Security Council support, has drawn a red line, stating unequivocally that Iran's development of a nuclear weapon is unacceptable and will be challenged by force, if necessary. Simultaneously, he has defied hawkish voices calling for some kind of immediate military action.

The president and legislators on both sides of the aisle in D.C. recognize that after more than 11 years of warfare in the Middle East, well over 6,000 American dead, and countless billions of dollars expended, the great majority of the American public is war-weary. Meanwhile, harsh sanctions, supported by Russia and China, have taken a severe toll on the Iranian economy. Hopefully, they might succeed in thwarting the nation's nuclear ambitions.

Iran's upcoming presidential elections, slated for June 14 of this year, may also offer some hope for change and a more conciliatory government. Ahmadinejad is legally barred from seeking another term. There is certainly significant reformist and independent opposition, as evidenced by the widespread street demonstrations against the ruling regime in 2011. Earlier, in the contested 2009 elections, the more liberal opposition leader, Mirhossein Mousavi, received 34 percent of the vote.

Still, the Iranian president does not control the nation's foreign policy or armed forces. They remain in the hands of the religious Supreme Leader, Ayatollah Ali Khamenei, and the so-called Guardian Council, whose six clerical members he selects. At this juncture, the situation remains highly volatile.

IMPLICATIONS FOR BUSINESS: As long as the nuclear issue is unresolved, economic activity between the U.S. and Iran, one of the largest and more advanced nations in the Middle East, will be at a standstill.

ISRAEL/PALESTINE—THE STALEMATE CONTINUES

An enduring, equitable solution to the decades-long Israeli/Palestinian conflict after three major wars, two Intifadas, and a number of incursions into bordering lands, appears more remote than ever.

Although a two-state solution has been the organizing principle for the numerous peace initiatives in the past, more recently Israeli hardliners have been aggressively opposing such an outcome. In fact, most of the key elements of a two-state arrangement, involving some kind of land swaps, have been proposed at numerous past peace talks.

Yet, the crisis goes on even though resolution of the seemingly endless conflict remains critical. It is generally agreed that the Palestinian question has been a key source of tensions between Middle East Arab nations and the West almost since Israel was founded in 1948.

President Obama has repeatedly confirmed his unstinting support of Israel. Unfortunately, however, he has not had the best of relationships with Israeli Prime Minister Netanyahu, further undermined by the latter's recent approval of new settlements in East Jerusalem and continuing disagreements over how to respond to Iran's potential nuclear threat.

The prime minister, who probably angered Obama when he interfered in the 2012 national elections here, has frequently called for a new meeting with Fatah, the ruling Palestinian Authority in the West Bank. But Fatah President Mahmoud Abbas refuses to meet in the face of escalating settlement activity. Hamas, the opposition Palestinian party that rules Gaza, does not even recognize the state of Israel.

Many in the U.S. have urged Obama to take the lead by visiting Israel—which he has never done as president—and increase pressure on both sides for an end to the occupation and a workable two-state solution. It is revealing, however, that the president did not list the Israeli/Palestinian stalemate as one of the five key objectives on second-term agenda he recently outlined during a "Meet The Press" interview.

Though Netanyahu's policies have been challenged by substantial public opposition, including many former Israeli military and intelligence leaders, he will probably stick to a hard line and retain the prime ministership following scheduled Knesset elections later this month. There is growing right-wing Israeli public sentiment reflected in the rise of new extremist parties like Jewish Home, whose leader has stated that he "categorically opposes a Palestinian state inside our country."

Some pro-Israeli lobbying organizations in the U.S. have also suggested that opposition to Israeli policies is veiled anti-Semitism. However, as the eminent academic, Professor Emeritus Marvin Zonis of the University of Chicago, points out in a recent paper, there are surely "real anti-Semites out there, but not every critic of Israeli policy today is one of them."

IMPLICATIONS FOR BUSINESS: Inasmuch as the ongoing Israeli/Palestinian impasse is at the root of much anti-American sentiment in the Middle East, a peace agreement could reduce tensions there significantly, which would certainly be a plus for business.

THE NORTH KOREAN DILEMMA

As U.S. foreign affairs attention has focused on Iran, Iraq, Pakistan, Afghanistan, Israel and North Africa, North Korea largely slipped under the radar.

Tensions between the U.S. and North Korea were, however, aggravated last month when the deeply-closeted, nuclear-armed nation launched a long-range test rocket. Earlier, the Obama administration undertook a so-called pivot, shifting its global focus somewhat by enhancing U.S. naval strength to the Asia Pacific region. Tough economic sanctions against North Korea have also remained in place.

Increasingly relevant for future North Korea-U.S. relations is the ascendancy of a young North Korean leader, Kim Jong-un, following the death in 2011 of his father, Kim Jong-il.

It is noteworthy that the youthful Korean strongman, in a New Year's address to the nation, stressed the need to improve North Korea's sorely depressed economy while holding out an olive branch to South Korea. He declared that confrontation with "fellow-countrymen in the South" should end. Significantly, his remarks mirrored those of South Korea's new President-elect, Park Geun-hye, who has expressed similar sentiments.

IMPLICATIONS FOR BUSINESS: Reduction in tensions across the entire Korean peninsula would be a positive for business. It is premature to predict a new era of improved relations with North Korea, but new leadership in both the North and South offers renewed hope.

EUROPEAN NEO-NAZI PARTIES ON THE RISE

Thanks to unprecedented waves of immigration from Africa and Asia, plus continuing economic recession and high unemployment in much of Europe, the continent is witnessing a troubling rise of right-wing neo-Nazi parties in countries such as Greece, France, Finland, Hungary, the Netherlands and Austria. These ultra-rightist groups put many in mind of the Nazis who rose to power in a defeated, vengeful Germany after World War I.

Racist, xenophobic, anti-democratic, anti-European Union, and often given to violent tactics, these fascistic national movements are united in their opposition to immigrants (particularly those from Islamic countries), gays, Jews, Gypsies and foreigners. This disturbing trend is perhaps most evident today in Greece, Europe's most economically distressed nation, where an extremist group known as Golden Dawn is now the nation's third strongest political body, holding 21 seats in Parliament.

Golden Dawn has adopted the Nazi salute and its official publication often writes glowingly of the Third Reich, with numerous photographs of Hitler and other prominent Nazis. It advocates work camps for all immigrants and wants to plant land mines along the border with Turkey, Greece's ancient enemy.

Golden Dawn could help bring down the current, fragile Greek coalition government, leading to further political turmoil and again raising the threat of national bankruptcy.

Elsewhere on the continent, the Hungarian National Front and a newer, radical, anti-Semitic organization known as Jobbik have gained considerable support in recent years.

In France, the National Front, led by Marine LePen, heir to her late father, received a substantial 18 percent of the popular vote in the first round of the recent presidential election after which the socialist candidate, Francois Hollande, won a narrow victory.

In The Netherlands, an especially virulent anti-Muslim group known as the Freedom Party has emerged. In Finland, the ultra-nationalist True Finns now holds about one-fifth of the votes in parliament.

Such super-nationalist, fiercely anti-immigrant organizations often prosper in times of economic crisis and should not be taken lightly. The lessons of the rise of Nazi Germany still sear the memories of millions of Europeans.

IMPLICATIONS FOR BUSINESS: The existence of extremist political groups anywhere in the world can only be viewed as a strong negative for business.

HOW ARE EU COUNTRIES COPING?

In her New Year's message, German Chancellor Angela Merkel warned that 2013 will be challenging for Europe and that many will be "heading into the New Year with trepidation."

Chancellor Merkel, referencing the current economic situation in the U.S., added that "the economic environment next year will not be easier, but more difficult."

But Europe's economies are contracting and have continued to do so throughout 2012, with no real end in sight. The European Union's executive commission predicted that collectively the economies of the 17 nation eurozone will shrink 0.4 percent in 2013. As Chancellor Merkel also pointed out in her speech: "We still need a lot of patience. The crisis is far from over."

But how much patience can be endured in the weaker countries, such as Greece and Portugal, where the economic picture is even bleaker? There, many families have simply run out of money to pay for heating oil and now face the coldest months of the winter.

Whatever policies are decided by their respective governments and reforms made by the EU; implementing them will not be fast enough to warm the huddled European population waiting eagerly for some hope and salvation.

Germany—Can It Bail Everyone Else Out?

Wealthier countries have their worries, too, including Europe's industrial powerhouse, Germany, which now seems to realize that its own future is inescapably linked to the economic recovery of other EU members, especially those of the weak southern economies.

In 2011, about 71 percent of German exports went to European countries, with 59 percent delivered to other EU member states. Hence, it is in Germany's best interest to support the economies of those nations. Otherwise the German economy stalls, too.

In addition, last month the German equivalent of our Federal Reserve, the Bundesbank, issued this carefully worded statement: "As the debt crisis continues to escalate in some [European] countries, it is probable that the German economy may fall in the final quarter of 2012 and the first quarter of 2013." This could be bad news for both Chancellor Merkel and her center-right Christian Democratic Party with upcoming national elections slated for October 2013.

Merkel Supports Aid

On one hand, Merkel has actively encouraged the German parliament to support financial aid to debt-stricken countries—most notably, the latest Greek bailout in November—to stabilize the euro, calm financial markets, and reignite the eurozone economies.

However, this was met with anger and frustration in the German media and reverberated negatively with ordinary Germans incensed at seemingly endless bailouts to Greece. Leading German business newspaper Handelsblatt declared that Germany was "tied to a corpse" and that “it would be better to cut itself loose despite the benefits the common currency brings for German exporters”.

If the Bundesbank’s warning proves prophetic and Germany slips into a recession, which could continue through the summer, German voters could decide to punish “new Iron Chancellor” Merkel and her Christian Democrats, who currently hold 41 percent in the polls, or less than a clear majority.

The outcome of the 2013 election might be a Merkel-led coalition of her conservative Christian Democratic Party and the left-leaning Social Democrats headed by her former coalition government finance minister, Peer Steinbrück. The Germans are looking for opportunity and now is the moment to work with them.

France—Will The Hollande Government Work?

With dire economic warnings that it could become the “sick man of Europe;” France could easily destabilize the whole EU as it feels greater inflationary pressures

In June 2012, French President François Hollande propelled himself to power with strong left-wing rhetoric vowing “to wage war on finance” and impose hefty taxes on France’s wealthiest elite.

In the meantime, during the second quarter of 2012, French public sector debt soared to over 90 percent of its entire GDP. In early November, President Hollande surprised all of France by launching the biggest political U-turn in modern French history, a "competitiveness pact" between government and big business.

This is a two-fold challenge to the French to do business differently and to reform complex and rigid labor laws to make the nation more productive. As a 20 billion euro ($26 billion) tax credit was delivered to the corporate sector, the method chosen to pay for this was an increase in France’s national sales tax, along with cuts in state spending.

Life-Line To Industry

The question remains: Has Hollande's lifeline to French industry and business gone far enough to save the second largest eurozone economy? Will he see the reforms through , as his move now has his supporters and Socialist Party colleagues railing, as well as 80,000 angry citizens marching on the Bastille in a "resistance to austerity"' rally. The protestors say that he has abandoned his campaign pledges and is pursuing a policy of austerity by the back door.

The jury is out, but what is certain is that the new French leadership wants to overcome where France is now and restore its glory. This also means opportunities for other countries in the West.

Britain—Count On Leadership

In Europe's current economic crisis, Great Britain already enjoys the benefit of not being shackled to the euro. The current conservative/liberal coalition government of Prime Minister David Cameron is now seeking ways to loosen ties with the eurozone even more.

The goal: To free the nation from EU business and trade laws and the Brussels-based bureaucracy. There are also rumblings of a possible nationwide referendum in 2015 on Britain's abandoning the EU altogether.

The possibility of a British exit has caused the U.S. concern. The belief here is that the departure of our strongest partner in Europe would also reduce American influence on the continent, with Washington reiterating that: "It is important to state very clearly that a strong U.K. in a strong Europe is in America's national interest."

However, the imperative driving any British move to leave the EU is economic. The post-Olympic and Royal Golden Jubilee euphoria has long since faded, and the British may be at risk of a triple-dip recession before 2013 is over, factoring in worldwide economic uncertainty.

The Bank of England issued a statement in December declaring: "Underlying growth is likely to remain sluggish in the near term." While surveys among employers indicate optimism for 2013, other data show that Britain's economy slipped back into negative growth in the final months of 2012.

Using the advantage of not being tied to the euro, the nation finds it easier to promote its market and trading links beyond Europe. Today, we are Britain's most important trading and investment partner. It exported nearly $46 billion worth of goods to the U.S. in 2012—a "special relationship" coveted by other EU countries.

Italy—Now Stabilized, How Does It Go Forward?

After one year in office, unelected technocrat economist Mario Monti stepped down as Italy's caretaker Prime Minister just before Christmas, resulting in an Italian election set for the end of February.

The non-partisan Monti went where elected ministers feared to tread—cutting bureaucracy as he implemented structural reforms to improve productivity and labor. This made him, undeniably, unpopular with ordinary Italians. The overall verdict is that he set Italy on the right course, but with a long, difficult road ahead.

Monti announced recently that he would lead a centrist alliance in the forthcoming election. A recent poll before the new year showed the center-left Democratic Party, under Pier Luigi Bersani, as the biggest political force with a 36.1 percent lead.

The most important priorities for Italian policymakers this year are to maintain confidence in the country's reforms and progress—and that the notorious ex-Prime Minister, Silvio Berlusconi, doesn't make a political comeback.

Spain—A Long Road Back

In Spain, the fourth largest economy in the eurozone, the austerity policies of Prime Minister Mariano Rajoy of the conservative People's Party remain deeply unpopular. This is hardly surprising given that his one-two punch of deep budget cuts and sharp tax increases has hit hard at a population already reeling from the highest rate of unemployment in Europe at 25.1 percent.

Early 2013 is a crucial time for Rajoy, who may be forced to seek aid from Europe's permanent bailout fund to the tune of 35 billion euros ($51 billion) in order to recapitalize Spain's stricken banks.

In the meantime, regional ethnic and political tensions have begun to resurface, especially in Catalonia, the heart of Spanish industry and the major source of strength for the entire economy.

Recent elections in the region have shown that even Catalan conservatives are now calling for independence from Madrid. That could lead to a referendum in 2015. The last thing the Spanish government needs is losing the 20 percent of its economy generated by Catalonia.

Greece—A Society Under Pressure

Greece, long considered the basket-case economy of the eurozone and the most likely nation to exit the euro, seems to have turned a corner, especially after a "make-or-break" election in June.

The austerity policies of the conservative New Democracy and Socialist PASOK coalition are beginning to bear fruit—at least financially—for the struggling economy.

The most noteworthy example of renewed confidence came in December when Standard & Poor's upgraded Greece from "selective default" to B- after European authorities released a 34.3 billion euro ($46 billion) tranche of bail-out funds. That was the third such bailout from a 240 billion euro superfund ($317.4 billion) set up to head off a total Greek collapse.

But the austerity measures linked to the bailouts have pushed Greece into its fifth year of recession. Homelessness and soup kitchens are becoming a fact of life in the streets of Athens, as local hospitals are unable to afford vital supplies. The nation's crime rate is soaring, with immigrants bearing the brunt of attacks from spreading neo-Nazi organizations.

The European Central Bank—Critical To The EU's Success

Much of the credit for the easing of Europe's financial crisis this past year goes to the Frankfurt-based European Central Bank, which has become more aggressive and proactive in keeping the eurozone together.

Remember all those doom and gloom announcements from the first half of 2012—headlines that screamed economic apocalypse: "Greece to Exit Euro", "Contagion Spreads to Spain" and "Domino Effect to Topple Italy?" It seemed that the EU would inevitably go over a fiscal cliff.

The brink was avoided for two reasons. First, because of the ECB's decision to purchase unlimited quantities of government bonds from debt-stricken eurozone countries to contain the region's crisis. Second, because of the EU's recognition that the bank needed greater powers to reach into the national economies of member nations to head off potential disasters.

To that end, the ECB has now been empowered, beginning in the spring of 2014, to supervise and regulate all 6,000 commercial eurozone banks with a level of oversight and control never before imagined. Agreement on bank surveillance is already being recognized as a crucial first step toward a common eurozone approach to dealing with failing banks, which have dragged down countries such as Ireland and Spain in recent years.

Many of the regulatory steps spelled out in 2012 have amounted to a wake-up call for the entire EU that reckless lending practices are simply no longer going to be tolerated—not simply by the host governments of the offending banks, but on a supranational level, through oversight by the EU itself.

IMPLICATIONS FOR BUSINESS: The core reality for American business to take away from the European crisis is that in today's wholly globalized, interconnected world, whatever happens in Europe will have a direct and powerful impact on the U.S. economy.

From the perspective of global finance and business, the eurozone is heading into 2013 in better shape than a year ago. "We are probably well beyond the worst," says Holger Schmieding, a leading German economist and past senior advisor to the International Monetary Fund and and strategist at Bank of America. He believes occasional flare-ups in financial markets are likely, but "coming waves of turmoil will be less severe."

Whatever the instability in European politics and economies, multi-national European companies, which operate on a global scale, tend to be insulated from the vagaries of the eurozone and could be worth looking into for investment.

A LOOK AT INDIA

Most nations would be pleased in these uncertain times with an annual GDP growth rate of 6 percent. Not India. Not even when international financial institutions seem generally upbeat about India's economic prospects.

Indians, however, are shaking their heads because current projections don't call for a growth rate in 2013 of at least 8 or 9 percent, the sort that this South Asian nation enjoyed for much of the last decade. They enviously look at China, and marvel that its growth rate is estimated to be at least two or three points higher this year than their own.

But India isn't China. Its economy cannot be run by diktat. Its polity is buffeted by ideological cross-currents that make consistency in policymaking a shaky proposition. When the government of Prime Minister Manmohan Singh proposed opening up the retail sector to more foreign direct investment, there was the predictably shrill opposition from politicians wedded to long-discredited socialist shibboleths. Still, the national parliament approved the proposal, and now everybody is waiting for entrants like Walmart and Carrefour.

With a population of 1.2 billion and a growing middle class of nearly 400 million, India is not only the world's largest democracy—and the biggest country after China—but also the second-largest market. Little wonder that foreign investors and businesses are loath to give up on India, notwithstanding its disputatious politics, policy inconsistency, and still daunting bureaucracy.

Leadership Questioned

India's people question its leaders' efficacy.

"Everyone wants the next phase of economic liberalization to be successful," says Angana Guha Roy, a young political scientist from Kolkata. "The first phase included freeing the economy of choking bureaucratic rules—at least partly. Now it's time to pursue a more robust free-market approach to economic growth. But the bane of India continues to be bad, or indifferent, leadership."

That leadership is unlikely to change in the short term, barring ill health or natural causes. The septuagenarian Prime Minister Singh is widely considered to be a malleable toady of the Italian-born Sonia Gandhi, the all-powerful president of the Indian National Congress, which heads a 14-party coalition that governs the country. The next general election isn't until May 2014. And while there is talk of Mrs. Gandhi's son, Rahul, stepping in to replace Mr. Singh, no one with any political savvy thinks much of the 41-year-old's ability to lead such a large nation.

Rahul's absence from the national political conversation was especially conspicuous during the outrage over the rape of a 23-year-old Delhi woman—a college student—by six men, and her subsequent death. While Congress Party leaders seemed clueless and directionless, Shashi Tharoor, the Minister of State for Human Resource Development, spoke out forcefully against the longstanding abuse of women in Indian society.

A Future Prime Minister

His outspokenness has prompted many observers to view Tharoor as a potential prime minister. His American education and long experience as a senior diplomat with the United Nations suggest a more clear-eyed view of what it would take to sustain strong economic growth in India. His personal closeness to Sonia Gandhi also is a huge point in his favor. Should Rahul Gandhi not want the top political job, Shashi Tharoor may well be the choice.

The question of smart political leadership becomes particularly relevant because of the current debate in India over government spending and priorities. India's defense budget is the eighth largest in the world—equivalent to $47 billion annually. But expenditures on much-needed health and education programs are a mere fraction of that amount.

Proponents of more attention to social programs argue that they have the potential to generate more foreign investment and domestic employment. Dr. Prathap Chandra Reddy, the 80-year-old founder and chairman of Apollo Hospitals—one of the world's biggest healthcare systems—says that if the government put healthcare into the infrastructure category, it would immediately invite more interest on the part of foreign investors.

Huge Unemployment

When the Indian government declared 20 years ago that information technology would be henceforth considered an infrastructure priority, it opened the floodgates of overseas investment and domestic jobs. In a country where the unemployment rate remains more than 15 percent, creating jobs requires a major effort by the public and private sectors.

The possibility of such an effort, particularly by the private sector, remains slight. Corruption is endemic. The many layers of government bureaucracy have managed to retain their supremacy. No one political party is dominant at the federal level.

The national condition appears anemic in contrast to the economic experience of states such as Gujarat and Tamil Nadu, where strong local leaders have expedited economic growth by wooing foreign investors and green-lighting projects at remarkable speed.

It's no coincidence that the political leaders of these states do not belong to the Congress Party.

IMPLICATIONS FOR BUSINESS: India is a vast market with enormous potential for investment. However, investors need to conduct due diligence-plus about how and where they might invest, paying especially careful attention to differences among the various states. And everyone must keep an eye on India's fractious politics, since the ability of government to either help or hinder development is a major swing factor.

DID YOU KNOW?

India consumes the most whiskey in the world—$20 billion worth.

MINERAL-RICH MONGOLIA BECKONS

Mention Mongolia to most Americans and they may respond with a comment like "someplace in Asia" or cite Genghis Khan, but little beyond that. Actually, this sprawling, once-isolated nation of some three million has been increasingly in the global spotlight thanks to its strategic location between Russia on the north and China everywhere else, plus its huge, basically untapped mineral deposits of coal, gold, copper, uranium, rare earth elements and much more. In 2011, it was the world's fastest-growing economy.

A socialist, Soviet republic for some seven decades before revolting in 1990, Mongolia is, today, a thriving young democracy. It is also the target of much hostility from China, although China remains its principal customer and investor along with Russia. The country, however, strongly identifies with the U.S. and our democratic values. Secretary of State Hillary Clinton visited there last year, as did President George W. Bush during his second term. More recently, President Obama met with the president of Mongolia in the White House.

Although much poverty, especially among Mongolia's herder population, is still very evident, the nation's GDP has ballooned during the past decade from $1 billion to over $10 billion. Its capital city, Ulan Bator, now boasts luxury shops, skyscrapers, high-rise apartment blocks, popular restaurants, and many other signifiers of a booming urban economy.

Foreign mining and energy companies have been quick to seek out, and cash in on, Mongolia's vast mineral wealth and booming economy. Rio Tinto, the Anglo-Australian giant, is now a major player in the Gobi Desert, and southern regions of the nation while American companies have lagged behind the Chinese, Russians, British and Australians.

IMPLICATIONS FOR BUSINESS: Determined to maintain oversight of the nation's rich natural resources, the Mongolian legislature last year passed a law requiring large investments in mining projects to be approved by the government. Nonetheless, Mongolia continues to present notably attractive opportunities for U.S. multi-nationals and investors.

MEXICO'S ECONOMIC REBOUND

These days when the subject of Mexico is raised, illegal immigration probably comes to mind, or the violent drug cartels in its northernmost states, responsible for countless thousands of Mexican deaths—civilians, army and police.

But the murder rate there has been dropping while a much more positive reality is unfolding. It concerns Mexico's now-growing economy—an economy that may get a further boost with the ascension of a young new president, Enrique Pena-Nieto, who took office on December 1. He heads the Institutional Revolutionary Party or PRI, which ruled Mexico from 1929 to 2000, but is seen as a committed reformer and not a radical.

Mexico took a considerable hit from the global financial crisis. Today, however, it boasts Latin-America's fastest-growing, most dynamic economy, expanding at a 4 percent annual growth rate that places it ahead of Brazil. Ranked by purchasing power, Mexico is now the 11th largest economy in the world.

It is also America's third-biggest trading partner and a majority middle-class country. After years of relative stagnation, hard-goods manufacturing is booming. Mexico is currently one of the world's top producers and exporters of automobiles, as well as a leading producer of flat-screen TVs and many other electronic products.

As wages (and costs) keep rising in China, Mexican manufacturing benefits directly, becoming more competitive and attractive. Both NAFTA and a shared border have made the U.S. the No.1 customer of Mexican manufactures. This latest economic rebound has also been sparked by a young work force. The nation's median age of 34 is far below that of most developed countries. The surge in manufacturing activity is back-stopped by a robust tourism industry.

Mexico's new president has set a 6 percent growth rate target by the end of his term and, most notably, plans to open up the country's very substantial energy sector to foreign investors.

Meanwhile, new employment opportunities are driving down the number of illegal Mexican immigrants in the U.S.

Many barriers to economic growth remain—rampant corruption, free-wheeling monopolies, entrenched bureaucracies, and considerable poverty among at least one-third of an estimated population of 112 million. But there is also little doubt that the Mexican economy has taken on new vibrancy and is growing daily.

IMPLICATIONS FOR BUSINESS: Important new outlets for American investment are in the offing. President Pena-Nieto appears to be cut from a different cloth than the old-time PRI grandees, who ruled Mexico for some 70 years. He is moving to partially privatize companies like PEMEX, the state-owned oil giant, and otherwise put in motion many long-needed reforms.

AMERICA'S DIRTY LITTLE SECRET

Racial and ethnic prejudice is still a factor in the United States. Indeed, prejudice reigns everywhere in the world, but few want to admit that reality. Those attitudes played a subtle role in the recent U.S. election. They are not going away and they are issues all should be aware of.

Specifically:

- A slight majority (56 percent) of Americans express some prejudice toward blacks. Racial prejudice has, in fact, increased slightly since 2008.

- Approximately 57 percent of Americans also reflect an anti-Hispanic perception.

- Experts predict it will be generations before these feelings are eliminated.

- Politicians believe there was a net loss of two percentage points for President Obama due to anti-black attitudes.

IMPLICATIONS FOR BUSINESS: It is an unfortunate fact of life, but we all recognize prejudice exists around the world in many forms. Business leaders, in addition to working to eliminate prejudice, need to acknowledge its existence since such pernicious attitudes can play a negative role in virtually all decisions.

DID YOU KNOW?

Park Geun-hye was recently elected president of South Korea and there is much talk today about Hillary Clinton as the future Democratic Party nominee for the White House in 2016.

But there are currently some 20 other women holding top political leadership positions around the world. Among the most prominent are Chancellor Angela Merkel (Germany), President Christina Fernandez de Kirchner (Argentina), Prime Minister Sheikk Hasina Wajed (Bangladesh), Prime Minister Julia Gillard (Australia), President Dilma Rousseff (Brazil), Prime Minister Yingluck Shinawatra (Thailand), Prime Minister Iveta Radicova (Slovakia) and Prime Minister Helle Thorning-Schmidt (Denmark).

THE NEXT INDUSTRIAL REVOLUTION—3D PRINTING

3D printing, today, is what the first personal computers were in the 1970s—an innovation on the verge of tipping from the domain of garage tinkerers to a disruptive technology. Just as the PC evolved to replace mainframes and transform the way we think about computers, 3D printing is on track to replace labor-intensive, large-scale manufacturing—and transform the very nature of the U.S. economy.

Traditional manufacturing is already in the midst of a transformation from labor to automation thanks to robotics. According to McKinsey, the relative cost of automation to labor has fallen by 40 percent to 50 percent *since 1990*. This is an inexorable trend. As labor costs in China and other developing markets climb and the costs of robotics fall with improvements in technology, global manufacturing will gradually shift from labor-intensive to automated processes. As that shift occurs, distant emerging markets (think outsourcing) will lose their appeal to manufacturers, who will move their factory operations back to developed markets to eliminate ocean freight costs and gain the efficiency benefits of producing products close to their headquarters and customers.

Gradual Move to Automation

However, that gradual shift from labor-intensive to automated large-scale manufacturing could be disrupted entirely by an explosion of 3D printing. 3D printing begins with a digital model, using computer-aided design (CAD) to create drawings of the product that are cross-sectioned into thousands of layers. 3D printers then create the product by applying thin layers of material, usually plastic, but increasingly also metal. This process is far faster and uses far less in the way of materials than traditional manufacturing methods. While in the past 3D printers costs hundreds of thousands of dollars, they can now be had for as little as $1,000—or $500 if bought in kit form. With corporate heavyweights such as GE, Google and Hewlett-Packard just now getting involved in 3D printing, expect sudden technology leaps and rapid proliferation in the years ahead.

Of course, the Industrial Revolution had profound effects on the lives of ordinary individuals—wiping out many traditional hand-crafting professions and sparking a generational migration to urban manufacturing centers. The 3D print revolution will be no different. To date, no one has answered the most troubling of all questions: What will all those former manufacturing workers do for a living?

Piracy will be a problem. Just as the ability of consumers to copy digital content has upended the music and movie industries, the ability of small 3D print shops to duplicate manufactured products will pose a dire threat to big corporate manufacturers. Start-ups will also boom. Since printing does not require massive amounts of capital, expansive facilities for assembly lines or huge numbers of employees, the proliferation of 3D print technology will usher in an era of manufacturing start-ups.

Things will move faster—much faster. With small manufacturing shops able to pump out prototypes nearly instantly and for little cost, the time needed for R&D and product creation will shrink, compressing product life-cycles and requiring manufacturers to shift to a state of constant product improvement.

Remember all those abandoned factory buildings in the Rust Belt and in old industrial Northeast river towns? The rise of 3D printing could revitalize decaying industrial areas by creating new demand for small manufacturing spaces close to the mass markets of urban population hubs.

Wall Street should pay attention—now. Early movers should assign an individual or individuals to develop contacts and institutional knowledge of 3D and robotics with an eye to forming a banking group designed to finance large-scale ventures in this emerging space.

IMPLICATIONS FOR BUSINESS: Design will be the product. Consumers or small 3D manufacturing shops will purchase electronic designs for products that are then customized and rolled-off their own machines. In this environment, companies will compete ferociously for top design talent.

A U.S. INDUSTRIAL RENAISSANCE?

For well over a decade, the term offshoring has dominated the rhetoric surrounding U.S. manufacturing practices. Now, promising developments are driving some manufacturers to move production back onshore.

Beginning in the late 1990s, scores of manufacturers moved work offshore, capitalizing on lower wages and operating costs in emerging markets. But today, with the increasing cost and risk of producing halfway around the world, some high-value-added companies are repatriating.

Labor costs in the U.S., a key factor in the decision to offshore production, are becoming increasingly competitive. Manufacturing wages in China have increased by 20-25 percent per year in four of the past five years, while wages in the U.S. rose less than 5 percent a year. With domestic manufacturers' increasing use of cutting-edge automation and robotic technology, labor productivity has also steadily outpaced wage growth in the U.S. for over a decade.

Additionally, the sharp decline in natural gas prices here relative to most major emerging markets has broad implications for lowering manufacturing costs. Natural gas prices are being driven down by the growing availability and utilization of formerly unconventional resources, such as shale gas.

Shale Gas a Game-Changer

Robust shale gas exploration and development have changed the nation's energy profile in a few short years. Manufacturers and the broader U.S. economy will benefit from greater energy affordability, demand growth, and employment. Energy-intensive industries, such as chemicals and metals, would reap the greatest benefit. Lower feedstock and energy prices are driving chemical companies to increase their investment here. PricewaterhouseCoopers estimates that shale gas development will give manufacturers a cost savings of approximately $11 billion annually.

Companies such as Dow Chemical, Formosa Plastics, Chevron Phillips Chemical Co., Bayer Corp., Westlake Chemical, Shell Oil, U.S. Steel and Nucor are now planning major new investments in the U.S. based on this development.

Manufacturers are also beginning to take note of the logistical advantages of producing closer to the point of distribution. Shipping goods around the world has become more expensive with higher fuel prices. Extremely complex supply chains and quality control issues have also driven them back to this country. This is especially true for companies with a large domestic market.

Companies are reshoring high-value-added production across various sectors, including electronics, automotive parts and medical devices. Manufacturers with proprietary technology to protect are becoming increasingly conscious of the ongoing problem of intellectual property theft. Many that have moved production offshore are now struggling to enforce patents and copyrights in emerging countries, particularly China.

The economic and political situation in emerging markets has changed notably since the early 2000s. In the past 15 years, China's attitude towards foreign investors has changed, with a focus now on creating "national champions." Moreover, companies producing overseas are exposed to the volatility and uncertainty of the host countries' geopolitical and geo-economic climates.

IMPLICATIONS FOR BUSINESS: Over the next decade, the U.S. industrial sector will likely gain global market share. Higher manufacturing and industrial activity here will lead to broad-reaching investment opportunities for small and midsize industrial suppliers to other sectors, such as banking and retail.

DID YOU KNOW?

In an era of high unemployment, there has been much talk about American college graduates returning home to live with their parents. But such family solidarity is an old, cultural tradition in Italy, magnified now by a deep, ongoing financial crisis. Currently, one-third of all Italians live with their parents, as do an astonishing 61 percent in the 18-29 age bracket.

MOVE OVER—THE ROBOTS ARE HERE

More and more robots are performing basic tasks once left to the human hand.

Last year more than 180,000 robots were created and employed worldwide. This is double the number employed in 2010.

Projections call for nearly 16 million robots to be in the workplace by the middle of the decade. China, Korea and Japan lead the world in employing robots. In the U.S. there are about 135 robots for every 10,000 workers. In South Korea the number is 347 and in Japan it is 339.

Kiplinger reports that inexpensive, faster Internet connections enable robots to seek information and learn on the job, routinely accessing search engines and massive databases, acquiring 3-D models, maps, schematics and instructions.

Cloud computing is eliminating the need for robots to have large onboard processors and cheaper microprocessors are cutting costs and increasing speed. Advanced sensors are allowing robots to adapt to their environment and better artificial intelligence is giving robots increased capability to act independently.

IMPLICATIONS FOR BUSINESS: The field is just gaining momentum and will have implications for the military (drones), households, the elderly who seek care—and a market of nearly $80 billion—by mid-decade. Routine jobs will be eliminated. Expect robots to understand human thought processes and replicate them.

SOCIAL NEWORKS ON SMARTPHONES: WHERE'S THE MONEY?

Technological advances in the way we communicate are continuing apace, as today we witness the dual ascendancy of social media and the smartphone.

- The five most popular social media channels now have an estimated 2.8 billion followers, although some users log onto multiple social media sites. In 2012, the time users spent on these sites rose by 76 percent to 40.8 billion minutes from 23.2 billion minutes in 2011.
- There are now an estimated one billion smartphones in use, and sales of the devices grew at close to 40 percent in 2012. Smartphones have become personal computers for many users.

The growth trajectories of smartphones and social media are moving in tandem, as consumers spend about 30 percent of their online time visiting social networks on mobile devices, a report by Nielsen Media Research and NM Incite found. Moreover, 46 percent of social media users reported that they use their smartphones primarily to access social media sites.

As this latest chapter in the communications technology evolution unfolds, a question that created an upheaval in the dot-com world in the late 1990s has resurfaced: "How are these mobile-based companies going to monetize their networks?"

Dot-Com Debacle

Many investors will recall the drama that took place when dot-com stocks soared, based on the supposed promise of the huge networks of online followers they had created. Then, in 2000, investors woke up and asked how the dot.com companies were going to make money from their networks, and scores of dot-com stocks crashed. An estimated $5 trillion in the market value of technology companies was lost.

Today, for some technology company shareholders, and for the advertisers who wonder whether they should step up their use of social media channels on mobile phones, the question has again become, “Where’s the money?”

At first blush, placing ads on social media channels to reach consumers on smartphones might seem like tapping into a gold mine. Informa Telecoms and Media forecasts that mobile marketing will generate $12.8 billion this year. Ads on mobile devices reach a user age group of 18 to 49—potential customers who usually have a college degree and well-paying occupation, enabling them to afford smartphones.

Some Wall Street analysts have produced charts showing that, when mobile phone traffic accounted for 10 percent of the public’s media attention, ad spending on that medium was just 1 percent of the total, suggesting that there is a huge, untapped opportunity for mobile phone advertising.

But advertisers seem largely unconvinced. They are willing to pay much more to reach a thousand people staring at a computer screen or tablet than the same number jumping from display to display on the small screen of a smartphone. Skeptics make the point that smartphone users are very much of-the-moment when they use their devices, and become impatient when an advertising messages interrupt their navigation.

Facebook is a case in point. Even before its initial public offering last May, questions were raised about its ability to attract advertising to the mobile phone versions of its site. While Facebook has persuaded some investors that it can earn a good return in the mobile space, doubts persist.

IMPLICATIONS FOR BUSINESS: Can social media companies monetize their networks by attracting advertising revenues for mobile phone ads? Should advertisers commit their dollars to buy those ads?

At this point, they remain open questions. Many smartphone users in the 18 to 49 age group report being so annoyed by the ads that pop up on social media or game sites that they are willing to pay nominal fees for advertising-free versions of those sites. That places them in a category similar to that of television viewers who are willing to be billed for ad-free premium cable channels. To monetize social media channels accessed on mobile phones, then, one useful approach may be simply to charge for access rather than chasing advertising dollars.

For corporations pondering whether to spend advertising dollars on mobile social media, there may be a better path. Shrewd companies are pursuing programs that enlist sites like Facebook, Twitter and Tumblr to initiate an ongoing dialogue with customers and potential customers. These companies use social media marketing messages to inform followers of contests, events and special offers, and link them to company websites to engage them further.

As with traditional public relations activities, social media programs they create are comparatively inexpensive. And they connect with the company's target audience in a direct and persuasive way.

FIVE INVENTIONS THAT WILL CHANGE OUR LIVES IN THE NEXT FIVE YEARS

Typically, over the years, our Reports have tended to focus largely on shorter-term trends. Recently, however, the engineers at IBM, one of the world's largest digital companies, came up with some predictions about what looms, sensory-wise, for humanity in the years ahead:

Touch—You Will be Able to Touch Through your Phone

Within the next five years, your mobile device will let you touch what you're shopping for online. It will distinguish fabrics, textures and weaves so that you can feel a sweater, jacket or upholstery—right through the screen.

Sight—A Pixel Will Be Worth A Thousand Words

In the future, computer vision might save a life by analyzing patterns to make sense of visuals in the context of big data. In industries as varied as healthcare, retail and agriculture, a system could gather information and detect anomalies specific to the task—such as spotting a tiny area of diseased tissue in an MRI and applying it to the patient's medical history for faster, more accurate diagnosis and treatment.

Hearing—Computers Will Hear What Matters

Sensors that pick up sound patterns and frequency changes will be able to predict weakness in a bridge before it buckles, the deeper meaning of your baby's cry, or a tree breaking down internally before it falls. By analyzing verbal traits and including multi-sensory information, machine hearing and speech recognition could even be sensitive enough to advance dialogue across languages and cultures.

Taste—Digital Taste Buds Will Help You Eat Smarter

The challenge of providing food is in finding a way to meet both nutritional needs and personal preferences. In the works is a way to compute "perfect" meals using an algorithmic recipe of favorite flavors and optimal nutrition. No more need for substitute foods when you can have a personalized menu that satisfies both the calorie count and the palate.

Smell—Computers Will Have A Sense of Smell

Soon, sensors will detect and distinguish odors: a chemical, a biomarker, even molecules in the breath that affect personal health. The same smell technology, combined with deep learning systems, could troubleshoot operating-room hygiene, crops' soil conditions, or a city's sanitation system before the human nose knows there is a problem.

IMPLICATIONS FOR BUSINESS: As the speed of technological change accelerates, business more than ever needs to look to what is on the horizon. It is no secret that complacency has led to the stagnation of many once-pre-eminent companies. Failing to be aware of emerging technologies and how they can solve problems and improve lives is not an option for business leaders today.

DID YOU KNOW?

An estimated 46 percent of all resumes contain false information about employment history, education, or references.

STAYING HEALTHY DURING AN EPIDEMIC— THE EIGHT GERMIEST PUBLIC PLACES

An influenza epidemic had spread to 47 states as this Report was being prepared. While people should always be alert to avoiding sickness, flu outbreaks invariably focus our attention on the need to steer clear of infection as we go about our lives.

Viruses and bacteria are found almost everywhere, so going anywhere people congregate heightens their chances of getting sick.

Experts say that adults and children alike should be aware of eight public places where they are most likely to encounter infectious microbes:

1. *Grocery stores*
   Germiest items: Shopping cart handles and seat buckets.

2. *Children's playgrounds*
   Germiest items: The swings, jungle gym and other equipment.

3. *Public restrooms*
   Germiest item: The sink. While most people worry about public toilets, they are not the biggest restroom offender. The sink is.

4. *Offices*
   Germiest items: Telephones and desks.

5. *Restaurants*
   Germiest items: Table surfaces, high chairs.

6. *Libraries*
   Germiest items: Countertops and surfaces.

7. *Cruise ships*
   Germiest item: Handrails.

8. *Malls*
   Germiest item: Escalator handles.

IMPLICATIONS FOR BUSINESS: Since it is in business' interests to keep their employees healthy, management would to do well to consult with health and safety personnel and develop guidelines for helping employees avoid infection. High on the list will be washing hands frequently and using sanitary hand wipes, which management may wish to provide in plants and offices.

“The True Hero Is One Who

Conquers His Own Anger and Hatred.”

- *His Holiness the Dalai Lama*

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