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# **THE WORLD IS IN TURMOIL**

**CIVILIZED PEOPLE ARE AT RISK  
HOT SPOTS ABOUND**

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**THE DILENSCHNEIDER GROUP**



**TREND/FORECASTING REPORT**

**JANUARY, 2015**

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The next two years could be the most important in recent times for virtually every country and person in the world.

Please receive our 50th Trend/Forecasting Report and know that much of what is discussed in the following pages will shape the next generation and perhaps the generation after that—the next 50 to 60 years.

Consider:

- President Obama's use of executive power;
- Ferguson, Missouri, and the resulting exacerbations of racial tensions;
- A return to a solid U.S. economy/a stumbling European economy/questions about the economy of the East, and the once unstoppable Chinese economy;
- Poverty in virtually every area of the world;
- ISIS;
- Acts by rogue states;
- Continuing turmoil in the Middle East;
- Ebola and other unforeseen disease outbreaks.

The world is spinning and many think civilized society is on the brink of losing control. Expect instability in all parts of society, starting with a vigorous debate about democracy and whether it will work for most people in the world.

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

And then there is Vladimir Putin and the Russian economy. It is difficult to forecast what will happen in Russia, but we can be certain that, at least for several years, it will not be good and it will have a negative impact on the rest of the world.

It is also very clear that young people around the world are basically optimistic about the future, but unhappy with the situation created by their elders.

It is also additionally very clear that those at the middle and lower level of the income scale are not pleased with the income gap enjoyed by the rich. This will be a major, perhaps defining, issue in the period ahead.

It is likewise inarguable that people in disadvantaged countries do not hold positive feelings toward the West, particularly the United States. While diplomatic and other efforts are going forward, there is a significant shortfall in terms of hopes and expectations. The Middle East is a boiling cauldron as the anticipated positives of the Arab Spring have not materialized.

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

Society should fear the implications of all this.

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

These fundamental questions and concerns are just a few of those out there:

- Is information safe and is there a way to stop hackers?
- Will Iran get nuclear weapons and what will be the international reaction if it does?
- What is the future of Iraq, Afghanistan, Egypt, Turkey and the Muslim region as a whole?
- Is terrorism on the decline (we say an unequivocal “no”) and what should be done about it going forward?
- Is China on the cusp of a slow decline?

- What has happened to the profession of journalism that is so critical to our democratic society, and what can we expect in the future?
- What role will Pope Francis ultimately play on the world stage with his heightened emphasis on the poor, capitalism, and developing countries?

Terrorism, today, is global and is much stronger and more determined than ever to change the world order. Its leaders play on the shame, humiliation and anxiety of the Arab street. And there seems no easy way to turn this around. The murderous January 7, 2015 attack on a French satirical newspaper, likely over cartoons of the Prophet Mohammed published a decade previously, is proof that terrorism will continue to be a primary tool for extremists.

The “rule of law” is under pressure around the world, and even in the USA.

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

Attacks are underway on the police, religious groups, intelligence services, and many more such institutions that have given our society strength. Expect pressure on the military, too.

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

Huge strides have been made in medicine.

Amazing developments are taking place at every turn, from Stephen Hawking’s recent call for humans to establish colonies on other planets to avoid an eventual “near-certainty” of technological catastrophe, to the advent of the electric car, and much more.

We are only left to contemplate what is next.

Several years ago we predicted that young men and women would assert themselves and change the world. Look at what has happened, from social media to all types of inventions. Are you communicating, doing business, receiving medical care and the like just as you were ten years ago?

Expect even more in the coming year or two that will effect change. There is a real potential for positive action out there.

Please do note the Appendix to this Report. It features short essays from six former interns at The Dilenschneider Group, who address the question: What can be done to make the United States better? We urge you to look at the writings of Kevin Briggs, Victoire de Brébisson, Brittany Corso, Catherine Baker, Kate Morais, and Lysk Wyckoff and what they are doing. These are the leaders of tomorrow.

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 2015 and beyond.

This Report, then, as it has for more than 25 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, of course, be pleased to hear any response you might have to this effort.

Best regards,

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

Robert L. Dilenschneider

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Appendix: What Can Be Done To Make The United States Better?

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*If anyone of us thinks of ourselves as wise,  
then we must learn to be a fool  
before we really can be wise.*

*1 Corinthians 3: 18-19*

## **THE YEAR AHEAD: SMOOTH SAILING OR A TROJAN HORSE?**

For some time now, a central contention of our semi-annual examination of the economy has been that the United States has staged the most rapid and significant recovery among industrial countries impacted by the financial crisis and the Great Recession.

The American economy's performance in 2014 solidified that argument. What's more, conditions inside the U.S. make it possible that 2015 could be the year memories of the worst downturn since the 1930s become lost in the mists of time.

Then again, it could be this won't happen. Developments that redound to the great benefit of the American economy are generating political and economic unrest elsewhere.

Over the course of the next 12 months, it seems all but certain the turmoil that is already plainly visible will result in dislocations—or ruptures—of uncertain magnitude.

The extent to which the United States can remain largely unaffected by these developments will likely be critical in the performance of its economy during 2015.

Dislocations—or worse—in foreign countries have the potential to retard growth in the U.S., but in the 21st century America no longer appears to have the capability to lift the rest of the world. Put another way, strong domestic growth will not translate into healthier economic conditions abroad.

In the year ahead, the United States will be fortunate to see the rest of the world muddle through its problems; that should provide sufficient latitude for further progress at home.

### **The U.S.: Powering Ahead**

The American economy entered 2015 with the strongest momentum in at least 10 years. Before moving to the outlook, it is worth recalling what was accomplished in the year just past.

After contracting in the first three months of 2014, the U.S. economy rebounded from the wretched winter to record its best six-month period since 2003 in the second and third quarters. Figures won't be available on the fourth quarter for a few weeks, but indications are that fourth quarter output remained solid.

For all of 2014, the Labor Department's preliminary figures show that just under 3 million jobs were created. The unemployment rate, which was above 8 percent for much of 2012, had fallen to 5.6 percent by December, 2014.

The steep slide in the price of oil over the past six months is causing anxiety and creating some pain in energy-producing states, but on balance the oil price decline is balm for the economy.

Aside from providing consumers with what amounts to a tax cut, the drop in oil prices has been so steep—Brent crude has declined by more than 50 percent since its peak of \$115.15 on June 19—that inflation appears most unlikely to be a concern in 2015. In turn, this strongly suggests the Federal Reserve will be extremely reluctant to raise interest rates over the next 12 months, contrary to recent statements and speculation.

How low can oil prices go? Barring a significant reduction in production—a step no one appears ready to take—there is no credible way to make a prediction. But the next (the last?) milestone is \$32.27, the per-barrel price oil reached on Christmas Eve, 2008. That price proved to be the floor in the current cycle. The benign inflation outlook is reinforced by strength in the value of the dollar on foreign exchange markets. Many commodities, including oil, are priced in dollars.

Under other circumstances, strong economic growth in the U.S. might well persuade the Fed to start raising interest rates.

### **Low Interest Rates**

But interest rates in other major countries are even lower than in the United States. The higher rates of return, in addition to the safe-haven quality of investing in dollar-denominated government securities, have combined to keep foreign demand for U.S. Treasuries at a very high level. If it continues, this demand should be sufficient to put a ceiling on market interest rates.

In addition, at a time when the dollar is already strong, it seems unlikely the Fed will raise interest rates for fear of further damaging the prospects of American exporters.

As in the past, American consumers, who account for a bit more than two-thirds of all economic activity, will lead the U.S. economy. Lower oil prices, a higher minimum wage in many states and rising levels of employment are all positive forces.

Lower energy prices should also help to make the coming year a good one for manufacturers. Indeed, the wide deployment of horizontal drilling hydraulic fracturing, and the resulting increase in domestic supplies of oil and natural gas, have sparked something of a renaissance among manufacturing businesses.

Since its trough in the Great Recession, manufacturing's contribution to Gross Domestic Product has risen by more than 21 percent. (Manufacturing accounts for about 12 percent of GDP.)

For the first time since 2011, government—federal, state and local—also figures to be a positive contributor to growth in 2015. Across the country, state and local governments are spending on projects that were stalled. Teachers are being hired. Even federal spending in some sectors is on the rise.

Taken together, expect the economy to expand at a healthy 3 percent to 3.5 percent rate in 2015, up from what likely will turn out to be a gain of about 2.5 percent last year.

### **Europe: At Best, Muddling Along, At Worst.....?**

The European Union, still feeling the effects of the Great Recession, has a common monetary policy but no common fiscal policy.

Until that structural issue is addressed—or until the German government agrees to allow major EU member states like Italy, France and Spain to stimulate their economies—the region's prospects appear bleak at best.

For the past several years the European Central Bank has been trying its best to promote economic growth via an increasingly loose grip on monetary policy. To date, the ECB's efforts have managed to prevent a region-wide banking crisis and the defection of one or more current member states, but failed to stimulate growth. This in turn has raised fears the EU may be on the brink of another financial crisis and put pressure on policymakers to take additional steps.

In theory, the euro's weakness against the dollar—it fell to a nine-year low against the greenback early in January, and seems destined to lose additional value – should act as a stimulus.

But the practical impact is likely to be minimal.

The vast bulk of the EU's trade is within the EU itself. The United States, though far from insignificant, is not a big enough trading partner to make a palpable difference economically.

Similarly, the decline in oil prices will help European consumers, but the benefits derived from the drop are nowhere near as important as they are in the U.S.

There are at least two reasons for this: Europe—and European consumers—are far less dependent on oil than their American counterparts. Moreover, since oil is priced in dollars and the euro is losing value against the dollar, the size of the oil price decline—and its positive impact—is correspondingly reduced.

With inflation rising at a worrisome rate of 0.2 percent, Mario Draghi, the ECB's president, now seems poised to initiate an effort to stimulate the European economy through massive purchases of government bonds.

Unfortunately, despite success enjoyed by the Federal Reserve in its so-called Quantitative Easing program, there is widespread skepticism a comparable effort by the ECB would succeed. Eurozone economists expect growth and inflation to remain weak even with quantitative easing.

A big, largely political test will be held later this month, when Greece is scheduled to hold elections.

After many years of sacrifice and austerity, a sizeable fraction of the Greek electorate appears willing to support a policy favoring fiscal stimulus. This group includes a faction who advocate leaving the EU altogether.

The current government, which is running neck and neck with the opposition in pre-election polls, favors a continuation of existing policies.

### **U.K. Elections Coming**

The United Kingdom's on-going connection with the European Union will almost certainly be an issue later this year, when Prime Minister David Cameron and his coalition government are scheduled to face voters.

Growth in the U.K. perked up in 2014, but the Cameron government is unwilling to deviate from the restrictive fiscal policy it has pursued since it assumed office. And now the Bank of England is indicating it intends to start raising interest rates.

Since North Sea oil remains an important revenue source, additional austerity measures seem unlikely to promote growth in Britain. Continued slow to no growth on the continent will not help matters, either.

In sum, conditions in Europe remain precarious.

Growth in the Euro Area is projected at 1.3 percent in 2015, slightly better than the performance in 2014. But growth in the U.K. economy will likely slow to 2.7 percent rate this year, down from 3.2 percent for 2014.

## **Japan And The BRICs: Good News/Bad News**

In much of the rest of the world, the drop in oil prices is a double-edged sword: decidedly good news among consuming nations, but a potentially catastrophic turn of events among producers.

Japan, which has suffered through two consecutive quarters of economic contraction and is technically in recession, should benefit from the oil price decline. Moreover, to stimulate the economy, the Bank of Japan will initiate early this year its own version of quantitative easing.

These measures may not help much. Currently, Japan's economy is forecast to expand at a rate of just 0.8 percent this year.

China, which relies on imports for about 60 percent of its energy needs, stands to be a big beneficiary of the drop in petroleum prices. Recent steps by the country's central bank to stimulate bank lending should also help.

But the rate of growth in the Chinese economy is slowing to a projected 7 percent this year, which is a meaningful drop from the 7.7 percent rate recorded in 2013, and a projected rate of 7.4 percent in 2014.

India's economy also looks to gain from the decline in oil prices, with GDP growth of 6.4 percent seen in 2015, nearly a full percentage point higher than the 2014 estimate.

Meanwhile, all bets are off in important—and oil producing—emerging markets like Russia and Brazil.

The combination of Western sanctions and the drop in oil prices will push Russia into recession in 2015, and could trigger another default on its outstanding debt.

The outlook in Brazil is not as grim, but it is hardly bright.

The oil price drop has put Petrobras, the state-owned Brazilian oil company, in a very bad place. The slowdown in China continues to crimp exports of raw materials. Meanwhile, the rise in the value of the dollar has made the price of those exports more expensive. Brazil's economy is expected to grow at 1.4 percent in 2015, but given the continuing slide in oil prices, that figure could be a good bit lower.

**IMPLICATIONS FOR BUSINESS:** U.S. exporters will likely have a tough time in 2015, but domestic demand will probably be healthy; the strong dollar should benefit travel and related service companies; elections in Greece and the United Kingdom will be important tests of European unity.

## A DISTRICT DIVIDED

There is a great deal of anxiety on Capitol Hill as the new 114<sup>th</sup> Congress convenes, with a 54-46 Republican majority in the Senate and 246 Republicans to 188 Democrats in the House. As the year began, the public was skeptical that the greater number of Republicans will make the institution more effective: 37 percent of Americans believe it will make a positive difference, but 47 percent say Congress won't be any better at its job than last year, one of the most dismal years in congressional history.

With Sen. Mitch McConnell of Kentucky, the new Majority Leader, and John Boehner of Ohio, the re-elected speaker of the House, Congress has two solid, experienced and pragmatic politicians in charge. But politicians such as Ted Cruz of Texas are still vowing to buck the leadership where possible to effect less government, cut spending and go more conservative on social issues.

Republican leadership efforts to work with Obama so they don't go into the 2016 presidential election with another year perceived as blocking reform and fostering a "do-nothing" Congress could be derailed by the ongoing disunity in the GOP. Another vote to shut down the government or refusal to raise the debt ceiling could be disastrous for Republicans in the public eye. GOP leaders want more than anything to be seen as adults, able to quell the noisy negative voices in the party. As predicted, Boehner was able to prevail in the speakership vote, but keeping unhappy members of his own party in the fold has proven difficult and exhausting in the past. The X factor is likely to be the 42 Republican freshmen in the House. Many of them won by running to the right of the GOP leadership in general, and Boehner in particular. The Speaker may be able to keep them in line on most votes by appealing for party unity. But on some hot-button issues like immigration, a lot of the newcomers could be immune to such pleas.

As for McConnell, he will need Democrats to get the 60 votes needed to overturn filibusters, and both houses will need Democratic help to override presidential vetoes. (Two-thirds of the votes in each are required.)

The members of this Congress are 66 times more likely than the average American to be lawyers; three times more likely to have served in the armed forces; and 1.6 times more likely to be male. Twenty five percent are over 65 (compared with 14 percent of Americans in general. )

And for the first time in history, more than half of the members of the House and Senate are millionaires.

With both houses of Congress firmly in Republican control and President Obama entering what he calls his fourth quarter—better known as lame-duck status—the outlook for far-reaching legislation in 2015 is bleak.

The major political news this year will be wrapped up in the unfolding drama of who the serious candidates are in the presidential race of 2016. To get a jump on fund-raising, candidates are expected to be announcing soon, with the heaviest speculation around Hillary Clinton, Jeb Bush, Rick Perry, Jim Webb of Virginia, Chris Christie, Joe Biden, Rick Santorum and Rand Paul.

While some liberals are pining for Massachusetts' new senator, Elizabeth Warren, to run, she has said emphatically she will not be a candidate in 2016. Some establishment Republicans are clamoring for Mitt Romney to run again. His wife says she would not give her blessing, but nevertheless he has made it publicly known he is considering a third bid for the Oval Office. All those who want to run have serious obstacles to confront, and all have qualities that interest voters. An exciting, new, charismatic candidate could push the race wide open, although such a dark horse has not appeared as yet. With the tab for the 2012 race at \$2 billion, nobody expects the 2016 race to be less costly. Or less contentious.

The major problem, as always, is what former President George H.W. Bush called the "vision thing." None of the candidates as yet has laid out a plan for where he or she would take the country. Perhaps this burden falls hardest on Hillary Clinton; after decades in the public eye, many wonder how she would govern differently. Also, with Obama fatigue so obvious, how she stays loyal to an administration in which she served but charts her own course remains to be seen.

### **Long-Term Issues**

With the U.S. economy in much better condition than it was in 2012 (despite the storm clouds abroad), and gas prices predicted to stay low for a while longer, many voters are looking for solutions to long-term and long-deferred issues. At the top of the list for many is immigration reform. But there is little likelihood of any agreement between Republicans and Obama this year. Obama's decision to let hundreds of thousands of undocumented workers stay here legally has infuriated many Capitol Hill Republicans.

The nation's crumbling infrastructure is also a major worry to business leaders as well as state and city officials. There have already been major road and bridge collapses, and this is hurting the nation's reputation and credit rating. Rebuilding our infrastructure is a priority and many from the powerful U.S. Chamber of Commerce to individual companies and states and municipalities are lobbying for a serious national effort. Money is, of course, the major problem.

Republicans are still hoping to repeal the Affordable Care Act, popularly known as Obamacare, but any move in Congress would be blocked by an Obama veto. The Supreme Court may rule on a technical issue in such a way that a major portion of the law would be dismantled. The White House has its fingers crossed on this one. Such a decision probably won't be handed down until late June. Republicans also want to make a number of significant changes to Medicare, which lobbyists for the elderly will fight tooth and nail.

There will be major battles in Congress among legislators of both parties on reauthorizing funding for the Department of Homeland Security and the Highway Trust Fund. Also, large parts of the Patriot Act, which was passed after 9/11 and authorizes a wide variety of surveillance on American citizens, expire in June unless Congress reauthorizes them. There are Republicans and Democrats on both sides of these issues. There is also the now-perennial issue of raising the debt ceiling, which has become a political football, although, in effect, it means honoring the nation's debts.

An early clash is already brewing over the long-delayed expansion of the Keystone XL Pipeline. Because it is international in scope, coming from Canada, the State Department had to weigh in, and issued a more positive report than many environmentalists had expected. But the White House has stopped indicating that Obama will approve it and is now signaling that he will not approve it, hoping to leave a pro-environment legacy on climate change and apparently being less worried about the need for oil with prices per barrel half of what they were just months ago. A presidential veto would put pressure on Democrats to overturn it.

### **Tax Reform Possible**

If there is any hope for bipartisan action, and there isn't much, it would center on business tax reform (broad cuts but fewer deductions) and fast-track free-trade agreements. But Obama will run into stiff opposition from Democrats if he goes even halfway to meet Republicans on these fronts.

Obama as pragmatist, not idealist, will come to the fore this year, but it may be too late for much to happen.

Republicans are expecting to hold Obama's feet to the fire through confirmation of key nominations, including defense secretary and attorney general. While neither nominee is particularly controversial, Republicans will use the hearings to criticize past administration policies. Republicans say they want to investigate a host of issues from the Benghazi tragedy to care of the nation's veterans, the debate over whether the Internal Revenue Service was used for political purposes, and financial industry regulation. While many Republican leaders are eager to air their grievances, such intense scrutiny of old issues (e.g. Benghazi) may bore the public, which says it wants proactive solutions to current problems.

As often happens in a president's waning years, foreign policy will demand more and more of Obama's time. The escalating tensions with Russia will not abate as long as Putin remains in power and pursues his military forays into Ukraine despite Moscow's economic troubles. North Korea's annoying, troublesome actions have to be watched carefully. The Middle East cauldron and terrorist activity are more turbulent than ever. An Obama overture to Iran seems to have gone nowhere although the White House is hopeful. Détente with Cuba is still iffy, but promising.

Obama will attend a series of international meetings, but his clout and popularity abroad have declined dramatically. There is still enormous rancor over disclosures of spying on international leaders by U.S. agencies. But an expected meeting between Obama and Pope Francis in September is likely to be a high spot for both leaders.

Social turmoil in the United States on such issues as legalized marijuana use and gay marriage seems to be easing, though the outlook is for more states to act. The battle for a higher minimum wage, joined by Obama, will continue both nationally and at the state level. Twenty-five states have approved minimum wage increases. Obama wants a \$10.10 national minimum wage, which Congress will not pass, and fast food workers are continuing to stage protests to demand a \$15-an-hour wage. There are still huge issues around legalized marijuana, most obviously, the federal ban.

**IMPLICATIONS FOR BUSINESS:** There is not much hope for a solution to bitterly divided government because the American people are strongly divided on major issues. But there is always hope that the presidential election process will bring forth serious debate on critical issues and viable proposals from the major candidates rather than the sniping and peripheral issues that have dominated recent contests.

## **THE BESPOKE BANKING MODEL**

The raft of important new regulations passed to strengthen the global financial system has had at least one noteworthy unintended consequence: The banking industry today might be more complicated and more difficult to understand than ever.

Prior to the financial crisis and the subsequent remaking of the regulatory structure, most large financial service firms followed relatively similar business strategies based on some combination of retail, commercial and investment banking. Although the opacity of financial sector balance sheets make it difficult for non-experts to determine exactly how banks make money, the commonality of bank business models at least made it possible for clients, investors and regulators to compare one bank to another.

The situation could not be more different today. The most fundamental change imposed on the industry has been the establishment of tough new capital reserve requirements. These requirements and other new rules have dramatically changed the economics of many financial service businesses—especially in investment banking—mainly by squeezing profit margins. The changes have triggered some common responses, the most notable being the retreat of many firms from fixed-income trading and other capital-intensive investment banking business.

But even this response has been anything but uniform. Some banks eliminated many of these businesses completely. Others scaled back across the board, and still others cut out some specific products and services while maintaining or even building up others. Each bank is trying to figure out the best balance of risk and reward and the best way to maximize profitability based on its own historic strengths.

The end result of this process will likely be what might be called the “bespoke banking model”—an industry composed of firms with highly individual business mixes, strategies and operating models, and none precisely like any other. This could be a good thing. The resulting industry might well be less fragile and more durable than the pre-crisis version due to lower risk exposures, bigger capital cushions and the simple diversity in business models. What it will not be is simpler or easier to predict. At the moment, even the CEOs of the world’s biggest financial service organizations do not know which models will prove best, and which will fail entirely. The task will be no easier for companies seeking bank partners, investors seeking attractive opportunities, and regulators trying to spot emerging risks.

**IMPLICATIONS FOR BUSINESS:** Divergence in bank business models is complicating the task of picking providers for corporate lending, Treasury management, trade finance, investment banking and other banking functions. Evolving bank strategies also have other important implications for business, such as the potential for higher prices and diminished liquidity in corporate bond markets caused by banks’ pullback from trading. In this environment, it is important that bank clients and regulators not fall into the trap of thinking that risk is, in and of itself, a bad thing when it comes to banks. Risk is an inherent part of the banking business, and banks cannot provide the services companies and investors need without it. Regulators have built a new framework designed to make the financial system safer. Now banks—and their clients—need time to make the system work under these new rules.

Meanwhile, in such a complicated new world, any individual bank’s long-term vision—what winning means to it and its top executives one, five or even 10 years out—becomes ever more important as a way to stand out from all the noise. So does its narrative: Why has it chosen to compete in certain fields and withdraw from others, and how does each decision fit into and further that long-term vision?

## **FALLING OIL PRICES**

Although U.S. companies are rightly focused on the (mainly positive) economic implications of falling oil prices, executives should also consider the serious geo-political risks associated with the rapid and surprising plunge.

Iran's leaders were banking on average oil prices of \$135 a barrel to hold together an economy already decimated by tough international sanctions. In the past, budgetary problems that led to cuts in subsidies for basic necessities have triggered protests against the government. There is hope that pressure on the regime will prompt Iran to sign a nuclear deal with the West to alleviate sanctions. However, decisions about security and the nuclear program are not made through "normal" government channels, but rather by Supreme Leader Ayatollah Ali Khamenei—making it nearly impossible to predict how the regime will respond to an unfolding economic crisis.

Though Saudi Arabia is being hurt right now financially, there is much speculation that the country hopes to use the drop in prices to advance its longer-term political and economic goals. For the Saudis, two issues are paramount: 1) Low oil prices are hurting arch-rival Iran, and 2) An extended period of low energy prices could threaten the sustainability of some U.S. drillers using hydraulic fracturing, hopefully driving them out of business. Of course, there is no way to know whether the Saudis declined to cut production levels in order to ratchet up pressure on Iran and U.S. frackers, or if they are using those issues to mask the fact that their influence on global pricing is on the decline.

### **Venezuela Hurt**

The clock is ticking in Venezuela. That country's economy was a wreck before oil prices starting falling, with astronomic inflation, a plunge in the value of its currency and shortages of even the most basic goods. Today, there is widespread speculation that Venezuela will default on its sovereign debt. Analysts are talking about a "perfect storm" of low oil prices and economic dysfunction that could threaten the government itself. This risk might cause the Venezuelans to grip even tighter to the one lifeline that has helped it withstand the crisis to date: \$46 billion (so far) in loans from China repayable in oil.

Russian president Vladimir Putin has promised that his country's current economic crisis will be resolved within two years. With oil prices at dangerously low levels and the country cut off from western capital markets by sanctions, this will be a tough trick to pull off. In the meantime, the Russian people will have to endure a collapsing ruble and an economy that was expected to contract by 4.5 percent *before* the bottom fell out on oil prices.

As in Iran, it is next to impossible to predict how the Russian regime will respond, largely because the decisions are made by one man with mixed and often inscrutable motives. Optimists are hoping that economic pressures will force Putin to the negotiating table on Crimea and the Ukraine. Pessimists fear that Putin will continue to portray the crisis as engineered by the West and use it to stoke nationalist passions and secure his own position and those of his oligarch supporters.

**IMPLICATIONS FOR BUSINESS:** While low oil prices are a boon for many companies and for the U.S. economy, mounting pressure on Iran, Saudi Arabia, Venezuela and Russia is introducing a new level of geo-political risk into the global economy. A Q2 2015 Venezuelan default would have far-reaching implications for global markets. An even more concerning scenario could emerge from the fact that countries like Russia and Iran share a common vested interest in engineering a rapid spike in energy prices. That both these frighteningly unpredictable countries would benefit from a Middle East crisis that disrupted oil flows is a scary thought.

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*DID YOU KNOW?*

*17,336 applications were sent to the  
Peace Corps in 2014, up 70 percent from 2013.*

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**BEWARE: CYBERATTACKS, EMAIL EVIDENCE**

Hacking (or, more accurately, stealing) data—a threat we red-flagged over four years ago—is now commonplace. China, followed by Russia, is the major culprit in such attacks.

Last year, victims of this kind of theft included such high-profile corporate names as JP Morgan Chase, Home Depot, Target, and JC Penney to cite just a few of the commercial targets. All suffered the looting of critical data about millions of customers.

Year-end saw the emergence of a bold new tactic in the cyberwarfare world that could undermine one of the core foundations of the American democratic way of life—freedom of speech—when North Korean hackers invaded Sony Pictures Entertainment’s information technology system. The perpetrators threatened to bomb movie theaters that showed the new Sony satiric comedy, “The Interview.”

After a storm of criticism for its decision not to release the film, Sony changed its mind and began distributing the movie to a select group of independent movie houses (about 300) across the country. Following contracts with Microsoft and Google, Sony also made the movie available for viewing and purchase online at its own website.

Senator John McCain called North Korea's extortion "an act of war." President Obama condemned the cyberattack, stating he feared such threats could be used to censor all media and promised a "proportional response" to North Korea's cyberoffensive.

The Sony hacking scandal also provided a vivid warning about corporate mine fields. Another, sometimes overlooked, is the danger of writing anything in an email that you wouldn't want to see printed in national newspapers with your own and your company's names attached. But the leak of embarrassing emails from Hollywood executives is actually overshadowing a much more immediate and insidious risk facing companies around the world: the appearance of those emails in the very public domain of a courtroom.

Although hacking does not always constitute a genuine risk to companies, there are many organizational and technology-based steps they can take to protect themselves against attacks, even those by self-styled pranksters.

### **Protecting Email**

One suggestion we are making is that readers investigate new technologies that can help, such as Vaporstream, that have the capacity to reduce or totally eliminate vulnerability to emails being taken and used for negative purposes.

However, there is usually nothing a company can do to protect emails on their servers from the discovery process in litigation or in regulatory reviews. Internal emails have played a prominent role in many high-profile cases such as the federal government's actions against Standard & Poor's and several large banks in the Great Recession mortgage scandals. Not only were their emails used as evidence against the firms, they were also leaked to the press with devastating effects.

Every day, in courtrooms around the nation, lesser-known corporate executives are confronted with and asked to publicly explain damaging emails. The legal and regulatory risks associated with internal emails are on the rise as plaintiff's attorneys recognize the value of such emails and broaden their discovery process known as "fishing." Regulators have also turned to internal emails in an expanding number of proceedings, including anti-trust moves.

By the time a court case or a regulatory review begins, it is generally too late to delete internal emails or prevent them from being scrutinized. Companies can only protect themselves from this risk through advance preparation. All should consider implementing certain procedures, some of which may be as onerous as they are necessary:

- Compose and distribute clear policies about what should—and, more importantly, what should not—be included in emails and how email generally should be used and stored.
- Hold mandatory training sessions for all employees, educating them about the risks associated with emails, instructing them to assume that all emails will be read by third parties, and informing them about the company's policies on internal and external emails.
- Consider recommending telephone or face-to-face conversations replace emails when practical—in short, take the walk down the hall. You might be glad you did.
- To the extent that compliance rules allow, all companies should implement systems by which emails are automatically deleted after some period of time—typically 30 days. Yes, companies will face pushback from employees about this policy, which can be irksome and disruptive. However, given the very real dangers that improper emails represent, management cannot afford to rely on the good judgment of their workers. Regular deletion of emails—including those on back-up servers—should be a basic risk management practice for every company.

**IMPLICATIONS FOR BUSINESS:** The Sony debacle is a wake-up call for business to tighten security measures against future cyberattacks, which are almost inevitable. Commercial enterprises have been a target of online vandalism for some time now. The added threat of physical violence makes security measures more essential than ever. The seed has been planted for a frightful new tactic in the cyberwarfare arena.

More immediately, corporate executives should recognize the potential threat posed by unfettered internal emailing. Heeding the protective measures outlined above could save a company a great deal of pain, embarrassment, and money.

## **THE RISE AND RISE OF LATTER-DAY ACTIVISTS**

Conditions that have encouraged the exploits of so-called corporate activists since 2009 continue to flourish: an improving economy, rising stock prices and ultra-low interest rates. For big institutions, all of these factors conjoined to make activist hedge funds very attractive places to send allocatable investment capital, a trend that has gained force since the end of the Great Depression.

At some point, the music will stop, or at least slow down, and these funds, many run by people once known as corporate predators, will recede in importance. But that point is not today, and may not be for some time yet. Meantime, the good news/bad news of what they represent remains a looming presence that management and boards need to acknowledge, and, in some fashion, address.

Hedge funds intent on taking steps to maximize value in the name of all of a company's shareholders began to step up their activities in the wake of the Great Recession and the collapse in stock prices that accompanied it.

### **Funds Proliferate**

But their efforts—and their numbers—have increased sharply since 2012. Currently, more than 400 funds worldwide focus on activism as a strategy to pursue hostile bids or to achieve other goals. More than 150 of them have emerged over the past two years. These funds have ample liquidity: more than \$100 billion, up from \$36 billion in 2009. In the month of May alone, investors poured \$6.5 billion into what are known as “event-driven” funds; of that, an estimated \$4 billion was directed to funds pursuing activist strategies.

Some of the funds run by people associated with 1980s-style corporate raiding, such as Carl Icahn and Nelson Peltz, are among today's activists. But many have managers who were scarcely out of high school when hostile takeovers were in vogue.

Institutional investors have been making heavy commitments to activist funds for at least two reasons: the activist strategies are producing good returns, and the public perception of what it means to be an activist has changed markedly since the late 1980s.

The results have been impressive.

From 2009 through 2013, activist funds have outperformed the broader hedge fund industry, generating compound annual growth rates of 20 percent, compared with 8 percent for all hedge funds and 13 percent for the Standard & Poor's 500 index. (The hedge fund performance numbers exclude fees.)

Aside from the results, what it means to be an activist—and what it means to be allied with one—have changed. Investors today perceive activists as working just to enrich themselves, but in the interest of all shareholders.

Though the number of hedge funds pursuing activist strategies and the amount of money devoted to such investing have increased sharply over the last two years, the overall number of activist campaigns has remained quite steady since 2009.

Through the end of the 2014 third quarter, 354 such campaigns had been launched—up 12 percent from the same period a year ago. But it is unlikely the total for all of 2014 will exceed the annual average of 432 campaigns initiated in the past five years.

Diverging from the raiders of yesteryear, today's activists for the most are not seeking to take over a company outright. Indeed, given the sharp rise in equity prices since 2009, the goal of taking over a large publicly held company would likely be beyond the grasp of even the biggest activist funds and their institutional investors.

The most commonly pursued objective among contemporary activist funds is to seek the replacement of one or more board members. But other goals are also popular, including the issuance of a special dividend or forcing a stock buyback; the spin-off or sale of a division; the outright sale of the company; or a wholesale change in management.

Companies may not need to be fearful of activist investors, but it would be a mistake to be unprepared if one or more such hedge funds begin to build a position in their stock.

There are, however, no hard and fast rules on how to prepare for this type of situation. Each situation is unique and management has to assess the goals of the activists, as well as how to placate them or fend them off.

To those who would like to see the entire problem disappear, experts caution to be careful of what you wish for; the cure could be worse than the disease. Investors, even activist investors, are often sources of the capital all businesses need.

### **IMPLICATIONS FOR BUSINESS:**

- Take stock of your company, at least annually;
- Make sure you have competent Investor Relations professionals;
- View the contemporary activist without tears—or fears. Many have good ideas.

## **M&A: MORE TO COME IN 2015**

Merger and acquisition activity last year reached its highest level since 2007, and M&A this year shows no sign of a letup.

Global M&A deals in 2014 totaled \$3.38 trillion, with transactions in the United States accounting for \$1.52 trillion, or 45 percent of the worldwide total.

M&A professionals anticipate an even more active 2015, with four out of five expecting their companies or clients to make at least one acquisition this year.

The pharmaceutical and energy sectors led the 2014 M&A parade, with drug companies moving to acquire new medicines to fill gaps in their product line-ups, and energy companies looking for ways to survive the current lows in crude oil prices.

By late November, health care deals accounted for \$438 billion in announced transactions, making 2014 nearly double the next-busiest year for health care M&A and the most active year in health deals in at least two decades.

### **Cost Pressures**

One reason for the spurt in health care deals is rising cost pressure on the health care system, as insurers and government health plans increasingly hold down or even reduce reimbursements to drug, device and service providers. A second reason is that some large pharmaceutical companies no longer have the powerful research and development capabilities they once did and are looking to acquisitions of smaller companies to gain the drugs they previously were able to develop in their own labs.

A major driver of several planned health care deals in 2014, as well as those in other industries, was the prospect of doing an inversion transaction. That is one in which a U.S. company combines with a foreign business in an effort to switch tax domiciles and avoid the 35 percent U.S. corporate tax rate. While a number of companies jumped on the inversion bandwagon during the year, the U.S. Treasury Department effectively ended the practice in September with an administrative effort to limit the economic benefits that inversions were aimed at producing.

What, then, are the factors that drive M&A activity generally? Opportunity—a company will move on a deal when a target becomes available—plus the desire to expand its geographic reach, enlarge its customer base, or enter new lines of business. There is no question that the availability of acquisition funds in the current low-interest-rate climate has also spurred takeover deals.

Do acquisitions benefit the companies that make them? Studies over the years have found that at least half of acquisitions reduce value rather than create it. However, there are notable exceptions, especially with smaller acquisitions. Unsuccessful acquisitions often set the stage for a spinoff or divestiture of the acquired company years later, usually by a different management without a personal stake in the original deal. In fact, studies show that spinoffs and divestitures generally add more value than acquisitions.

That is probably why the prospect of raising a company's stock price by ridding itself of businesses that are deemed to be a drag on earnings is a lure for an activist investor who seeks to force such an action.

**IMPLICATIONS FOR BUSINESS:** Investors' judgment of management is tougher than ever today. That scrutiny is intensified by the presence of the activist investors, who are quick to press companies to split up or shed businesses deemed to be underperformers. Companies should therefore take extreme care to justify any M&A steps they take on the basis that they will enhance value—and sooner rather than later. And they must thoroughly and skillfully communicate the value of acquisitions they make to investors, especially their institutional holders.

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*DID YOU KNOW?*

*Regardless of age, 81 percent of people think they are more adventurous than everyone else.*

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**FEDERAL R&D SPENDING:  
PENNY WISE, POUND FOOLISH?**

Disdain for all things connected with or sponsored by the federal government is reaching damaging, potentially dangerous levels.

The most recent example of this trend is the downward spiral that has occurred in federal spending on research and development.

The decline has been particularly sharp in the past five years. Since 2009, federal funding for research and development in areas such as medicine, defense, energy and agriculture has fallen by 10 percent in inflation-adjusted terms. As a percentage of total federal spending, outlays for research and development are at their lowest level since 1956, the year before the Soviets launched Sputnik. With Republicans gaining control of both houses, it does not seem likely the decline will be arrested—or reversed—anytime soon.

Indeed, Rep. Paul Ryan, Chairman of the House Budget Committee, recently said the government should be “paring back applied and commercial research and development,” and leaving it to the private sector.

Private industry accounts for roughly two-thirds of the money spent on research and development. Those funds—and the projects they underwrite—are clearly important. But federal government R&D must play an active role as well.

The Congressional Budget Office argues that Washington could do more to clear a path for private sector research. Devoting additional public resources to easing the transfer of government technology, it says, “would help private innovators better utilize the specialized equipment and expertise available at federal laboratories.”

President John Kennedy’s goal of putting a man on the moon by the end of the 1960s gave a big jolt to government-sponsored R&D, and the list of innovations conceived and born in government labs and on government drawing boards is long and impressive.

Between 1998 and 2004 for example, the National Institutes of Health’s budget doubled. During that period, federally-funded research completed mapping the human genome.

### **Many Federal Efforts**

Other advances that began as government projects include innovations like GPS, voice-recognition-software and the Internet, all of which were launched at the little known, but extremely important, Defense Advanced Research Projects Agency (DARPA.) R&D efforts conducted by federal government researchers and scientists are important because in many areas the private sector has no real incentive to do the work.

Pharmaceutical companies are reluctant to spend large amounts of money on researching and developing antibiotic drugs because their profit-making potential is limited.

Nonetheless, the need for these drugs is urgent and growing as various forms of potentially fatal bacteria are manifesting resistance to existing antibiotics. Efforts to develop a new generation of antibiotics to combat these so-called “super bugs” are much more likely to be sponsored in government laboratories than in the private sector.

The decline in federal R&D spending is taking place at a time when such moves elsewhere—particularly in China—are rising.

Chinese spending on research and development doubled between 2008 and 2012, even as its economy slowed. Its national plan, which expires in 2015, calls for boosting R&D to 2.5 percent of GDP by 2020 from 1.98 percent in 2012. This year China is expected to surpass the European Union in total public and private R&D spending, and projections have China outspending the United States within five years.

**IMPLICATIONS FOR BUSINESS:** Washington has an important role to play in product innovation, one that should be encouraged. Competition from outside the United States is rising. The more help the public sector can provide, the better. In the long run, shrinking federal R&D budgets will reduce the pool of talent private industry might access.

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*DID YOU KNOW?*

*There are now at least 70,000 bridges in this country that are “structurally deficient,” underscoring the continuing infrastructure crisis here.*

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## **RUSSIA AND THE WEST: WHAT’S AHEAD**

If ever there was a question about Russian President Vladimir Putin's views toward the United States, it was answered on October 24, 2014 when he accused the U.S. and its allies of manipulating the world order against Russia. Indeed, it is very clear that it will be a long time before tension between Russia and the West moderates.

Putin charged that the U.S. started the war in the Ukraine that has cost thousands of lives. The Russian leader said the U.S. “decided to reshape the world to suit its own needs and interests,” and he called for a new design of global governance. Without this, Putin warned, the world can expect more conflict.

Putin's imperial ambitions to regain more of the old Soviet republics bordering Russia have recently hit a roadblock with the harsh economic sanctions imposed by the U.S. and the West, and the steep plunge in the price of oil and gas, the backbone of a once-robust Russian economy. The Muslim insurgency in Chechnya, which Putin put down savagely, has also erupted again, adding to his domestic woes.

Crimea will remain under the Russian flag, but current incursions into Eastern Ukraine could now be hampered by a severely depressed domestic economy, giving the Russian president second thoughts about continued expansion—at least for the present.

Until Russians felt the impact of these sanctions and the collapsing prices of oil and natural gas that represent almost 40 percent of the nation's GDP, Putin enjoyed overwhelming popular support. Polls now indicate that support is beginning to wane as the Russian economy sinks into recession and serious inflation looms.

The Russian people are the victims, suffering both physically and economically.. The nation's latest health statistics are woeful. Russia's life expectancy is now 64 for men and 76 for women—137th and 100th in the world, respectively. To put this into a shocking perspective, the life expectancy for a 15-year-old boy in Haiti is three years longer than for that of a Russian boy the same age.

Nearly 25 percent of Russian men die before the age of 55, mostly due to alcoholism and other lifestyle factors such as HIV. Russia has the most heroin addicts in the world.

Evidence shows that only 30 percent of Russian babies are born healthy. In addition, half of Russian army personnel today are placed in limited service because of poor health.

### **Sanctions Hurt**

When the U.S. and European Union slapped sanctions onto Russia for illegally annexing Crimea, all exports of food from the United States to Russia and all fruit and vegetables from Europe were banned. That has had a further negative impact on the economy.

The value of the ruble has plummeted some 23 percent since August and the Russian central bank has forecast no growth in 2015. Additionally, the price of oil has fallen more than 50 percent since June, an amount Putin called a “catastrophic fall.” The drop in oil prices has hit Russia extremely hard in the midst of a recession.

And anyone who thought the KGB is no longer active should reflect on freedom of speech, business actions and more in Russia. State security is strong and very tough.

Many believe the U.S. has still not recognized the magnitude of the challenge posed by Russia. The annexation of Crimea and invasion of Ukraine are just the start, they say. Putin could raise the pressure on Ukraine and even threaten the Baltic states of Estonia, Latvia and Lithuania soon.

Although Putin has repeatedly rejected the idea that he wants to resurrect the former Soviet Union, many Russian specialists argue that the current economic crisis and isolation there may only raise the threat to its bordering states, many with very substantial Russian-speaking populations.

**IMPLICATIONS FOR BUSINESS:** It is impossible to predict what Vladimir Putin will do next. One thing is certain: the Russian people are in for serious suffering. Many multi-national companies with large business interests in Russia have already taken (or will take) serious financial hits. Russian firms listed on the NYSE are also being negatively impacted, as are global investors in Russian companies.

America has ruled out a military response to Russia’s adventures in Ukraine, but rather, commented President Obama, “What we’re doing is to mobilize the international community to apply pressure on Russia.” The U.S. decision not to take military action may have inadvertently increased the tensions of the crisis. As one senior European diplomat puts it: “Putin knows that he can always escalate to places we won’t go.”

## **CHINESE TECH RISE SIGNALS CREATIVITY PIVOT**

In China’s recent history of economic boom, economists and businesspeople have often pointed towards the Middle Kingdom’s lack of creativity as a potentially fatal weakness in its transitioning from low-end manufacturing to a high-end manufacturing and service-oriented economy.

What many do not realize is that few are more aware and critical of this weakness than the Chinese themselves. 2014 has produced a creative spark within China through its tech industries, a spark that both the government and the populace are collectively fanning with the hope of stoking a fire that will power this economic transition. In very real terms, China is proving to be a creative force in the Internet and mobile era. Equally important, the Chinese people are beginning to recalibrate their view of creativity and global entrepreneurship.

### **Creativity With Chinese Characteristics**

Perhaps the most popular foreigner in China over the past decade has been Steve Jobs. China has long venerated but hadn't yet proved fertile soil for Jobsian levels of technological innovation, creative genius and entrepreneurship. Still, millions of copies, both legal and pirated, of Walter Issacson's *Jobs* biography flew off the shelves in China; children's notebooks, clothing, and even eraser heads featured Job's trademark pensive gaze and turtleneck sweater; Steve Job's glasses even became a rage item among students and young entrepreneurs. While the idolization of Jobs signaled a shift in appreciation from the factory owner to the entrepreneur, that Jobs was not Chinese, nor was there any comparable figure in modern China, left major doubts among Chinese as to whether China could compete in vanguard industries.

The rise of the Alibaba Group's Founder and Executive Chairman Jack Ma to global prominence has carried as much symbolic value within China as it has economic worth. The Alibaba Group's (NYSE: BABA) record breaking IPO of \$25 billion has been heralded as proof not only that a Chinese entrepreneur can be successful, but also that the Chinese can hit home runs on both their home and away fields.

All of this has transformed Jack Ma into a powerful symbol of China's present and future strength—especially for China's youth. State media and, more impressively, every form of social media have exploded with articles about Ma. In the same way that Steve Jobs became an icon for breakthrough thinking and breakthrough business ideas in the States, Ma has been transformed into a legend, the prototype of a creative Chinese entrepreneur.

## **Incubation, Censorship, And The Rapid Growth Of Competitive Tech In China**

As part of its 12<sup>th</sup> Five Year Plan (2011-2015), the Chinese government's Ministry of Industry and Information Technology outlined plans to make China a global e-commerce leader. Growth in China's various tech sectors can partially be attributed to the "Great Firewall" and other methods used by the Chinese government to block the entry of foreign companies. China is home to over 640 million Internet users and 360 million online shoppers. There are more than 1.2 billion mobile phones in use. While control of the Internet is partially a move on the part of the government to censor the inflow of information, it has undoubtedly also been a policy decision to incubate the tech sectors to inspire and activate new generations of Chinese technology entrepreneurs.

That period of incubation has proven largely successful. The Chinese government has kept profits from China's massive social and mobile market share within China's own borders.

Alibaba's IPO and Jack Ma's new prestige both in and out of China mark a turning point in China's self-centric tech industries. China's next wave of high profile international tech IPOs looks imminent, with phone manufacturer Xiaomi and Internet portal Tencent's newest successful social media platform, WeChat, eyeing the foreign market. Xiaomi was founded in 2010 and is already the world's third largest phone distributor. At 4 years old and 440 million users within China alone, WeChat was recently ranked by Forbes as one of the world's most powerful apps.

**IMPLICATIONS FOR BUSINESS:** The popular perception of China being locked into the roles of manufacturing muscle or industry copycat is now being replaced by China's technological creativity ascendance. With the size of the Chinese tech-using populace and effectiveness of the government's technology and media blockade, do not expect the Chinese government to let foreign tech moguls compete on equal terms within China in the near future. Also, expect more Chinese companies to look to penetrate Western markets, encouraged by the precedent of Alibaba.

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### *DID YOU KNOW?*

*There are currently 4.84 million job openings  
in the U.S., the highest number since 2001.*

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## **CHINA: WHAT TO EXPECT**

China, the ancient land that has posted such remarkable economic growth during the past three decades after years of the communist ideology under Chairman Mao, has hit something of a road bump these days. Those eye-popping double-digit GDP growth rates are probably a thing of the past.

However, most China specialists believe its economy will continue relatively strong this year with a growth rate around 7.1 percent. That still places it well ahead of Europe while certainly eclipsing a struggling Japan and a recovering U.S. The Chinese economy will, in fact, soon become the world's largest ahead of America.

Giant Chinese companies are booming in spite of a housing/construction bubble that has sparked some of the current slowdown. In addition, consumer demand remains very high courtesy of a huge populace in acquisition mode.

Chinese skilled workers, businessmen, and money are visibly present and active in developing nations around the world. Nor does one have to look very far to discover major Chinese investments in dozens of U.S. blue-chip companies plus vast real estate ownership.

On the geo-political front, the Chinese have taken a very dim view of President Obama's national security-based "pivot" to Southeast Asia, aggressively promoting the doctrine that this entire region and the surrounding waters represent China's special "sphere of influence." This, needless to add, does not help stabilize already problematic relations between the two most economically rich and powerful nations in the world.

This core belief also explains Chinese militancy, whether concerning disputes with Japan over possession of some small off-shore islands or the presence of American warships in the South China Sea. Determined to hold sway over regional sea lanes, the Chinese have also been busy adding warships to its navy, which is backed by one of the largest armies in the world.

On a more positive note, President Obama's recent visit to Beijing, where he signed an historic, wide-ranging climate change agreement with President Xi Jinping, managed to calm matters somewhat between the two nations.

As China demonstrated late last year in semi-autonomous, more-democratic Hong Kong, its primacy cannot be challenged internally. China will continue to be that odd mixture of an authoritarian, capitalism-practicing state wrapped in the trappings of a repressive communist dictatorship. The vast Chinese population, of which hundreds of millions have been lifted into the middle class and scores made million and billionaires, has been quite willing to accept economic security in lieu of the political freedom and many other basic human rights offered by democratic rule.

**IMPLICATIONS FOR BUSINESS:** China, with its astronomic population of 1.4 billion, continues to be a dynamic and compelling market for American goods and services. Political rivalries notwithstanding, good—or at least improved—relations between the two nations are critically important for U.S. business.

There is plenty of upside in China, but be careful. The Chinese want it their way.

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*DID YOU KNOW?*

*Nearly half of Americans predict that 2015 will be a better year for them than 2014.*

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## **JAPAN'S LOCAL AND GLOBAL IMPERATIVES**

Japan, once with the USA, accounted for more than 40 percent of global GDP. While the Japan side of this has slipped, the economy in this country is something to watch.

Japan's economic performance in 2014 was lackluster given the high expectations for Prime Minister Abe's reforms. The opportunities for 2015 may lie in a rebound of corporate performance in particular, given an active M&A market and prospects for growth in strategic sectors, such as energy.

### **2014 Developments:**

- A sales tax hike expected to help boost inflation has damaged the already weak and recession-prone economy by keeping domestic demand weak.
- In late December the Abe Cabinet approved an emergency stimulus package worth ¥3.5 trillion (\$29.1 billion) to jolt movement in a stagnant economy.

- Japan's public debt is approaching 245 percent of GDP, rendering further fiscal boosts more politically difficult.
- Japan's currency has devalued by about 27 percent in 2014 making its exports more competitive but raising the price of its imports, especially energy—related resources. Japan is dependent on imports for 90 percent of its energy.



- Japanese trade has suffered deficits for three consecutive years:
  - Japan's trade in 2013 declined in both exports and imports, resulting in a trade deficit for three consecutive years.
  - Japan's current account surplus continued its decline to \$31.7 billion in 2013, influenced by the increased trade deficit.
- Japanese outward Foreign Direct Investment has reached a record high:
  - Outward FDI of Japan broke a record for the first time in five years, reaching \$135 billion on an increase of 10.4 percent. While the investment in countries of the Association of Southeast Asian Nations hit a record high of \$23.6 billion, investments in China dropped by 32.5 percent to \$9.1 billion.
  - Japan's return on outward FDI in 2013 totaled \$68.2 billion. By region, investment return from Asia was the largest, followed by North America, then Europe.

- During 2013 there were 2,048 M&A deals in which at least one party was a Japanese company:
  - This number grew by 10.8 percent from the previous year, which marks the second consecutive year in which M&A deals increased.

## **Coming in 2015**

### **Domestic Issues**

- Japan's record government asset purchases could lead to less pressure on its leaders for future fiscal stimulus. Equity markets have responded positively.
- Postponement of tax hikes and a lower corporate tax rate can help larger profit growth and lead to greater ROE and incentives for investment.
- A new emphasis on corporate governance has led to the development of the Stewardship Code and expectations that Japan's companies will adhere to global standards more closely.

### **Energy**

- In energy, oil remains the largest source of primary energy in Japan, although a promising trend is that oil's share of total energy consumption has declined from about 80 percent in the 1970s to 47 percent in 2012.
- Japan consumed nearly 4.6 million barrels per day (bbl/d) in 2013, down from 4.7 million bbl/d in 2012, making it the third largest petroleum consumer in the world, behind the United States and China.
- 83 percent of Japanese crude oil imports originated from the Middle East in 2012, up from 70 percent in the mid-1980s.
- Japan relies on liquid natural gas imports for virtually all of its natural gas demand and is the world's largest LNG importer.

- In May 2013, the U.S. Department of Energy gave approval for the Freeport LNG terminal in the Gulf of Mexico to ship LNG to countries that do not hold free trade agreements (FTAs) with the United States. This decision allows Japanese utilities to formalize deals for LNG supply from the terminal's operator
- Several factors favor the use of LNG over other fossil fuels and additional sources to replace nuclear energy after the 2011 earthquake:
  - Current government carbon-abatement policies and the government's pledge to lower greenhouse gas emissions support natural gas as the cleanest fossil fuel for Japan.
  - Also, natural gas remains cheaper than oil, in contrast to the situation following the last major earthquake in 2007, when fuel oil made the biggest gains from incremental demand.

**Foreign Direct Investment:**

- Sumitomo, Japan's third largest trading house, holds an agreement to buy 110 billion cubic feet of natural gas per year (Bcf/y) for 20 years from Cove Point LNG on the U.S. East Coast, which received approval to export to non-FTA countries in September 2013.
- In May 2013, Mitsubishi and Mitsui, Japan's two largest trading companies, first ventured into the U.S. shale gas export market by purchasing a combined 33 percent equity share of the Cameron LNG project located in the Gulf of Mexico. The companies have agreements to purchase 384 Bcf/y, or two-thirds of the terminal's export capacity, expected to come online by 2017

**IMPLICATIONS FOR BUSINESS:** Domestically, the Abe Cabinet has few arrows left to shoot to stimulate the economy. Japan's corporate titans have an opportunity to invest abroad, particularly in strategic sectors like energy to help boost a consistently beleaguered economy.

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*DID YOU KNOW?*

*According to the most recent U.S. Census Bureau statistics, within the current total U.S. population, 17 percent are of Hispanic origin, 14 percent African-American and 5 percent Asian.*

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## **OPEC: NO LONGER THE GLOBAL OIL RULING POWERHOUSE**

In the wake of the recent dramatic drop in oil prices to below \$50 per barrel (Brent), the role of the international cartel known as the Organization of Petroleum Exporting Companies (OPEC) has diminished markedly—a trend we see continuing in the coming months. In June of 2014 oil topped out at well over \$100 a barrel before the free fall and current oil glut began.

U.S. imports of OPEC oil are now at their lowest level in nearly three decades. While the U.S. is still a net importer, imported oil is rapidly approaching zero. U.S. oil production from shale beds in the Great Plains now almost equals, and sometimes exceeds, that of Saudi Arabia.

Oil hasn't been so cheap since September 2009. This has given a genuine boost to the American economy, starting with markedly declining gasoline prices at the pump. It has, additionally, helped to keep inflation in check, strengthened the dollar, created jobs, promoted investment, and trimmed the U.S. trade deficit.

Falling oil prices have inevitably placed a genuine burden on the budgets of several OPEC nations. The current global oil landscape is a long way from the early 1970s when a supremely confident OPEC sparked a global economic crisis by sharply curtailing production, with a resulting huge spike in oil prices.

That move was allegedly a response to the Israeli-Palestine Yom Kippur War. That was also perhaps the high point of OPEC's geo-political power and influence in international economic affairs.

Since oil needs around the world remain great, it would be foolhardy to discount the continuing clout of OPEC—especially in fast-developing, industrialized countries like China and India, plus much of Southeast Asia, not to mention oil-needy Japan. OPEC still controls about one-third or more of global crude oil production.

At OPEC's most recent meeting late last year, Saudi Arabia declined to limit production in order to boost prices. Later, the Saudi oil minister declared his country would maintain production levels to meet new competition "even if oil plunged to \$20 a barrel."

### **Shale Revolution**

In the new world oil order of recent times, the shale revolution has allowed the U.S. to emerge as one of the globe's leading producers—as much as nine million barrels a day—and No. 1 in refining capacity. Not far behind are Canada (reflecting the vast potential of oil tar sands being mined in Alberta) and Russia, clearly eroding the once near-monopoly of the OPEC nations.

To this latter-day reality shadowing the future of OPEC, add the specter of competitive fossil fuels such as much lower carbon-emitting natural gas from the explosive boom in hydraulic fracturing both here and abroad.

Concurrently, in the effort to slash greenhouse gas emissions, the continued expansion of such non-polluting, sustainable, renewable energy sources as hydro, wind, bio-fuels, and solar, along with the widespread use of nuclear power, have all challenged the dominance of OPEC. The devastating Fukushima disaster in Japan did give nuclear power a major setback, but this energy resource still represents some 20 percent of U.S. electric energy output and more than 90 percent in France.

Some industry experts have raised the possibility that the steady growth of renewables might reach a roadblock if oil prices drop too low, making the fossil fuel a more economic choice than ever for major oil users.

Long-term, look for the electric vehicle to have an impact, but recognize that the electric power that vehicles need will still be fueled by conventional energy sources.

**IMPLICATIONS FOR BUSINESS:** The unprecedented boom in the U.S. in oil production, tied to the increasing use of alternative energy sources, mean significantly cheaper energy costs—a very strong positive for business and the overall national economy.

## **THE GULF COOPERATIVE COUNCIL: WATCH CLOSELY**

In a move to offset the effects of a drop-off in oil demand, OPEC nations in the Persian Gulf—Saudi Arabia, Kuwait, Bahrain, Qatar, Oman, and the United Arab Emirates—all with still-robust economies, are pushing to develop new business sectors by working together in a new organization called the Gulf Cooperation Council. Initially, the Council aims to establish a joint customs union this year and, ultimately, full economic union. No one knows if this will work in a region where no nation has cooperated.

Leadership is key.

**IMPLICATIONS FOR BUSINESS:** If the Council works, look for significant investment and economic opportunity.

## **TUNISIA SURVIVES FADING "ARAB SPRING"**

Against a backdrop of a fast-fading "Arab Spring" in North Africa and the Middle East, Tunisia, the small land where the transition to democracy began with a self-immolation and the overthrow of dictator Ben Ali in December 2010, may now be one of the few survivors of that deeply flawed movement.

In a notably free and democratic presidential election last November, former Prime Minister Beji Caid Essebsi defeated a field of 26 other candidates, including a number of Islamist jihadists. He then triumphed over a fellow secularist, Moncef Marzouku, in a mid-December run-off. His victory also came in the wake of earlier parliamentary elections, which saw Mr. Essebsi's party win a majority of that body's seats.

Tunisia is now going through a transition stage, throwing off the remnants of decades of dictatorship and adopting democratic norms, including the sharing of power and the rule of law. Although the years since December 2010 witnessed frequent street demonstrations, political assassinations, and terrorist activities, democratic institutions managed to prevail.

Mr. Essebsi, at 88, may be one of the oldest political figures still at the helm of a country, due, somewhat ironically, to considerable support from younger Tunisians. One such supporter suggested that he might have used Ronald Reagan's celebrated quip against 1984 presidential adversary Walter Mondale: "I will not make age an issue in this campaign. I am not going to exploit for practical political purposes my opponent's youth and inexperience."

Tunisia, which originally won its independence from France in 1956, is the only Middle East or North African Arab nation where a budding democracy exists, however fragile.

Despite pretensions at democracy, nearly all the Muslim nations in North and East Africa and the Middle East—Sudan, Somalia, Libya, Egypt, Iran, Iraq, Syria, Yemen, Kuwait, Saudi Arabia, and the smaller Gulf States—are essentially either monarchies; theocratic and military dictatorships; pseudo-democracies; or regions controlled by tribal leaders authoritarian by nature.

**IMPLICATIONS FOR BUSINESS:** Everyone is watching the Tunisia “experiment.” Those who favor monarchy or a totalitarian form of government should be expected to try to make Tunisia fail.

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*DID YOU KNOW?*

*Approximately 10,000 babies are born in the U.S. every day.*

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### **AFGHANISTAN: NEW LEADERSHIP, NEW HOPE?**

It has been announced that the longest running war in U.S. history is over. But the U.S. still has 13,000 troops in Afghanistan. The casualties since 2001 in blood and treasure have been high. By now, most Americans have become weary of the struggle, which has claimed as many as 2,500 lives, many more wounded, and countless billions in expenditures.

President Obama originally stated that American troops would remain in this benighted land as non-combatants to train the Afghanistan army during 2015 and 2016, with about 4,000 NATO troops slated to join them. All are technically supposed to withdraw by the end of 2016. Obama, however, later changed the mission, allowing U.S. jets and drones to support the Afghan military and engage in other combat activities.

With a new Afghan president, former World Bank executive Ashraf Ghani, replacing the crafty, obstructionist Hamid Karzai, the world hopes for the best. Ghani says he is determined to overcome corruption, reform the economy, and take the lead in the battle against the repressive Taliban. Still, week after week, one now hears about Taliban militants killing more Afghans and American soldiers, often in suicide bombings. No invading army during the past century has succeeded in Afghanistan.

America has done much good in this poor, war-torn country—opening new schools, helping to advance women, and saved many Afghan lives. We have also essentially ended al-Qaeda's use of Afghanistan as a training base.

Looking ahead, the Afghans will have to put aside political factionalism and truly share power, win the support of powerful tribal leaders, eliminate pervasive corruption, and take full responsibility for themselves in putting down the Taliban insurgents.

**IMPLICATIONS FOR BUSINESS:** A peaceful, developing, pro-American Afghanistan, a country rich in untapped mineral resources, can be a valuable asset both as a market and investment target, but only if the Taliban is ultimately defeated.

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*DID YOU KNOW?*

*Scientists have identified approximately 5,300 diseases that affect humans. Only 500 are treatable.*

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**IRAQ: ISIS NOW THE MAIN ENEMY**

In the spring of 2003, the U.S. invaded Iraq believing the conflict would be over quickly and decisively—“Mission Accomplished.”

It proved otherwise.

In the succeeding decade, the cost to the U.S. was high: at least 4,500 American dead, some 30,000 or more wounded, and an estimated two trillion dollars in treasure, factoring in the appropriations for the ongoing post-war care of veterans.

American combat troops did not formally leave Iraq until the end of 2013 after then-Prime Minister Nuri Kamal al-Maliki refused to allow any remaining troops to enjoy immunity from Iraqi rule and arrest. That reality changed again last year when President Obama sent 3,000 U.S. military back into Iraq in response to new threats posed by rapidly-advancing, brutal, Sunni-based ISIS (Islamic State of Iraq and Syria) forces.

In the wake of the extremist ISIS legions' takeover of some one-third of Iraq's land area (including the nation's second largest city, Mosul), the fiercely uncooperative, autocratic, anti-Sunni al-Maliki, after eight years at the top, was replaced in a close election by a much more thoughtful, accommodating, inclusive, democratically inclined head of state, Haider al-Abadi, who, in his short tenure has already made a number of conciliatory moves toward both the Kurdish and Sunni populations.

Al-Abadi has blocked sentences ordered by the country's notoriously corrupt judiciary, entered into a revenue-sharing agreement with the Kurds in the North and, unlike al-Maliki, appears quite willing to share power with the minority Sunnis, who were openly discriminated against and often jailed, exiled, or simply ignored by his predecessor. Osama Nujalfi, a Sunni, now holds the Iraqi vice-presidency.

### **Al-Maliki Hangs On**

Al-Maliki, alas, has not gone quietly. Refusing to vacate his plush office in the Green Zone, he has been busy collecting supporters still in the government for what he hopes will be a return to power. He has also traveled abroad, strengthening ties with Shiite allies in Lebanon (Hezbollah) and Iran.

Although al-Abadi's ascendancy has been greeted very favorably by the U.S. he is far from secure in his new role. The ISIS forces are powerful, ruthless and highly motivated, though they have taken a severe pounding from U.S. air strikes. He must also deal with Iraq's many tribal Shiite militias, which do not take orders from Baghdad and seem ever-ready to take down Sunnis.

Al-Abadi is a courageous man who has said he is not afraid of being assassinated. Yet there is little doubt that his political opposition, led by al-Maliki, is relentless, determined, and strong. The U.S. is doing what it can to support the new Iraqi administration—most importantly, its training and disciplining of the Iraqi army.

Though the sectarian hostility and intimidation between Sunni and Shiite has moderated somewhat, it remains a fearsome fact of daily life in this troubled, fragmented nation. Inflamed under al-Maliki's rule, such enmity certainly has been a critical factor in the rise of ISIS.

**IMPLICATIONS FOR BUSINESS:** Any move in Iraq to more democratic governance is to be welcomed but is also very risky.

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### *DID YOU KNOW?*

*About 12 percent of the global population is left-handed (southpaws)—many more men than women.*

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## **THE PALESTINE/ISRAEL CONFLICT: NO END IN SIGHT**

Now well into its seventh decade and after three major wars, several incursions, two intifadas, thousands of dead and wounded, widespread destruction and numerous unsuccessful peace-seeking confabs, the Palestinian/Israeli conflict seems as angry, hostile, deadlocked and unending as ever—if not more so in the wake of a decided swing to the right by Israeli leaders and members of the Knesset, the nation's parliamentary body.

Their hardline stance against the long-proposed “two-state” solution has been strengthened by increasing anti-Israel sentiment across Europe, and particularly among American academics following Israel's recent military action against Gaza.

Though Israel felt it had to act to eliminate persistent rocket fire from Gaza and a network of cross-border tunnels, the disproportionate death toll of Palestinians (over 2,000 compared to fewer than 200 Israeli soldiers and civilians) has given new impetus to a global campaign to boycott Israeli goods and services and dis-invest in its many publicly traded companies.

### **Egypt Only Exception**

Today, with the exception of Egypt, Israel is technically at war with all of the Arab states in the Middle East. It also continues to be the most reliable and by far most democratic ally of the U.S. in the region. However, proponents of a two-state solution fear that the status quo will only serve to diminish democratic institutions in Israel as a second-class Arab citizenry (about one-fifth of the total Israeli population) keeps on growing.

The sticking points for any kind of permanent accord have hardened as the religious right acquires greater power—most notably, the escalating Jewish settlements in the West Bank and the Palestinian section of Jerusalem. Also blocking the way are the need to precisely define practical border lines between the two nations; governance of Jerusalem, a city with a very large Arab population; the refugee issue, which is now almost irrelevant after all these decades though still pushed by the Palestinians; and, very centrally, Israel's future security and recognition by the Arab nations as “a Jewish state” fulfilling the enduring Zionist dream.

Notwithstanding U.S. Secretary of State John Kerry's dedicated efforts to facilitate some kind of new meeting and eventual agreement, we see little progress in the months ahead. The recent, very destructive short war in Gaza appears to have forged closer relations between the Palestinian Authority in the West Bank and Gaza-based Hamas.

Polls have shown the Labor Party running neck and neck with conservatives of the Likud Party (led by Prime Minister Benjamin Netanyahu) in the upcoming mid-March elections. Netanyahu has given lip service to a final “two-state” pact; he has been less than compromising when push came to shove. Now, after his coalition government has collapsed, the extreme right opposition is more powerful than ever with an election coming up shortly. Though close, odds-makers are betting that Likud will prevail. Meanwhile, Israel is operating under a caretaker right-wing government.

Perhaps the most intractable, contentious issue remains the safety and well-being of the swelling population of Jews now resident within the West Bank—estimated to be more than 300,000. Forceful removal, as was the case when then-Prime Minister Sharon relinquished Gaza, is regarded as virtually impossible. Monetary incentives to move may be a potential answer, or carving out Jewish settlement zones in any new Palestine state.

Most recently, the rejected move by the Palestine Authority’s Mahmoud Abbas calling on the United Nations to pass a resolution ending the occupation of the West Bank and East Jerusalem further angered the powers that be in Israel. Undeterred, Abbas says he will now go to the International Criminal Court to indict Israel for “war crimes.” None of this is helpful for the ongoing efforts to reach some kind of agreement in this extremely turbulent region of the Middle East.

On a somewhat more hopeful note, this past Sunday, January 11, an estimated one million people showed up for a huge anti-terrorist demonstration in Paris. In the vast wave of humanity at the rally—the biggest in French history—were Messrs. Abbas and Netanyahu, in addition to the heads of state of many Islamic nations.

**IMPLICATIONS FOR BUSINESS:** Many Americans and American firms have made major investments in Israel and a number of leading Israeli companies are now publicly traded here. That noted, continued unrest and a failure to resolve the Palestinian morass after so many decades of strife and turmoil cannot be viewed as a welcome development.

## **CUBA OPEN FOR BUSINESS?**

President Obama's announcement on December 17 that the U.S. will re-establish diplomatic relations with Cuba has spurred renewed interest and speculation about future political and economic relations between the two countries.

While, as expected, the decision was sharply criticized by Republican congressional leaders and many pro-embargo Cuban-Americans, the American business community has generally applauded the move. Supporters of the president's policy include the U.S. Chamber of Commerce, Cargill, General Motors, Caterpillar, Marriott, Hilton, Orbitz, United Airlines, Carnival and John Deere, among others. And there are notable Republican supporters as well, including Senators Rand Paul of Kentucky and Jeff Flake of Arizona.

A Washington Post-ABC poll found that a large majority of Americans support establishing diplomatic ties with Cuba, and even larger—and growing—majorities support an end to trade and travel bans. Sixty-eight percent support ending the trade embargo—up 11 points from 2009—and 74 percent support ending travel restrictions, a jump of 19 points from five years ago.

While many U.S. businesses see opportunities in the opening to Cuba, significant barriers to full economic engagement remain. First and foremost are U.S. laws that enforce the embargo, the most recent being the Cuba Democracy Act of 1992, better known as Helms-Burton after its sponsors. U.S. laws currently ban imports from and exports to Cuba, other than food and medicine. American leisure tourism is also forbidden.

Other potential hurdles include:

- A lack of business transparency, fixed rules of the road and a healthy business climate in Cuba may make investors leery;
- The Cuban people have little disposable income for consumer goods;
- Compensation claims for U.S. assets seized after the Cuban revolution remain unresolved;
- The fate of American fugitives who have been granted asylum in Cuba, especially Joanne Chesimard, the killer of a New Jersey state trooper in 1973, must be settled.

Nevertheless, the historic nature of the new initiative should not be underestimated. And despite the fact that only Congress has the power to end the embargo, President Obama has broad authority to issue licenses for increased trade and economic activity.

In fact, despite the embargo, the U.S. is the fourth largest exporter to Cuba after China, Spain and Brazil. American agriculture companies export hundreds of millions of dollars worth of corn and soybeans there annually, although they must be paid for in cash. In addition, some 300,000 Americans visit Cuba each year because they have family living there or as part of cultural, educational, people-to-people and religious activities.

**IMPLICATIONS FOR BUSINESS:** Until U.S. laws are changed, many American companies will still be unable to do business in Cuba. But one immediate beneficiary of the new policy should be the American travel industry as reduced restrictions mean more American visitors to the island. In addition, relaxed financing restrictions on Cuban purchases of U.S. agricultural products should help American farmers.

And should the U.S. remove Cuba from the list of state supporters of terrorism, financing of agriculture and mining equipment could become easier, possibly including help from the International Monetary Fund or other international creditors.

But Cuba will need to make the transition to a more market-based economy, a process that probably will be a slow, deliberate one.

While there are many new opportunities, U.S. businesses will need to tread carefully as they move into a market in which very few Americans have any recent experience. For most, it will be a slog not a sprint.

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*DID YOU KNOW?*

*Thirteen of the 15 U.S. cities that added the most people between 2012 and 2013 were in the South or West. The one major exception was New York City, which added 61,400 people, by far the largest numeric increase of any city.*

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## **TERRORISM: ON THE WANE?**

Anyone who thinks terrorism is on the wane is wrong. The January 7 attack that left a dozen dead at a Paris newspaper was a grim reminder that while most terrorist killings occur in the Muslim world, the West remains as vulnerable as ever to sudden, bloody violence.

And that was only the most recent piece of evidence. Consider:

- March, 2014—French police stopped a terror attempt on the Côte d’Azur. Four are killed at the Jewish Museum of Belgium in what is later believed to be the first instance of a successful Syria-linked terror act.
- June, 2014—Police in Kosovo arrest ISIS fighters plotting suicide attacks.
- July, 2014—U.S. orders increased vigilance at airports over fears of al-Qaeda bomb-making.
- July, 2014—Norwegian authorities raise the country’s terror alert.
- August, 2014—The U.K. raises its terrorism threat level to “severe,” based on threats against Britain.
- August/September, 2014—Islamic extremists behead Western journalists in Syria.
- December, 2014—132 Pakistani schoolchildren are murdered.
- December, 2014—Counter-terrorism police in Sydney arrest two men, charging one with possession of documents designed to facilitate a terrorist attack.
- January, 2015—During the recent Boko Haram rampage in the Nigerian town of Baga, dead bodies littered the streets. The Islamic insurgents then torched the town.

And while this is going on, consider ISIS (also known as ISIL).

Its aim is not to strike at enemies far away, but to spread and impose its vision of an Islamic society. Its ideology is a violent mutation of Wahhabi Islam, described in this Report over a decade ago. The dominant sect of Wahhabism is in Saudi Arabia, and it is airing its propaganda via Twitter and Facebook—directly at young people.

Terrorists in all parts of the world have mastered the Internet and social media and are using them to “educate” tens of thousands of young men and women and to create a Jihadist threat of enormous proportion.

**IMPLICATIONS FOR BUSINESS:** ISIS has the manpower, money and know-how to hit the West should it decide to do so. Americans are not safe. The times are dangerous and Americans traveling abroad should be very concerned. The end of the threat is not in sight. Keep your eyes on the Khorasan, a group of al-Qaeda operatives—different from ISIS—across the Middle East, South Asia and North Africa. At this point we have little information about this group, but we do know it is most intent on attacking the United States and its installations.

## **A WAR ON INSTITUTIONS?**

Pressure on institutions that have formed the foundation of American society—the police, the Church, education, the law and perhaps the military—is growing.

Where the pressure is coming from has yet to be determined. Evidence that this is an orchestrated effort is hard to come by. And while many sense some pressure is mounting out there we are reluctant to name names at this point. Race, income inequality, fairness and other factors are being used to attack institutions. Expect more of this.

**IMPLICATIONS FOR BUSINESS:** If institutions crumble, serious instability will follow.

## **COMMERCIAL DRONES: THEY ARE COMING**

The fast-growing aspect of the drone phenomenon is their increasing employment for business purposes. Although now widely used commercially in Europe, Australia and New Zealand, they have come up against a kind of “stop sign” in the U.S. due to the slow response of the Federal Aviation Administration.

So far, the FAA has not issued specific commercial drone regulations, although it has given a few companies permission to operate them. For example, oil giant BP now uses them for aerial monitoring in Alaska.

Amazon.com and Google have proposed their use for the delivery of goods. Commercial drones have also proved to be time and money-saving for surveying, monitoring and inspecting agriculture and for TV and motion picture photography. There is also a growing fraternity of drone hobbyists.

But for drones to fly regularly in already congested air spaces will require stringent rules and regulations. That is why many industry experts believe Congress will soon pass legislation about the size of unmanned aircraft; how high they can fly; where they can fly; and mandatory distances from airports and commercial airline routes.

Scores of drone manufacturers and distributors sponsored popular booths at the just-concluded International Consumer Electronics Show in Las Vegas. All attracted great interest—another reason the industry expects to expand once commercial “dos and don'ts” are properly codified.

**IMPLICATIONS FOR BUSINESS:** Commercial drones' economic potential is indisputable, but they will have to be closely regulated because of today's crowded air space. The sooner Congress or the FAA acts to establish such safeguards, the better.

## **SOCIAL MEDIA: WHERE IS IT GOING?**

2014 was a groundbreaking year in the development of social media. Once seen as the province of self-absorbed adolescents, social media now touch every aspect of our lives. They have become a major force in business, social movements, charity and entertainment.

Though still in their relative infancy, social media have been adopted by every demographic group, with the 55-64 year-old bracket growing at the fastest pace on sites like Facebook.

There are 1.28 billion registered users of Facebook, 645 million on Twitter and another 200 million on LinkedIn. In terms of active users, Instagram boasts 300 million active monthly visitors, surprisingly passing Twitter (284 million monthly visitors) in 2014.

YouTube has emerged as the No. 2 search engine, trailing only Google. To get an idea of the influence of YouTube, consider these numbers:

- 60 hours of video are uploaded every minute, or to put it another way, one hour of video is uploaded to YouTube every second.
- Over 4 billion videos are viewed a day.
- Over 800 million unique users visit YouTube each month.
- 98 of AdAge's Top 100 advertisers have run campaigns on YouTube and the Google Display Network.

## **Citizen Journalists**

Social media have revolutionized the news business.

Smartphones give millions of people the ability to act as citizen journalists. Breaking news is spread globally through social media channels. Videos from war zones and crime scenes have led to some of the biggest news stories of recent years. Many first learned of the Boston Marathon bombing through photos and videos posted on social media. Traditional news outlets have taken notice.

Fully 30 percent of people cite Facebook as their primary source of news. Fox News has 9.4 million likes on Facebook. Every major news outlet maintains at least one Twitter handle. @CNNbrk (for breaking news) has 15.2 million followers. *The New York Times* has 14.5 million followers for its main Twitter page, and its sub-pages, like New York Times Books, also have over a million followers.

## **Charity And Philanthropy**

Social media's power to raise money for excellent causes was fully on display this year. The Ice Bucket Challenge raised over \$100 million for ALS (Lou Gehrig's disease). In the same time frame in 2013, only \$2.8 million was raised for the disease.

A search for the Ice Bucket Challenge on YouTube revealed nearly 6.9 million results.

As of September 2014, more than 17 million videos related to the Ice Bucket Challenge were shared on Facebook alone, and these were viewed more than 10 billion times by more than 440 million people.

## **Social Issues**

Social media's impact on social and political matters was never more in evidence than in 2014. The Trayvon Martin incident and the subsequent deaths of Michael Brown and Eric Garner sparked outcries on social media that have turned into a movement.

The No.1 Twitter hashtag of 2014 was #ICantBreathe, while #IAMMikeBrown was second. An entire movement, #Black Lives Matter, has been fueled by social media.

Since social media have completely changed the way we communicate, it should come as no surprise that social media have changed the way we do business.

Internet marketing will make up 25 percent of the entire ad market in 2015. And marketers will spend \$8.3 billion on social media advertising. By 2018, that number is expected to grow to \$15 billion.

Seventy percent of business-to-consumer companies acquired customers through Facebook. Over 90 percent of business-to-business companies are active on social media. Two years ago, 67 percent of companies had dedicated social media teams. Today, that number is up to 78 percent.

The digital space offers opportunities to precisely target niche audiences, to reach them with the kind of content they want, and to reach them on a variety of devices, including smartphones and tablets.

**IMPLICATIONS FOR BUSINESS:** Businesses must not only become active on social media, they must appreciate the dynamics of communicating on social media. Where advertising and marketing were once one-way streets, social media have turned the tables. Brands and businesses must learn to engage in conversations with their constituencies. Listening to your customers and reacting accordingly is the key to success in this new digital landscape.

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#### *DID YOU KNOW?*

*Fewer Monarch butterflies are crossing North America to winter in Mexico. In 2004 an estimated 550 million completed the winter migration; last season an estimated 33 million made it.*

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## **THE TRUTH ABOUT MILLENNIALS**

As the members of the Millennial generation—those born between 1980 and the mid-2000s—have started to come of age, some onlookers have been quick to dismiss the group as a menace—entitled, lazy, non-committal, unfocused. These Facebook-savvy, selfie-loving, “digital natives” have turned genuine human connection into crude, 140-character snippets, many argue. Other commentators suggest Millennials have no interest in marriage, are perpetually unemployed, and prefer to live in their parents’ basements.

Of course, the problem with these generalizations is that they are caricatures. Yes, Millennials are fluent users of digital technology, have been suffering from an inordinately high unemployment rate, and tend to make different personal decisions than the generations preceding them. But they also represent about one-third of the U.S population, and several factors have shaped their values and concerns. Here are three of the most important.

### **It's The Economy, Stupid**

The oldest members of the Millennial generation were just 27 as the Great Recession took hold of the Country, impacting their job prospects for decades to come. Even now, with the labor market stabilizing, younger Millennials are entering a relative job desert, with the unemployment rate for 20 to 24 year-olds at 12 percent. That's more than double the national average of 5.6 percent.

Unemployment is not the only issue; Millennials also have been impacted by underemployment. According to the U.S. Department of Labor, about 750,000 bachelor's degree-holders, or 26.8 percent of graduates under the age of 25, are underemployed. The combination of unemployment and underemployment already has led to an average savings rate of negative 2 percent among Millennials, a challenge that will diminish this cohort's ability to consume at a similar rate as past generations during their prime earning years.

Perhaps for this reason, Millennials are not as focused on "career-hopping" as many claim. Recent research found that 80 percent of Millennials believe they will hold only 4 or 5 jobs over the course of their careers.

### **Education ... And Debt**

As one strategy to combat these challenging economic circumstances, Millennials have turned to education. They are the most educated generation in U.S history, pursuing college and university degrees at an unprecedented rate.

The skills they are gaining are likely to give Millennials significant advantages as the global knowledge economy continues to expand. However, this comes at a price, as the average college-goer has taken on about \$25,000 in student loan debt. The distribution of this debt is skewed, with working- and middle-class students bearing the brunt of it. Considering that the economy has not been robust enough to support the majority of students in paying back their loans, the net gain from higher education for Millennials, or the country as a whole, is still unclear.

The combination of a weak economy and heavy debt may underlie another characteristic of the Millennial generation, the tendency to delay marriage. The median age for a first marriage is 29 for men and 27 for women—the highest ever. A recent Pew survey found that 69 percent of unmarried Millennials say they would like to be married someday, but many, especially those with lower levels of income and education, lack what they deem to be a necessary prerequisite: a solid economic foundation.

### **Digitization**

Members of the Millennial generation have grown up in an era of rapid technological change, the first cohort in U.S history to be known as “digital natives.” This new landscape has had a profound impact on the way Millennials perceive themselves and the world around them. While digital technologies have made it easier to position themselves at the center of self-created networks, they also have enabled Millennials to innovate on an unparalleled scale. As one example, the founders of three of the top five companies on Forbes’ list of “Hottest Start-ups in 2014” are Millennials; and some of the most sophisticated platforms for addressing long-standing challenges in developing countries have emerged from Millennial minds.

As digital technologies evolve, Millennials are poised to harness the benefits. They are the ones most capable of using these tools to propel economic growth and open new possibilities worldwide.

**IMPLICATIONS FOR BUSINESS:** Members of the Millennial generation soon will enter their peak earning years. Providing them with economic and personal growth opportunities now will yield dividends for corporations and the national economy for years to come. Exploit their digital expertise and look to advance the use of new technologies in business. Recognize they are potentially loyal to employers and not “career hoppers.”

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#### *DID YOU KNOW?*

*President Barack Obama, the first African-American to become President of the United States, was also only the second black man to be elected by voters to the U.S. Senate. The first was Edward Brooke, elected by popular vote to the Senate from Massachusetts in 1966.*

*United States Senators were appointed by state legislators until the 17th amendment to the federal constitution gave that right to the people.*

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## **CASINO GAMBLING: THE LID IS OFF**

Legal casino-type gambling, wagering, gaming—call it what you will—is taking off in the U.S.

Under federal law, gambling is legal, but severe restrictions cover all interstate and online activities. At the same time, every state is free to regulate or prohibit gambling. And many are doing just that. Race track and sports betting as well as state-sponsored lotteries have been commonplace in this nation for some time, and now barriers to commercial casino gambling are falling.

At least 21 states permit the operation of privately funded, commercial casinos with slot machines, roulette wheels, and card table games.

Revenue-starved states and municipalities have tapped into this source of income through acts passed by their respective legislatures or by voter referenda.

Some history: In the early days of the 20th century, Nevada was the one state that allowed casino gambling. A second breakthrough came in the 1970s when New Jersey gave Atlantic City the green light to operate casinos. Some dozen casinos opened inside posh hotels, prospering impressively as they attracted hordes of visitors, mostly from the Northeast, while delivering substantial revenues to the state.

Connecticut then allowed Native Americans in the eastern part of the state to set up casinos free of governmental restrictions.

But the near-monopoly came to an end as more and more states began approving casino gambling, the most recent being New York State, which is in the process of authorizing casinos in three (or possibly four) upstate locations. Last year, five of Atlantic City's competition-battered casinos shut down, throwing thousands out of work and closing out their revenue streams to state and local coffers.

**IMPLICATIONS FOR BUSINESS:** Expect more emphasis on casino-style gambling as a source of local revenues despite the fact that the millions diverted from consumer spending may have a pernicious impact on business recovery and economic prosperity. Also note the turn away from the Protestant Ethic and the long-range implications of that.

## **BUSINESS SUCCESSION PLANNING: A CRITICAL ISSUE**

Changing demographics foreshadow a troublesome upper-level talent shortage that will force leadership transitions on a massive scale, making succession planning a priority in boardrooms and C-suites.

The first of 76 million baby boomers turned 65 in 2011, and 10,000 boomers now turn 65 every day. It has been predicted that 18 percent of the workforce could retire within five years, and CEO departures are at a four-year high.

The generation that follows the baby boomers adds up to just 44 million and, by 2020, the number of leaders within the age range of 35-55 will be at its lowest ebb. Companies losing senior talent will either have to choose from a limited pool of experienced candidates or turn to the younger generation whose oldest members are still in their mid-30s.

With few exceptions, executives from this generation are not ready to take on top positions with major organizations. In fact, just 5 percent currently hold senior management positions.

### **Specialized Knowledge**

Hardest hit industries include those that depend heavily on specialized knowledge such as pharmaceuticals, as well as sectors with a relatively older labor force. Oil, gas, energy, health care and government are among sectors considered at particularly high risk. In 2014 the health care industry led all sectors in CEO departures.

Data show only 27 percent of board directors have much confidence in their company's CEO talent pipeline. Just 15 percent of organizations currently have a strong bench, and fewer than half of critical positions can be filled immediately.

Many businesses share a sense of trepidation as they face the potentially serious consequences of unpreparedness.

Family-controlled businesses, which typically do not have robust, documented succession plans, are becoming increasingly concerned about finding talented employees.

According to Julie B. Kampf, CEO/President of JBK Associates International, an award-winning executive talent solutions firm that specializes in the acquisition and development of senior-level leadership with a focus on diversity recruitment, some high-performing organizations are pushing succession planning further to include a wider range of positions and are also recognizing the benefits of employee engagement and retention. For organizations that fill a larger percentage of their positions internally, those benefits can lead to significantly greater leadership strength and financial performance.

In addition to developing succession plans, organizations concerned with the brain drain are taking steps such as increasing training, hiring retirees as consultants, offering flexible work arrangements and developing knowledge transfer programs.

**IMPLICATIONS FOR BUSINESS:** Expect jolts as underprepared leaders take charge of organizations in sectors that require deep knowledge and judgment. Look for new ways to emerge that tap and train talent.

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*DID YOU KNOW?*

*One in eight people—805 million worldwide—  
goes to bed hungry every night.*

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**MORE WOMEN MOVING INTO  
C-SUITES, GOVERNMENT**

Ninety-nine women are members of the 114<sup>th</sup> U.S. Congress—just over 18 percent—20 in the Senate and 79 in the House. And one-third of the Supreme Court are women: Ruth Bader Ginsburg, Elena Kagan, and Sonia Sotomayor. It now also appears that a woman, Loretta Lynch, will become the next U.S. attorney-general.

This year, women will be governors of five states—Rhode Island, Oklahoma, New Mexico, New Hampshire, and North Carolina. Hundreds of female law-makers will serve in state legislatures. Additionally, women hold an impressive number of mayoralities in key cities, including Houston, Minneapolis, Las Vegas, Baltimore, Fort Worth, Omaha, Raleigh, Oakland, Rochester, Corpus Christi, Fresno, Savannah, and New Haven.

It should be noted, too, that some 200,000 women are on active duty in the U.S. military, of whom 69 have achieved the rank of general or admiral. Everywhere in the upper strata of business and government, women continue to make important strides—a trend that is sure to increase going forward.

This despite the fact that it was not until 1920 that women won the right to vote.

C-suites, too, are increasingly being occupied by women. Among the current Fortune 500 CEOs, only 26 are women, but they are presently leading some of the largest multinational companies in the world. Scores of females are also serving on corporate boards of directors.

**IMPLICATIONS FOR BUSINESS:** Unlocking and utilizing the skills and talents of more than one half of the nation's population represents an historic advance for business, government and our armed forces—a significant strategic advantage for the U.S.

## **GLOBAL POPULATION: THE GOOD AND THE BAD**

The global population stands at 7.2 billion and is estimated by most demographers to reach 9 billion by mid-century with little evidence that the human capacity to feed itself is vanishing or that the Earth's abundant mineral resources are being irrevocably depleted.

Nonetheless, population growth, or the lack thereof, remain a pressing problem for numerous countries around the world depending upon their location, relative wealth, and culture.

The rise in population, demographers agree, is first and foremost a function of economics in those regions of the world—mostly Africa, Asia and the Middle East—where so much of the citizenry is impoverished and birth rates are high and will probably continue to be so for some time to come. Minimal health support, plus a lack of birth control knowledge and devices, play a role in swelling birth rates. It is also widely believed by the locals that more offspring, especially males, improve a family's financial status as they become future money-earners.

The notable exceptions to Asian population growth are highly industrialized Japan and the globe's most populous nation, China, as a result of its long-established one-child policy.

Europe—in particular Germany, Spain, and Scandinavia—is also witnessing drops in fertility rates that could have harmful economic consequences.

In the U.S., the population has been growing steadily since the end of World War II when it was about 150 million. Today, it is approaching 320 million.

That said, the U.S. fertility rate has fallen for the past six years, standing at 1.86 per family in 2013, well below the 2.1 needed to maintain a stable population.

**IMPLICATIONS FOR BUSINESS:** Rising populations equate to rising markets for both goods and services. Conversely, the population growth in economically disadvantaged nations suggests the potential for mounting social unrest as the unemployed and alienated respond to the siren song of extremism.

## **IMMIGRATION'S IMPACT**

In November, President Obama altered the nation's immigration policies through executive action. It was a controversial maneuver for an issue where the only point of agreement appears to be that all sides believe the system is broken. From there, the debate gets ugly—and very quickly.

The change consisted of relief from deportation for two undocumented groups amounting to 5 million people. It also increased border security and enforcement and tweaked the visa system to allow in more highly skilled immigrants. Yet the reality is that despite the heated rhetoric on both sides, the impact of the executive order will probably be minimal.

The President and his Council of Economic Advisors suggest that because of his executive action, \$25 billion will be cut from the deficit in 2024, GDP will increase by 0.4 percent within ten years, and not only will native workers not be harmed, but in fact, their wages will increase. Significant economic gains from the executive order are probably overstated, however. Likewise, the dire predictions of large scale native worker displacement are also unlikely. After all, these now quasi-legal migrants have been in the country for years and are already working.

As frequently happens with public policy developments, accurate predictions are hard to come by and the consequences are often unforeseen. The most interesting and immediate development is that California farmers are bracing for a labor shortage under the new immigration policy, potentially raising food prices. That's because itinerant farm workers are now free to leave the uncertainty of seasonal work for reliable employment in kitchens or hotels where other immigrants already work.

The one certainty is that the matter of immigration is going to be around for the foreseeable future. Democrats think it is a winning issue and will hang it around the necks of Republicans, while the GOP sees it as a reliable way to rally its base. But beyond the politics there are sound economic, moral and national identity reasons why the problem should be addressed by both sides.

**IMPLICATIONS FOR BUSINESS:** Businesses involved in the STEM fields will benefit as changes to the legal system allow highly skilled foreign workers more mobility inside the United States. The executive order will expand post-graduate employment authorization for foreign graduates of U.S. universities and ensure better coordination between the Department of State and immigration authorities so all green cards made available each year are used. At the lower end of the economic ladder, both small businesses and non-skilled laborers can now openly deal with one another without defying the law.

## **THE WAR ON CANCER**

It has been 44 years since President Nixon declared “war on cancer.” Yet about 1.7 million cancer cases are expected to be diagnosed in the U.S. this year, with about 590,000 Americans dying—some 1,600 per day. Cancer is the second-leading cause of death in the U.S. behind heart disease, accounting for almost a quarter of the total.

So where does the war stand? The answer is complicated by the fact that what we call cancer is not one disease but a group of diseases characterized by abnormal cell growth. In fact, there are more than 100 types of cancer, with differing rates of mortality. For instance, an estimated 94 percent of pancreatic cancer patients die within five years after diagnosis, versus 11 percent for breast cancer and 0.8 percent for prostate cancer.

The good news is that there are an estimated 14 million cancer survivors in the U.S.—meaning those who have lived five years beyond diagnosis. And it’s estimated that cancer mortality has declined more than 20 percent since its peak in 1991. All this is because of significant progress in prevention, diagnosis and treatment.

In the case of prevention, lung cancer rates have declined as the number of American smokers has fallen to 17.8 percent, down from 20.9 percent in 2005. That is the lowest rate of smoking since researchers began tracking it in 1965. Nevertheless, lung cancer continues to represent about one in four cancer deaths.

On the treatment front, America's biopharmaceutical companies are developing nearly 800 new medicines and vaccines for cancer. Among those in clinical trials or awaiting review by the Food and Drug Administration, there are 98 for lung cancer, 87 for leukemia, 78 for lymphoma, 73 for breast cancer, 56 for skin cancer and 48 for ovarian cancer, according to the Pharmaceutical Research and Manufacturers of America.

Three strategies are receiving particular attention:

### **1) Immunotherapy**

Immunotherapy uses certain parts of a person's immune system to fight cancer. This can be done in several ways:

- Stimulating the body's immune system.
- Training the immune system to attack cancer cells specifically.
- Giving a patient immune system components, such as man-made proteins.

Another key development in immunotherapy is interventional radiology, in which a catheter is placed in the patient to biopsy tissue and treat the cancer, a great improvement over traditional surgery and the complications and lengthy recoveries associated with it.

### **2) Gene Therapy**

Much of today's cancer research is devoted to finding missing or defective genes that cause cancer or increase an individual's risk for certain types of cancer.

The focus of most gene therapy research is the replacement of a missing or defective gene with a functional, healthy copy. The potential benefits are two-fold:

- Gene-based treatments can attack cancer at the molecular level, eliminating the need for drugs, radiation or surgery.
- Identifying cancer-susceptible genes in individuals or families can have a major role in preventing the disease before it occurs.

Current gene therapies are experimental, and many are still tested only on animals. There are some clinical trials involving a very small number of human subjects.

### 3) **Personalized Medicine**

Personalized medicine can be used to learn about a person's genetic makeup and unravel the biology of his or her tumor. Using this information, doctors hope to identify prevention, screening and treatment strategies that may be more effective and have fewer side effects than standard treatments. By performing more genetic tests, doctors may customize treatment to each patient by creating a personalized cancer screening and treatment plan that can include:

- Determining the chances that a person will develop cancer and selecting screening strategies to lower the risk.
- Matching patients with treatments that are more likely to be effective and cause fewer side effects.
- Predicting the risk of recurrence.

Right now new molecular diagnostic systems can quickly sequence an individual's genes and identify genomic variations to create clinically actionable individual treatments.

**IMPLICATIONS FOR BUSINESS:** New treatments for cancer offer great promise not only to further reduce mortality rates, but to lessen the estimated the \$216 billion in annual costs associated with cancer. This includes \$130 billion in lost productivity due to premature deaths and \$86.6 billion in medical costs. A key question will be to what extent new cancer treatments reduce costs or increase them through more technologically sophisticated and customized protocols.

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*DID YOU KNOW?*

*The highest life expectancy recorded for women  
anywhere in the world has risen by a year  
every four years since 1840.*

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## **THE NEXT BIG TECHNOLOGICAL THING: COMPUTERS THAT CAN LEARN**

Over the next few years, computers that can actually learn by themselves will greatly augment human capability, helping people solve some of the most complex problems facing society.

These "cognitive computing" systems will continuously ingest and analyze vast amounts of data—learning, reasoning and engaging with people in natural and personalized ways, allowing us to make faster, better informed decisions, looking out for us, and helping us navigate our world in powerful new ways.

IBM's Watson computer system, which triumphed on the TV game show "Jeopardy!" in 2011, heralded the dawn of cognitive computing. In the next few years, a new generation of systems will help people confronted with enormous volumes of data, competing priorities and ever-changing situations to make complex decisions with significant consequences.

For example, today it is rare to conduct full DNA testing of patients who suffer from complex diseases such as cancer so that doctors can make personalized treatment decisions. But cognitive systems could make such testing mainstream by doing it faster, more affordably and much more frequently. DNA-specific personalized treatment options for conditions such as stroke and heart disease could also become possible.

Cognitive computing could also transform education. The classroom of the future could tap cognitive computing to learn about individual students over the course of their educations, helping them master the skills that match their learning goals. And cognitive computing-powered technologies could help teachers calculate everything they need to know about how each student learns and thrives, allowing them to continually fine-tune individualized learning to maximize student performance.

**IMPLICATIONS FOR BUSINESS:** Integrating cognitive computing systems into operating procedures is a complex process, since every organization will have to make many far-reaching adjustments. IBM is clearly the leader in this major technological innovation with enormous potential benefits, and companies that fail to recognize the possibilities will put themselves at a competitive disadvantage.

## **APPENDIX:**

Over The Dilenschneider Group's 25 years in business, we have engaged more than 100 summer interns—young people who are the best and the brightest and who hold the future of society in their hands.

For this Report, we asked six to answer this question:

### **WHAT CAN BE DONE TO MAKE THE UNITED STATES BETTER?**

Kevin Briggs  
Victoire de Brébisson  
Brittany Corso  
Catherine Baker  
Kate Morais  
Lysk Wyckoff

Here are their views.

## **KEVIN BRIGGS**

*Studying Business Administration and  
International Business with a Concentration  
in Supply Chain Management at SUNY Plattsburgh*

The United States is at a critical point in its history. It is faced with a multitude of problems, all of which can and must be fixed. One major problem is insufficient turnover in Congress. This condition—which is in part due to the increasing polarization in our nation—has left our political system in a state of stagnancy. In order to get things done we need a Congress that is willing to work together rather than fighting to a standstill.

The education system is no longer preparing our youth for the economy we live in today. The system needs to focus on preparing students for the high-skill labor requirements they will face when entering the workforce. This will lay the foundation for the future.

With the implementation of these two changes our nation will find itself in a better place in the upcoming years.

## **VICTOIRE DE BRÉBISSE**

*Masters in Public Policy at King's College London*

We are used to seeing the world through screens: first, with the use of television, then with the use of the Internet. When it comes to information, our view of the world is biased by multiple factors like media-selected quotes, images, and analysis. This results in people forming their opinions based on a very subjective “reality,” which can be the source of a totally distorted and incomplete view of the world. On a national scale, this can even lead to war.

At a time when travelling has never been more affordable and easy, it is necessary that more ordinary citizens leave their country to see for themselves what it really is like overseas. Europeans have the clear advantage of living in smaller countries, with close and diverse neighbors, which facilitates reciprocal visits and exchanges. But fewer than half of Americans own a passport. It would be desirable, for the United States as well as for the rest of the world, if more citizens of the world’s greatest military and economic power packed their bags to travel. It would also be rewarding for Americans to discover new cultures and values and actually get in touch with people abroad rather than maintaining their passive, mind-numbing screen tourism.

## **BRITTANY CORSO**

*Enrolled in Senior Year at Wake Forest University  
Majoring in Communication and Spanish*

In order to make America a better place, there are a number of things that need to be accomplished. The first thing that needs to be addressed is the national deficit. Although pumping more money into our economy and repaying our debt is not the easiest task, there are ways in which we can move toward becoming a stronger nation financially. This starts with trying to find some middle ground between Republicans and Democrats. It is important to come together as a nation and realize that although we may have different political views, both parties essentially would like our country to be free from debt and become stronger financially. Perhaps if Democrats and Republicans joined forces, we could come up with a solution.

In addition to solving our deficit issue, there needs to be more attention paid to the media's conduct. While there have been tragedies and truly devastating events that have taken place in the United States over the past few years, the media often have had a tendency to twist stories, lie, dramatize and even glorify these tragic events, ultimately instilling nothing but unnecessary fear. There needs to be stricter laws of censorship that prohibit media outlets from publishing or broadcasting things that are false in nature and could lead individuals to re-enact what they have seen and harm others in the process.

There is a strong need for stricter weapon laws and more control over the illicit use of firearms in our country. In order for our nation to be a stronger and better place, we need to feel safe in our own houses, schools, offices, public spaces, etc. We need to feel safe in our own elements and do our best to ensure that tragedies like the Newtown shooting and Boston Marathon bombing aren't happening on a frequent basis. If we can once again come together despite differing political views and opposing stances, we can take strides toward making the United States a safe and thriving nation.

## **CATHERINE BAKER**

*A senior at the University of Notre Dame in the  
Program of Liberal Studies and Film, Television and Theatre.*

The United States at the moment suffers from a lack of dialogue between opposing sides. As demonstrated in many of the political and social battles at the moment, especially in terms of the Michael Brown and Eric Garner cases, there is an attitude by people that only their own view is correct, and that all other opinions are invalid and therefore they refuse to listen, instead of creating a fulfilling dialogue.

The world is always changing, always evolving, and the U.S. is going to lose its standing in the world if it cannot even simply try to discuss what is happening within its own borders. This isn't something that takes a day to fix. It requires people to change their mindset, and learn to try even the most difficult of topics. But if we move forward understanding each other's positions, and truly listening, then we might be able to start to improve this country.

## **KATE MORAIS**

*Interim Press Assistant—British Museum Press Office*

America must come to terms with its fear of vulnerability.

Just as a person must recognize the inevitability of death, he or she must also accept the impossibility of protecting one's self from every hypothetical threat.

While America needs an army and a police force to protect its citizens from external and internal threats, many Americans distrust the armed institutions to fulfill their duties as protectors. Some feel unsure of officials' ability to protect Americans from a threat or invasion and, citing the Second Amendment, arm themselves against any potential threat, while others live in fear that they might become police victims.

It is this obsession with protection that often tragically leads to unnecessary accidents both because of police errors and legal weapons falling into the hands of the mentally unstable.

America has become so paralyzed by its obsession with self-protection that it has lost the ability to separate grave risks from lesser threats. If America were able to work through this fear, innocent lives could be saved, the national budget might be cut and Americans might be able to live more mentally peaceful lives.

## **LYSK WYCKOFF**

*Enrolled at the Pratt School of Engineering at Duke University  
Pursuing a Major in Biomedical Engineering and a Minor in Computer Science*

One particular area where the United States needs reform is in the energy sector. Because it relies so heavily on fossil fuels, the U.S. fails to be energy independent. Moving past coal and oil to sources such as wind, sun or methane hydrate could have a multitude of beneficial results, starting with energy self-sufficiency.

Switching to different energy sources could also have positive environmental impacts—aiding not only Americans, but humans in general. Expanding the utilization of various energy sources will also lead to more efficient methods of transportation and, in the long term, expansion of inhabitable area—primarily to other planets. The thin line between animate and inanimate is organization on a molecular level. The only way to achieve and, as importantly, maintain organization is energy. Hurdling into the future, the United States will need to master energy if stable preservation and advancement is to be hoped for.

*Kindness and Politeness Are  
Not Overrated at All.*

*They're Underused.*

*- Actor Tommy Lee Jones  
Quoted in the Lakeland, FL Ledger*

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