

33rd Trend/forecasting Report

Are we Reaching a Tipping Point? Succeeding In An Uncertain World:

September 2006

Each of us, from time to time, gets exercised and moved about particular issues we regard as especially important. The fact is, however, most issues never really reach a “tipping point”—a moment when action, driven by public opinion, becomes an imperative, be it from a legislative, regulatory, or executive source.

The famous pollster Daniel Yankelovich describes a tipping point as the moment at which a large portion of the public begins to demand action to address its concerns.

As you read these trends, we urge you to consider whether public opinion has now reached an authentic tipping point about some very critical issues, presaging a major shift in direction and policy—and what specific actions you and your organization might take.

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TERROR—THE DEFINING ISSUE OF OUR TIME

The world is, today, a frighteningly perilous place. One does not need the recent foiled British airline bomb plot, the Israeli-Hezbollah war, or the on-going chaos in Iraq to underscore this bleak circumstance.

Islamic jihadist terrorism is a global phenomenon from Afghanistan to the Philippines, from Morocco to Indonesia, unlike anything previously experienced. Terrorist objectives may differ, but their methods are similar—the most terrifying, of course, suicide bombings—and, for most, America remains the arch-enemy.

What is particularly troubling is that many young, radicalized Muslims, trained and educated in the West, are giving their future to terrorism—and no one knows why or how to stop this recruitment.

The short grace period that came immediately after the end of the Cold War—“the end of ideology”—proved to be a chimera. Whatever one’s opinion about the U.S./Iraqi adventure, few will deny that anti-American sentiment around the globe, as a direct result, has never been greater—both in the Muslim and non-Muslim worlds.

The hard truth is that the vast majority of Muslim militants—whether al Qaeda or any of its offshoots—are ruthlessly dedicated to the destruction of American lives, destabilization of the world, and a change in the global balance of power. Many commentators are starting to refer to the global war on Islamic-sponsored terror as the undeclared World War III.

The war in Iraq will end at some point, but this larger conflict that defines our times—the war on terror—will go on for a very long time.

How to deal with this reality can be debated, but not to recognize its single-mindedness, magnitude, seriousness, and fanaticism is self-deluding. Complacency in the face of such a threat will lead only to disaster. Some like to think that all of this began with 9/11. A long series of provocations going back to the Iranian revolution of 1979 were generally met with complacency. Whether one accepts the concept of “a clash of civilizations” or not, given the proliferation of worldwide terrorist attacks, Americans must, today, confront the threat of radical Islam with eyes wide open.

At some point, we also have to start dealing with the grievances of the Muslim world and try to understand why so many feel humiliated, disrespected, and hopeless and then turn to violence. Terrorism will probably never go away, but it can be effectively challenged, managed, and lived with. Dealing with root causes may sound like a cliché, but it makes sense in this very dangerous world.

IMPLICATIONS FOR BUSINESS: Any business strategy, forecasting, or planning that does not factor in the reality of longtime “permanent war” and its costs—both human and material—will be very short-sighted.

ONLY DISMAL PROSPECTS IN IRAQ

Although some believe the Iraq war can be “won,” a huge grass roots consensus is rapidly growing that it is a lost cause. Many military experts believe a so-called “victory” would require another major deployment of new U.S. troops.

Many enthusiastic early supporters of the war, like the influential Tom Friedman of *The New York Times*, have reached that same conclusion. He recently wrote: “It is now obvious that we are not mid-wifing democracy in Iraq; we are babysitting a civil war.... We can’t throw more good lives after good lives.”

Not only pundits are acknowledging this, but broad public opinion across the country is taking the same view. Most polls tell us that at least 60 percent (often more) of Americans, while praising the overthrow of the tyrant Saddam Hussein, now believe the invasion of Iraq was, on balance, a mistake for which the nation has paid too high a price in lives, treasure, and global reputation.

Despite the Administration's stay-the-course mantra and recent new troop deployments in Baghdad, the possibility of some kind of phased withdrawal appears almost inevitable. No timetables will be announced, but the pressure of public opinion is not lost on Washington’s policy-makers. It will be far from a total draw-down and stand-by, quick-response. U.S. troops will probably remain in neighboring, friendly nations, but the status quo will change and the future of Iraq left to the Iraqis to resolve.

Expect candidates for the 2008 presidential election to say they “have a plan” for withdrawal.

Looking at the chaos in Iraq, the strength of Hamas and Hezbollah, the growing Iranian influence bent on Middle East hegemony, the Lebanon disaster, the defiant Syrians, the unrest in Egypt where the Muslim Brotherhood remains strong, the powerful Wahhabi movement in Saudi Arabia, the Taliban's resurgence in Afghanistan, and al Qaeda's popular support in Pakistan, the neo-conservative dream of an emerging new democratic, pro-American Middle East now seems more like a nightmare.

IMPLICATIONS FOR BUSINESS: No matter what happens, the Iraqi denouement will be painful economically, politically, and personally in terms of lost American lives. Once we pull out, the huge monies (over \$300 billion to date) spent there will go elsewhere. Where???

IRAN AND THE MIDDLE EAST: THE 21ST CENTURY'S BATTLEGROUND

Make no mistake about it, the Middle East, with its vast oil and gas resources and its strategic location as the crossroad between Europe and Asia, has become the battleground of the 21st Century.

Today, oil supplies about 40 percent of the world's energy and 96 percent of its transportation energy with two-thirds of the world's proven oil reserves in Middle Eastern countries. This will endure for years despite the recent discoveries in the Gulf of Mexico. As demand rapidly increases due to the extraordinary economic growth in some developing nations, particularly China and India, it is estimated that by 2020 more than 80 percent of oil supplies will come from the Middle East.

This poses a critical challenge to the United States and the industrial democracies. Traditionally an area of instability and conflict, the Middle East has become immeasurably more dangerous in the past several years with the emergence of Iran as the most powerful and most aggressively anti-Western nation in the region.

Enriched by the skyrocketing price of oil and natural gas and emboldened by the upsurge of radical Islamic fundamentalism sweeping across the Muslim nations, Iran is rapidly pursuing the development of nuclear weapons and the missiles to deliver them in a bid to become the leader of an Islamic empire stretching across North Africa, through the Middle East, and across South Asia.

U.N. efforts to block Iran's uranium enrichment program (vital to its development of a nuclear bomb) through imposition of economic sanctions have been stymied by China and Russia—China, because it thirsts for oil to fuel its expanding economy and Russia, because it is selling Iran nuclear technology and other goods.

Iran today is ruled by a band of fanatic Islamic extremists, who would wipe Israel off the map and drive the United States and its Western allies out of the Middle East.

Such ambitions would have been laughable only a few years ago when Iran was weakened by a long and bloody war with Iraq, harried by border conflicts with Afghanistan's Taliban warlords, and beset with internal dissention from youthful moderates, who opposed the oppressive theocratic mullahs that governed their country.

But the world's growing demand for oil, which pushed prices up to record levels, providing cash to finance an Iranian military buildup, and the wave of anti-American sentiment that swept the Middle East in the wake of the U.S.-led invasions of Iraq and Afghanistan, changed all that.

Although a majority of moderate Iranians still would prefer less radical Islamic fundamentalist leadership, the U.S. war in Iraq and the effort to force Iran to stop the enrichment of uranium, have united Iranians behind their government.

Iran also benefited immensely from other unintended consequences of the wars in Iraq and Afghanistan—the defeat of Tehran's two principal enemies, Saddam Hussein in Iraq and the Taliban warlords in Afghanistan.

Then, too, Israel's war against Hezbollah in Lebanon, and the widespread destruction of Lebanon's infrastructure that accompanied the Israeli invasion, also bolstered Iran's prestige in the Arab world, fanning anew the flames of anti-Americanism because of U.S. support of Israel.

Because Iran and Syria bankrolled Hezbollah and supplied them with weapons, they are sharing in the glory of what was perceived in much of the Arab world as Hezbollah's victory over Israel in Lebanon.

With the U.S. mired down in costly conflicts in Iraq and Afghanistan and subjected to growing hostility from other Muslim nations in the region, Iran will very likely continue to pursue its nuclear weapons development program and its aggressive regional diplomacy policies with impunity.

The looming crisis poses a dilemma for the Bush Administration. Through its influence with the radical Shiites in Iraq, Iran can provoke continued sectarian conflict between the Shiites and Sunnis there and further encourage Hezbollah raids on Israel along the Lebanese border in spite of the cease-fire.

Both of these activities are troublesome, but without nuclear weapons, Iran cannot pose a serious direct threat to either U.S. or Israeli security. That is why the effort to rein in Iran's drive to develop nuclear weapons is of paramount concern. Iran remains defiant, having rejected the latest U.N. proposal to end its nuclear enrichment program. The question now is when will the U.N. impose sanctions and what form—a slap on the wrist or tough constraints—will they take?

The Bush Administration has thus far tried to work through U.N. diplomatic channels to block the Iranian nuclear development program. But President Bush has made it clear that his patience is wearing thin trying to get the U.N. to impose harsh economic sanctions against Iran and he has made it equally clear that the option of doing nothing is unacceptable.

The other option on the table—the use of military force—is now being intensely debated within the Administration. With American forces already stretched thin in Iraq and Afghanistan, and with U.S. commitments elsewhere in the world, this is not an option that would win support from our military commanders or the ground troops. There is also a real concern that an attack on Iran would lead to a wider Middle East conflict.

Much rides on the outcome of this confrontation, for the Bush Administration, the nation, and the world.

IMPLICATIONS FOR BUSINESS:

- Just as money is the lifeblood of politics, oil is the lifeblood of business. So, like it or not, whatever else is at stake, the war in Iraq and our differences with Iran are ultimately about oil.
- A wider war in the Middle East would have a devastating impact on the flow of oil and on the global economy.
- The rise in anti-Americanism in the Islamic world is very real and could have a critical impact on American firms and Americans doing business in that part of the world.
- Over-dependence on Middle East oil is increasingly a major risk for the United States and for American business.
- As energy prices climb, greater efforts at efficiency become good business.

- Look for a new surge of support for nuclear power and an associated pushback against it by those who feel the problems of nuclear waste have not been addressed.
- Alternative energy sources—wind, clean coal, solar, hydro, hydrogen, and others—are serious considerations.
- Research and development for new technology for energy efficiency and for developing new energy sources will be growth areas for business.

A NAME YOU WILL SOON HEAR ABOUT

Every regime has its special corps of people who will do whatever it takes. So, know about the Islamic Revolutionary Guards Corps. The Revolutionary Guards or Pasdaran ("guardians") is the elite politico-military intelligence organization of the Islamic Republic of Iran, separate but parallel to the Iranian army. The Revolutionary Guards began in May, 1979 as a force loyal to Ayatollah Ruhollah Khomeini to safeguard the momentum of the Iranian Revolution. It later became a full military force alongside the army in the Iran-Iraq War. The Pasdaran is well-equipped with its own navy, air force, ground troops, and special forces, they also control Iran's missile forces over which the army has no authority. Its primary political goal for the last two decades has been the eradication of the United States' presence in the Middle East. Iran's current president, Mahmoud Ahmadinejad, is a former member of the Revolutionary Guards.

WHAT IS THIS MAN UP TO?

Amid all the problems and challenges the world is facing, one leader has been abnormally quiet. That man is Vladimir Putin. Informed readers will ask "why" this is so and recognize that Russia's historical aims still drive its view of the world, now bulwarked by the richness of its natural resources.

IMPLICATIONS FOR BUSINESS: Doing business in Russia should carefully take this nation's over-arching political agenda into account.

A WAR-TORN WORLD

We think first of the war in Iraq and Afghanistan and, until recently, Lebanon. But the fact is there are some 40 active wars, insurgencies, and domestic conflicts now going on around the globe, from Colombia to the Congo, Sudan to Sri Lanka, to list just four. The world is not a happy place.

A COUNTRY ON THE EDGE

There has been very little discussion about Afghanistan until the very recent Taliban resurgence. Nonetheless, last year saw free elections; nearly five million refugees have been able to return to their homes; fully five million children are in school; and the status of women has advanced.

But Afghanistan is the world's largest supplier of opium; it is the base for heroin; local warlords hold power; the Taliban, as noted, is coming back; and suicide bombers are at it again.

IMPLICATIONS FOR BUSINESS: Hamid Karzai, Afghanistan's President, has a tough road to walk. While he is supported by much of Europe and the U.S., the focus has been off his country. Meanwhile, the economy is in shreds except for the thriving poppy sector, producing heroin. Look for continuing struggle here with no upside for some time.

2006 MID-TERM ELECTIONS: TERRORISM, THE ECONOMY, OTHER NATIONAL ISSUES TRUMP LOCAL CONCERNS

Americans go to the polls on November 7 to elect 435 members of the House, 33 Senators, and 36 governors. Local issues are always key in such elections, but in many races they may be overridden by national issues like the threat of terrorism, the war in Iraq, the economy, immigration, and skyrocketing energy costs.

The War on Terrorism: At the top of the agenda is the threat posed by al Qaeda and other terrorist groups. The arrest in London last month of 23 men accused of plotting to blow up U.S.-bound airliners proves the threat is still grave and immediate. But the effectiveness of the Homeland Security Department is openly questioned by members of Congress from both parties. And the Administration's contention that Iraq is the centerpiece of the war against terrorism is being challenged by critics in both parties and the public at large. Opinion polls now show a majority oppose the war and do not believe it has made the nation safer.

The Economy: Since his re-election in 2004, President Bush has benefited only marginally from a growing economy. Unemployment has dipped below 5%, job growth is

steady, and the inflation rate is minimal. There is, however, considerable concern over record-setting budget and trade deficits.

The Administration's failure to gain much of a boost for its economic performance is partly due to concerns about the outsourcing of American jobs overseas. The benefits of the economy also appear tilted toward the rich, while real wages for the poor and middle class remained stagnant or decreased. The number of Americans living in poverty has steadily increased during the Bush presidency, as has the number of Americans without health insurance (46.6 million in 2005). The only good news, if it can be called that, is that the poverty rate was essentially unchanged last year, the first without an increase since President Bush took office.

While economists can argue the point, the general perception of the electorate as measured by opinion polls is clear: A majority of Americans feel the country is going in the wrong direction. In a recent *New York Times/CBS* poll, 46 percent rated the Administration's handling of the economy as "fairly bad or very bad."

Other Issues: Many other issues are at play, including immigration policy, lobbying reform, the Republican effort to eliminate the federal estate tax, the Democratic effort to raise the minimum wage, and the Republican push for constitutional amendments banning gay marriages and flag-burning. Many GOP candidates are distancing themselves from the President, but President Bush is determined not to lose control of Congress and has dispatched Karl Rove, a master politician, to work for a Republican victory. Anything can happen, and probably will.

IMPLICATIONS FOR BUSINESS: Even if the GOP retains narrow majorities in Congress, the likelihood of action on President Bush's domestic agenda is about nil. This virtually rules out Administration hopes for making its tax cuts permanent, eliminating the estate tax, enacting tort reform, putting through an energy program, reforming Social Security and Medicare, and immigration reform. Any hope for action on tax and health care initiatives important to business will rest on putting together a coalition of Democrats and moderate Republicans. But the prospects of success as both parties gear up for the '08 presidential contest are not bright.

WITH THE BUSH PRESIDENCY FALTERING, CAN THE DEMOCRATS MAKE A CONGRESSIONAL COMEBACK?

The low level of President Bush's approval rating raises the possibility of a significant Democratic comeback in the November congressional elections, perhaps big enough to wrest control of the House from the GOP for the first time in a dozen years.

The President's approval rating dropped to a record low of 33 percent in mid-August, reflecting very substantial public disapproval of his handling of many key issues, from the war in Iraq to overall foreign policy and the national economy. Only two years after his re-election to a second term, data indicate that some 57 percent of the voters now disapprove of the job he is doing.

The President is determined and the team around him is equally focused. These are honest and well-intentioned people, who are loyal to one another, who reflect a view of the world and America that is not driven by polls, but rather by what they believe is best for America over the long term, and they will stay the course.

To gain control in the House, Democrats, who now trail the Republicans 231 to 202, would have to make a net gain of 15 seats. This is no easy task when incumbents—whether Democrat or Republican—usually enjoy a big advantage over challengers. But with a majority of Americans believing the country is headed in the wrong direction, many incumbents this year may be at a disadvantage. Since the House Republicans have more incumbents up for re-election, this could work against them. Also troubling for the GOP is that, according to polls, 19 percent of those who voted for President Bush in 2004 said they would vote Democratic in the congressional elections. Those who said they would vote in part to express opposition to President Bush jumped from 20 percent in July to 29 percent in August.

The prospect of a Democratic takeover in the Senate is not great. Republicans are currently in control, 55 to 44, with one Independent who votes with the Democrats, so Democrats need a net gain of six seats. But in the 33 Senate races this year, they are defending 18 seats and the Republicans only 15.

The Democrats have a chance to win Republican-held seats in Ohio, Pennsylvania, and Montana. But they could well lose in New Jersey and Connecticut. Three other seats held by Republicans—Tennessee, Missouri and Rhode Island—could go either way. And Independent Rep. Bernard Sanders would have to win the Vermont seat being vacated by Independent Sen. Jim Jeffords and agree to vote with the Democrats for them to win control of the Senate.

IMPLICATIONS FOR BUSINESS: It is going to be close. Karl Rove's work in the field is a big advantage for Republicans. But the possibility of a significant Democratic pickup of House seats—possibly enough to give them control—is very real and that will mean a total reordering of priorities in 2007 and a very different set of political races in 2008.

In that event, barring a startling breakthrough in the war in Iraq and peaceful resolution of the Middle East conflict, President Bush will have little control over the national domestic agenda.

Even if the Republications were to retain control of both Houses, as a lame duck president with a sagging approval rating, President Bush will have minimal leverage with Republicans in the House and Senate and he will face growing hostility from the Democrats. With the likely prospect of a more evenly divided Congress regardless of which party controls the House and Senate, there will be little chance of enactment of any sweeping federal legislation on key issues like health care, public education reform, global warming, and other environmental and alternative energy issues.

If the Democrats win the House, they will also schedule many hearings in order to go after President Bush's record with a vengeance. Whatever, look for more of the kind of congressional deadlock that has blocked many items on the President's agenda for the past two years.

THE GUBERNATORIAL RACES

Governors are crucial to both parties in terms of patronage, fund-raising, and party building—especially going into the 2008 presidential campaign. With Congress almost immobilized by partisan differences, business interests have shifted to the states to push their agendas on tax policy, worker safety, tort reform, environmental protection, and many other issues.

Overall, Republicans have 28 governors, Democrats 22. Thirty-six seats are up for election—22 held by Republicans, 14 by Democrats. Of the 22 Republican seats, only 13 are considered safe or leaning GOP. Of the 14 seats Democratic seats, 12 are safe or leaning Democrat. The Democrats are favored to pick up Ohio and New York from Republicans. Nine states are toss-ups. Republicans hold seven of these: Minnesota, Arkansas, Nevada, Colorado, Maryland, Alaska, and Massachusetts. Only two battleground states are held by Democrats: Michigan and Iowa.

If the Democrats win in four or five of the nine contested races, it will give them about an even break with the Republicans going into the 2008 presidential campaign, putting them in a much stronger position than in 2004. Look for Senator Hillary Clinton to be a very active campaigner for Democratic gubernatorial candidates as we move toward November.

Also, watch New York where Attorney General Eliot Spitzer seems the guaranteed victor in the governor's race, and don't expect him to stop in Albany. His replacement as Attorney General is likely to be Andrew Cuomo, and as hard as Spitzer was on business, expect Cuomo to be more so as Attorney General, for he, too, has visions beyond New York.

IMPLICATIONS FOR BUSINESS: Even if stalemated on the federal level, look for aggressive action in many states with long-term implications for business and jobs. Expect movement on important issues like tax policy, the environment, deregulation, stem cell research, alternative energy sources, and tort reform. California has already taken a major step on the greenhouse gas emissions front. Party labels will not matter as much as a new generation of moderate Republicans and centrist Democrats, both governors and state legislators, start to deal with these critical issues.

A COOLING U.S. ECONOMY: WILL IT BE A SOFT LANDING?

Huge economic thunderheads loom for both business and individuals.

In the short run, looking toward 2007, the question is whether the 17 consecutive interest rate hikes by the Federal Reserve will tamp down inflation without spinning the economy into recession.

In the longer run—beyond 2007—the formidable and more urgent challenge is to end the long cycle of enormous federal deficit-spending and rein in the record-setting U.S. balance of payment deficits.

America has moved from the world's largest creditor nation to the world's biggest debtor.

As the fall of 2006 starts, record high gasoline and home heating oil prices, a sharp downturn in the housing market, and rising interest rates are clearly slowing economic growth and raising, for the first time in five years, the specter of recession.

The U.S. economy grew at about a 2.5% pace in mid-summer, but retailers were beginning to see a drop in business and sales of autos and durable goods were also falling below expectations, both sure signs of a weakening in consumer spending.

The sharp dip in consumer confidence as measured by the University of Michigan's respected Consumer Sentiment Survey, underscored this perception. The Survey showed consumer confidence declined from 84.7 percent in July to 78.7 percent in August, the lowest reading since just after Hurricane Katrina devastated New Orleans and the Gulf Coast.

The Consumer Confidence Survey is considered a key indicator for the direction of the economy because consumer spending generates two-thirds of the nation's \$13.5 trillion gross domestic product (GDP).

Another key economic indicator—the confidence index of U.S. home builders—plummeted to a 15-year low in August, plunging to 32 percent from 39 percent in July. A year ago, the index was at 67. A reading of 50 would indicate sentiment was balanced between good and poor.

The slowdown in the economy was due in large part to 17 interest rate hikes ordered by the Fed since mid-2004. The Fed's new Chairman, Ben Bernanke, broke the string of consecutive 25 basis point increases last month, leaving the discount rate (the interest rate the Fed charges other banks for money) at 5.25%. But Bernanke made it clear that the Fed wouldn't hesitate to resume the rate hikes to keep inflation under control.

When the core inflation rate slowed from a .3 percent increase in June to a .2 percent increase in July, it was widely expected that Fed would forego further rate increases unless inflationary pressures mounted. With the economy slowing down, some experts are predicting that the Fed might actually begin reducing interest rates next year to prevent a recession.

But the impact of interest rate increases or declines are slow to affect the nation's economic momentum and with the momentum running strongly on the downside, a recession in 2007 is a very real proposition.

If a recession occurs next year—meaning two consecutive quarters of negative growth—it may take more than reduced interest rates to turn the economy around because of other, more deeply rooted, structural economic problems the nation faces.

Those structural problems—our \$8 trillion national debt and \$700 billion a year international trade deficit—are huge problems that have been building up for more than a decade and will not be easily resolved. As a nation, we have been spending much more than we have been taking in through tax revenues and we have also been importing much more in goods and services from foreign nations than we have been selling our own goods and services abroad.

The borrow-and-spend profligacy of the U.S. government has been matched by American consumers, who are now maxed out on debt. For several years, the American saving rate has been zero or below.

In 2005, the Federal Reserve Board reported that for the first time since it started keeping such statistics, U.S. household debt exceed annual household income by 8%. Last year, American credit card debt totaled \$804 billion and Americans borrowed \$243 billion in home equity loans.

This reckless pattern of living beyond one's means is sure to catch up with us at some point. Eventually, the bills will have to be paid; much of it will go to foreign central banks and citizens.

Foreigners held \$6.9 trillion in U.S. equities and in long and short-term debt securities by the end of June 2005, according to the U.S. Treasury Department. This was a 14 percent increase over 2004 and the increase for 2006 will probably match that.

Unless the United States begins to get its economic house in order, foreign holders of such debt may begin to shed dollars. A run on the American dollar in currency markets could cause a precipitous drop in the value of the dollar, leading to higher interest rates as the Treasury Department tries to refinance U.S. debt.

Although the dollar has fallen in value modestly against the euro, the Japanese yen, and the British pound, there has been no panicky run on the dollar yet. But if huge dollar-holders like the central banks in Japan, China, Germany, and the U.K. begin to dump them, the value of the dollar could plunge 50 percent or more, leading to serious global problems.

IMPLICATIONS FOR BUSINESS:

- Look for slower growth in the fourth quarter, particularly in home construction, home furnishing, and auto sales as well as higher-end consumer durables.
- As \$3-a-gallon gasoline prices and higher petroleum and energy costs work their way through the economy, expect a rise in inflation despite the Fed's best effort to damp down inflation with higher interest rates.
- The chances for a recession next year are at least 50-50. If it happens, it could be a long one because the federal government is already engaged in heavy deficit spending. The Fed will be reluctant to reduce interest rates, fearing inflation and the negative impact reduced interest rates will have on the value of the dollar. This means the Fed and the federal government will be deprived of adequate fiscal and monetary tools to stimulate the economy.
- Companies that do business globally need to be wary of excessive dollar holdings. The dollar is likely to continue to decline in value in 2007.

RELIGION AND POLITICS: THE NEW MIX

Rarely in American history has religion played a more powerful role on the nation's political scene than today. It is going to become even more important going forward.

The dominant religious-based political influence, today, resides with the conservative wing of Protestantism—evangelicals and fundamentalists. Often labeled the religious right and identified by political pundits as the "Republican base," its ranks have been growing steadily.

The new power of the evangelical movement, buttressed by a born-again president, is particularly evident in the influence of its leading denomination, the 16.3-million-strong Southern Baptist Convention. Domestically, in addition to opposing abortion, gay marriage, and Darwinian science, socially conservative evangelicals have mounted an aggressive campaign against the entire concept of church/state separation

In foreign policy matters, however, they are both strong supporters of humanitarian and human rights policies around the world and fervent about support for Israel. Perhaps most relevantly, they also vote, often in alignment, as clearly demonstrated in the most recent national elections.

At the same time, traditional liberal Protestantism, once the dominant force in the nation's majority faith, has been losing ground for many decades.

The rising power of religion in the 21st Century has, in fact, manifested itself globally. Muslim fundamentalism is the driving force behind a militant Islamic jihadist movement that invariably invokes the name of Allah and the Koran to justify its violence and terror. Unfortunately, too many Muslims (especially the youth) around the world now view the West's war against terror as a holy war against Islam.

Here in America, we are not truly a secular nation. By every measure, America remains the most religious country among advanced Western nations. Statistical surveys consistently show that American church affiliation and attendance, belief in God, literal interpretation of the Bible, and more far exceeds that of any other Western nation. The latter-day emergence of so-called mega-churches is only further evidence of the strength of religious beliefs among Americans irrespective of race, nationality, or class.

IMPLICATIONS FOR BUSINESS: Ignoring this trend is a huge mistake. These are not weak people. Leaders of these religious denominations are highly focused and on more than a few occasions have hit out at business and other practices they do not feel are consistent with their beliefs. Monitor this phenomenon carefully.

U.S. FOREIGN POLICY: NOT ISOLATIONISM, BUT INCREASINGLY ISOLATED

Dedicated as it is to the spread of U.S. values and the projection of U.S. power, President Bush's foreign policy is clearly interventionist. The result, however, has been the increasing isolation of America. Francis Fukuyama, a one-time leader of the neo-conservative movement that helped shaped President Bush's foreign policy, now says, "America's perceived unilateralism has isolated it as never before."

Last month's fighting in Lebanon intensified the trend. Whatever one's view of Israel's role during that conflict, the fact is that the television images of the death and destruction in Lebanon inflamed anti-Israel and anti-U.S. feelings.

The deteriorating war in Iraq is the greatest contributor to America's isolation. The number of "Coalition of the Willing" troops, while never large, is dwindling rapidly, with Italy the latest to say it will pull out.

As U.S. isolation grows, international rivals flex their muscle. Many analysts think Iran was strengthened by the war in Lebanon. Hezbollah was its proxy in the fighting, and many Muslims were pleased by damage it inflicted on Israel. The Iranians are certainly a factor in Iraq where the Shiite majority identifies with them as fellow Shiites. And Tehran's defiance of the West as it forges ahead with a nuclear program is earning it more points in the Muslim world.

Russia and China are growing in economic power and influence, and both have become standoffish in their relations with the U.S. Neither is cooperating with President Bush's efforts to stop Iran's nuclear program, and China has given the President little more than lip service as he seeks to rein in North Korea.

And in Latin America, Hugo Chavez, the president of Venezuela, has won plaudits—and some allies—for persistently bashing the U.S.

To its credit, the Bush Administration is changing its course. Francis Fukuyama wrote recently: “The Bush Administration has been walking – indeed, sprinting – away from the legacy of its first term” and is now embracing a “cautious, multilateral approach.” The face of this new foreign policy is Secretary of State Condoleezza Rice, who is pursuing what she calls “transformational diplomacy.”

IMPLICATIONS FOR BUSINESS: America's reputation has risen and fallen over the years as circumstances and the foreign policies of successive presidents have changed. For the moment, however, executives doing business overseas must expect to encounter varying degrees of anti-Americanism at every level of activity.

One proven model for dealing with this is to localize business to the greatest extent possible. Many U.S. companies have succeeded overseas by hiring, training, and promoting local talent and by involving themselves in local community projects.

CHINA: THE PLACE TO WATCH

Having leap-frogged to fourth place among the world's economies by flooding the U.S. and Europe with inexpensive textiles, footwear, toys and consumer electronics, China is turning to higher-tech products such as computers, autos, petrochemicals, machinery, and advanced electronics. China's explosive growth—its GDP expanded by 10.2 percent in 2005 after growing at an average annual rate of almost 9% for the preceding decade—was due largely to its huge low-cost labor force and the influx of foreign investment. But the perception that China's success is based solely on low-wage workers turning out low-end goods is dead wrong.

China ranks first worldwide in farm output and third in factory output. Roughly half its work force—about 330 million—are farmers, and it is among the world's largest producers of rice, potatoes, sorghum, millet, barley, peanuts, tea, and pork. Its main industries are iron, steel, coal, machine building, light industrial products, armaments, and textiles. Now, thanks to technology transfers accompanying foreign investments and to widespread piracy of Western technology, China is poised to embark on an ambitious program of producing high-tech goods.

Government leaders have indicated they may take steps to protect the fledgling producers of high-value products from foreign competition. This would come as a blow to the Western companies that have invested in China in hopes of tapping into its market of 1.3 billion people. But foreign investors are not without leverage. As a member of the World Trade Organization, China must abide by fair trade rules or face sanctions. Also, China relies heavily on foreign trade, so it is vulnerable to retaliation from trading partners for any undue protectionism.

Still, even playing by fair trade rules, China could be a fearsome competitor. It has moved from a backward Communist nation 20 years ago to pass France and the UK. If it continues its torrid pace, within a year or two it will replace Germany in the No. 3 spot among world economies, trailing only Japan and the U.S.

The government lists the following as objectives to achieve by 2020:

- Quadrupling the GDP of the year of 2000 to \$4 trillion;
- Further improving its socialist version of democracy and the legal system;
- Raising ethical standards, scientific and cultural standards, and public health;
- Improving its capacity for sustainable development.

It sees its major challenges as:

- Moving surplus rural labor to non-agricultural industries and to cities and towns;
- Improving the nation's social security system;
- Fighting inflation and promoting financial reforms;
- Dealing with poverty in provincial western China.

But China faces serious internal problems that could pose grave obstacles to its continued growth. The most pressing include:

Environmental degradation: According to a 1998 WHO report, seven of the 10 most polluted cities in the world were in China. Almost all the rivers are polluted, and half the population lacks access to clean water. With 75 percent of China's electrical energy produced by coal, acid rain adds to air and water pollution.

Political corruption: Partly the product of one-party control, graft, favoritism and bribery flourish in provincial areas. Unemployment is estimated at 20 percent, and some 150 million Chinese live below the international poverty line. The corruption, unemployment, and inequality of wealth and opportunity between rural and urban areas have generated bitter resentment in rural villages. Last year, there were 84,000 incidents of civil unrest, and many protests turned violent.

Inefficiency of state run enterprises: Beijing's policy is to close down or privatize the enterprises that lose money – more than half do – but its efforts are often met with resistance at the local level, and the process is slow.

Shortage of skilled workers: China's rapid growth has created a serious shortage of skilled workers in such key areas as computer programming, engineering, administration and management, and information technology.

IMPLICATIONS FOR BUSINESS: China's huge population and exploding growth rate make it an attractive market for business. But be wary of changing central government policies on foreign investment. And beware the inordinate power of provincial government leaders, who may or may not abide by Beijing's directives. Nonetheless, it's important to work with the government, since China remains a state-run economy. In most instances, local ministers wish to be helpful and can be critical in locating reliable joint-venture partners. Try to diversify—it's the best way to guard and grow your interests. And look to western China with its population of 800 million. The country's East Coast is already significantly developed or developing.

Piracy of intellectual property and technology is rampant in China, so guard your secrets well. And make sure your team has the skill sets it needs to be up and running. Skilled workers in virtually every area are getting scarce in China's red-hot economy.

RUSSIA: THE STALKING BEAR

As indicated earlier in this Report, be mindful of Russia.

After a decade of relatively good relations with the United States following the collapse of the old Soviet Union, links between Russia and the United States have become increasingly testy, especially in such critical areas as energy policy, nuclear non-proliferation, commitment to anti-terrorism, and progress toward truly democratic rule.

As Russian President Vladimir Putin has consolidated his authority, greatly expanded the power of the presidency, and strengthened what was the old KGB, he has shown much more willingness to challenge the United States on major global issues.

At the same time, Putin has orchestrated a remarkable economic recovery that has earned him strong domestic support and increased his political and diplomatic global leverage. Since being elected president in 2000, Putin has transformed the faltering, contracting economy that followed the dissolution of the Soviet Union into a vibrant, growing one. After contracting by 40 percent between 1991 and 1998, Russia's GDP has grown at an average annual rate of 6.5%.

There is no doubt that the enormous spike in oil prices (from \$11 per barrel in 1998 to over \$70 per barrel for much of 2006) was a major factor in this dramatic turnaround. Since 1998, Russia has increased its oil production from 5.85 million barrels per day to more than 9 million barrels a day, making it the world's second largest oil exporter behind Saudi Arabia.

Russia's other exports have also risen under Putin. In the past two years, export of metals rose 61 percent; chemicals were up 28 percent; and machinery and equipment were up 12 percent. A government that was unable to manage its finances in the 1990s has now recorded five consecutive budget surpluses and, in 2005, government revenues exceeded spending by 7% of GDP.

Putin's systematic expansion of presidential power at the expense of the legislative and judicial branches and his crackdown on political dissent and on his opponents have raised concerns that he may seek to replace the still-fragile democratic government with old Soviet-style authoritarian rule.

Privatization of state-owned monopolies, as Russia moves toward a market economy, has triggered an explosive growth in political corruption that, in some areas, seems almost endemic. Although Putin contends that he has cracked down on such corruption, that crackdown, to date, appears mostly directed at Putin's political enemies.

The cooling relations between the U.S. and Russia were evident at the G8 Summit Putin hosted in St. Petersburg in July. Presidents Bush and Putin, who several years earlier appeared to enjoy a warm, personal relationship, stood uncomfortably side-by-side and exchanged testy barbs. President Bush faulted Putin's record on human rights and Putin ridiculed President Bush's contention that the U.S. was fostering democracy in Iraq.

More troubling has been Putin's apparent willingness to share nuclear technology with Iran and his foot-dragging, along with China, on the U.N. Security Council's move to impose severe economic sanctions on Iran for refusing to give up a nuclear enrichment program that could pave the way for Iran's development of nuclear weapons.

The Russia-Iran relationship is reason for concern on the energy front as well. Iran is not only a major oil and natural gas producer; it has the world's second largest reservoir of oil, after Saudi Arabia. Russia is seventh in known oil reserves and, currently as noted, the world's second largest oil producer. Russia also has the world's largest natural gas reserves. It now also wants to become the new powerbroker in the Middle East.

Putin has shown a willingness to use his nation's energy resources as a diplomatic weapon by temporarily cutting off gas supplies to the Ukraine during a dispute. A joint Russian-Iranian cabal to use oil and gas as diplomatic weapons could seriously disrupt the global economy.

The warming Russian-Chinese relationship is also worrisome to Washington. The two nations held joint military exercises this summer.

China has been less than helpful in the U.S. effort to force North Korea to abandon its program to develop a nuclear weapons arsenal and the missiles needed to deliver them.

Russia and China likewise engaged in a good deal of foot-dragging before the United States and France got the U.N. Security Council to adopt a tough ceasefire agreement in Lebanon designed to prevent Hezbollah from maintaining an armed force in Southern Lebanon following the withdrawal.

The Bush Administration also believes that Putin has played a mischievous role in many other diplomatic areas affecting U.S. interests, such as his agreement to sell advanced military hardware to Venezuela.

The U.S. is not without leverage in the American-Russian relationship. Russia is desperate for U.S. and Western capital investment to rebuild its dilapidated industrial and high-tech information technology bases. To further this effort and to open up trade possibilities, the Russians are also seeking membership in the World Trade Organization, something they are unlikely to accomplish without U.S. support.

There is, then, room for both sides to benefit from good relations even though major areas of disagreement exist. The bottom line is that growing distrust between Washington and Moscow could pose significant problems not only for both nations, but for the entire world.

IMPLICATIONS FOR BUSINESS: There are many attractive areas for U.S. investment in Russia as the Russians privatize state-owned monopolies and try to rebuild their industrial base; develop their oil, gas, and other natural resources; and build modern, transparent banking and financial service industries. But investors need to be wary about widespread corruption and graft endemic in the still-evolving Russian free market.

Investors also need to keep a weather eye out for the possibility of serious ruptures in the diplomatic relations between Washington and Moscow.

Businesspeople would be wise to do business with organizations that are non-Russian.

THE KURDISH DILEMMA

As the ethnic fault lines in Iraq deepen, many observers predict the splintering of the country. Various scenarios are envisioned: A federation of three states, with Kurds in the North, Sunnis in the center and Shiites in the South; a loose confederation of the three; or three independent states. Each possibility is fraught with danger. For example, the Sunni center would violently resist being cut off from the oil wealth of the Shiite South and Kurdish North. But the greatest risk may be the emergence of an independent Kurdish state, which could trigger long-term conflict throughout the region.

The Kurds, with a total estimated population of 20 million, are non-Arab Sunni Muslims with their own distinct history, language, and culture. Most are located in a mountainous region that sprawls across parts of Iraq, Iran, Turkey, and Syria. Their long-standing desire to unite into an independent Kurdistan is vigorously opposed by these nations for a variety of reasons. In particular, the Turks fear that independence for the Kurds would fracture their country as other ethnic groups sought independence, too.

The Kurds of Iraq already enjoy a large degree of independence. This has been true since 1991 when the U.S. declared the region a no-fly zone to prevent Saddam Hussein from continuing revenge attacks in the aftermath of the Gulf War. But an actual declaration of independence could have explosive consequences. Beyond the problems this would create in Iraq itself, it seems certain that Turkey, Iran and Syria would react with extreme hostility. If the Kurdish citizens of those countries were to try to join their Iraqi brethren and form a Greater Kurdistan, open warfare would surely break out. History suggests the fighting would be bloody and protracted.

If this happened, America would be caught in a dilemma. Mideast stability would be in grave jeopardy. Yet conflicting interests would hamper decision-making: Turkey is an ally and would expect the U.S. to support it against the Kurds. But that would mean supporting Iran and Syria, too, something anathema to Washington. Israel, America's chief ally in the region, would almost certainly be able to keep out of the conflict, but the proximity of the fighting would be extremely worrisome.

IMPLICATIONS FOR BUSINESS: Any movement by the Kurds of Iraq toward the creation of an independent Kurdistan will have dire consequences throughout the region. The turmoil could well reduce the world's oil supply.

THE EUROPEAN UNION: A CHALLENGED CONCEPT

Policymakers believe and are calling for the E.U.—an aggregation of 25 countries that still retain their total sovereignty—to change. The facts are that together the E.U. can, indeed, one day be an economic friend to the U.S. But that day is a long way off. The concept behind the E.U. was to position the entire block to be competitive on a global stage.

This is not happening. The average time for the E.U. to act on a proposal is approximately 15.5 months.

Even the most frequently exercised decision-making procedures at the E.U., involving fundamental issues of competitiveness, research, the internal market, freedom of movement, etc. take 22 months on average to reach such a decision (source: the European Union website).

What is at stake is the strength of Europe and its member states in globalization.

That Europe has resources to compete against the other strong “economic entities” is clear. It just is not happening.

IMPLICATIONS FOR BUSINESS: European leaders understand this powerful issue and will, in time, and when politically feasible, bring forward a debate to address the matter. But for the foreseeable future business should concentrate on working in and through individual countries. The E.U. itself will prove a stumbling block until it sorts out its operational problems—and that may take some time.

THE START OF AN ALLIANCE

Hugo Chavez, Venezuela’s President, was recently in Spain, where he was hailed by that nation’s top officials as a great leader and then proceeded to rail against the imperialist United States.

Chavez, whose country is among the largest repositories of petroleum in the world and a strong voice in OPEC, is one of a new breed of left-leaning South American leaders who regard the U.S. with considerable negativity and suspicion.

Look for this trend to deepen and perhaps cause serious long-term problems in the world.

IMPLICATIONS FOR BUSINESS: Although Latin America is now a place to invest and make serious money, it may not last if the influence of Chavez and other leftist extremists grows.

AFRICA

We would like to write more about this continent, but Africa is so mired in huge problems with relatively little being done internally or by the outside world to alter that situation and ameliorate the terrible times people living there are experiencing, it's difficult to know where to start.

Consider just three appalling facts:

- 80 percent of the population in sub-Sahara Africa lives on less than \$1 per day;
- Experts indicate that two-thirds of Africa is riddled by conflict and disease is rampant on the continent, particularly AIDS. 3.2 million Africans were diagnosed with AIDS in 2005, 2.4 million died of AIDS in 2005, and 25.8 million Africans have been diagnosed as HIV-positive;
- Life expectancy in Botswana was 65 years of age in 1990; dropped to 46 in 2005; and may plunge to a shocking 27 by 2010.

IMPLICATIONS FOR BUSINESS: Africa offers significant opportunities, but the poverty and plight of the vast majority of its population will have to be dealt with at some point.

LATIN AMERICA: A VOLATILE AREA TO WATCH CAREFULLY

Latin America is increasingly attracting global attention with Brazil, population nearing 190 million, and oil-rich Venezuela holding center stage.

Brazil is, by far, South America's largest economy (ninth worldwide) and most populous nation. Under President Luiz Inacio Lula da Silva, who assumed office on January 1, 2003 as a man of the left, Brazil has, somewhat surprisingly, emphasized a market economy, departing from a number of Latin American leaders that have moved sharply leftward—most notably, of course, Venezuela, where Hugo Chavez, awash in oil money, has been in power since 1998.

Also increasingly visible in this authoritarian populist club is President Evo Morales of Bolivia, who has already nationalized Bolivia's oil and gas industry. In Cuba, Castro, though ailing, and his brother, Raul, appear to be still very much in command.

Lula is expected to win re-election in October despite a recent corruption scandal involving some of his closest associates and a so-so economy during most of his tenure. His

opponent, Geraldo Alckmin, the candidate of the center-left Brazilian Social Democracy Party, is promising an even tougher stand on public spending than the incumbent.

Overall, Lula's administration has been characterized by accommodative, basically pro-business policies designed to promote trade, add jobs, attract foreign investment, and curb inflation. But growth has, nonetheless, been quite modest thanks to large, but inefficient government expenditures, a heavy tax burden, restrictive labor laws, murky legislation, a crumbling infrastructure, and the high cost of capital,

Yet public confidence in the economy remains strong, inflation and unemployment rates are falling, and there is a general perception that the Lula government is good for the economy. Its record on job creation is especially impressive with an average of 100,000 new jobs every month. The Brazilian stock market has also, by and large, performed well under Lula—especially the commodities sector where Brazil is a major exporter to the world.

Lula is not the only left-leaning Latin American leader who has adopted more centrist views, vowing to fight poverty while pursuing responsible economic policies. The trend was also recently evident in Peru when a "born-again" Alan Garcia was returned to power a second time. Stressing moderation, he defeated the more extreme left opponent, Ollanta Humala, who had the strong support of Hugo Chavez. After a close victory, Garcia made his first post-election visit to see his friend, Lula, in Rio.

The same may be said for Chile's new president, Michelle Bachelet, a socialist who headed a center-left coalition pledged to continue the prudent economic policies that drove the nation's notable growth during the past decade. Equally important, Chile has established legal and regulatory procedures that investors trust and that will remain in place. In Mexico, the trend towards the center and right was even more pronounced during July's presidential race when conservative candidate Felipe Calderon of the ruling National Action Party, narrowly defeated the favored leftist Andres Manuel Lopez Obrador in a bitterly contested race.

IMPLICATIONS FOR BUSINESS: There is no doubt that many Latin American nations (add Argentina and Uruguay) tilted leftward in recent years, but that movement has, in many instances, proven to be much more moderate and pro-business than anticipated. On balance, this bodes well for continued economic growth and investment opportunities for U.S. business.

GLOBAL IMMIGRATION: AN ISSUE TO UNDERSTAND

Immigration—much of it illegal—in all parts of the world, and surely in the United States, is an issue of hot political discussion.

The facts are undeniable and important to understand.

In the second half of the 1980s, international migrants accounted for about one-quarter of the developed world's population growth; about 45 percent in the first half of the 1990s; and almost two-thirds of growth today. International migration now probably accounts for nearly all of the European Union's population growth and masks the fact that native populations are seriously declining.

About 10-15 million people move every year—often on their own, but many with the support of criminal syndicates.

The E.U. hosts as many immigrants as the U.S. and Canada combined. Indeed, E.U. nations have the most foreign-born and some Western European nations continue to encourage immigration to offset their very low birth rates:

- Luxembourg: 40 percent foreign-born
- Swiss: 25 percent foreign-born
- Canada: 18 percent foreign-born

Migration is changing everything.

Indeed, migrants already provide all *net* gains in the number of workers in many countries and will do so across the advanced industrial world in the years ahead.

Much of the advanced industrial world has just failed to reproduce itself adequately for almost a generation now. As the post-World War II baby-boomers pass from the economic scene over the next decade or so, most Western democracies will experience substantial native working age population gaps. Changing racial and ethnic composition of country workforces will prove to be recognized as much larger proportions of labor will be immigrants and their offspring.

The number of retirees, worldwide, will reach absolute and relative sizes unlike anything we have witnessed in history. With people living longer, the taxes of fewer and fewer workers will have to support ever-larger numbers of retirees.

Fertility rates are a big issue, but even if fertility rates increased dramatically and immediately, it would have little effect on old-age support during the next two decades

because of the time it takes most young persons in the advanced world to prepare for entering the labor force full-time.

Top policymakers accept that immigration is a key solution—but not the only one—addressing this dilemma.

| (In Billions) | 2005 | 2010 | 2015 | 2020 | 2025 | 2030 | 2035 | 2040 | 2045 | 2050 |
|----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| World | 6.465 | 6.843 | 7.219 | 7.578 | 7.905 | 8.199 | 8.463 | 8.701 | 8.907 | 9.076 |
| China | 1.316 | 1.355 | 1.393 | 1.424 | 1.441 | 1.446 | 1.443 | 1.433 | 1.417 | 1.392 |
| India | 1.103 | 1.183 | 1.260 | 1.332 | 1.395 | 1.449 | 1.494 | 1.534 | 1.568 | 1.593 |
| U.S. | 298 | 312 | 326 | 338 | 350 | 361 | 371 | 380 | 388 | 395 |
| Europe: | 728 | 726 | 721 | 715 | 707 | 698 | 688 | 677 | 666 | 653 |
| Germany | 83 | 83 | 83 | 82 | 82 | 82 | 81 | 80 | 79 | 79 |
| France | 60 | 62 | 62 | 63 | 63 | 64 | 64 | 64 | 64 | 63 |
| U.K. | 60 | 61 | 61 | 62 | 64 | 65 | 65 | 66 | 67 | 67 |
| Italy | 58 | 58 | 58 | 57 | 56 | 55 | 54 | 53 | 52 | 51 |
| Spain | 43 | 44 | 44 | 44 | 44 | 44 | 44 | 44 | 43 | 43 |
| Czech Republic | 10 | 10 | 10 | 10 | 10 | 10 | 9 | 9 | 9 | 8 |
| Brazil | 186 | 198 | 209 | 219 | 228 | 236 | 242 | 247 | 251 | 253 |
| Pakistan | 158 | 175 | 193 | 212 | 229 | 246 | 263 | 278 | 292 | 305 |
| Russia | 143 | 140 | 137 | 133 | 129 | 125 | 122 | 118 | 115 | 112 |
| Japan | 128 | 128 | 128 | 127 | 125 | 123 | 120 | 118 | 115 | 112 |
| Turkey | 73 | 78 | 83 | 87 | 91 | 94 | 97 | 99 | 100 | 101 |

IMPLICATIONS FOR BUSINESS: We need to figure out how to live with immigrants and with immigration. We are experiencing unprecedented growth in the developed world’s elderly population, along with birth rates at historically low levels. The result: Expect huge economic, social, and political dilemmas that will soon dominate the West’s political and policy agendas.

At least five policy challenges will emerge:

1. The timing of retirement;
2. The quality of retirement based on the ability to sustain retirement income and health maintenance systems;
3. Labor shortages eclipsing essential and available skills;
4. Deflationary pricing, as goods chase fewer domestic consumers and competition for foreign customers intensifies;
5. The need to learn how to live together in a new, multi-ethnic, culturally and religiously diverse environment.

Expect the world of work to be significantly modified.

Immigration and tolerance of new and different population is a key to addressing all this.

The question for all will be: Can societies that value tradition and continuity above all else, as almost all European (and Asian) societies appear to, make the leap that larger immigration levels require? And if they do, will they be able to manage the social and political fallout this policy will generate?

THE SAVINGS RATE

| Percentage of U.S. | | Percentage of Japan | |
|--------------------|---------------|---------------------|--------------|
| Household Income | | Household Income | |
| 1970 | 8.2 percent | 1970 | 17.6 percent |
| 1980 | 8.4 percent | 1980 | 17.9 percent |
| 1990 | 5.2 percent | 1990 | 12.1 percent |
| 2005 | Negative Rate | 2005 | 5.1 percent |

Why this drop has happened is the subject of much discussion. But the fact that Americans are not saving is a huge and growing problem.

IMPLICATIONS FOR BUSINESS: A record-low household savings rate and a large federal fiscal deficit are currently being supported by unprecedented borrowing by the U.S. from foreigners and domestic firms. But, as their asset values (a cooling housing market) continue to level off, consumers will start to save. That means consumption will decline and countries dependent on exports to the U.S. will need to adjust by managing their production and probably slashing their lending to the U.S.

WHO'S PAYING ATTENTION???

One unfortunate by-product of our new high-tech age—when almost everyone appears to be connected and the amount of words and images bombarding us come from so many sources—is a significant decline in attention span. Avalanches of e-mails, instant and text messages, inescapable telephones in a wireless world, countless portable devices from iPods and Blackberries to Tr□os, the ubiquitous Internet with its endless sites, blogs, and search engines, advertising messages everywhere one turns—the list goes on and on.

In an era of global upheaval, vast change, and pervasive uncertainties when, more than ever, we need an informed, educated public with the time and attention to think things through clearly and fully, this trend, with its constant distractions, is particularly disturbing. Obviously, technological advances have made our lives easier in many ways, but they have also taken a toll, creating new stresses, pressures, and deep unease as, more and more, we live by the clock and deadlines seem relentless.

IMPLICATIONS FOR BUSINESS: These technological wonders have, in fact, changed the very dynamics of work; how we communicate and live; and even how we think. As the choices offered by an advanced, tech-driven, basically affluent society multiply, demands on one's time have never been as intense. But one has to wonder if the currently popular adaptive strategy of multi-tasking is flawed and self-defeating? In a world daily becoming more complex, the most important human enterprises still require time, thought, and attention—something we are seeing less and less of in today's sound-bite universe. That should give us all pause.

CLOSING QUOTE

“... Things fall apart; the centre cannot hold;
Mere anarchy is loosed upon the world,
The blood-dimmed tide is loosed, and everywhere
The ceremony of innocence is drowned;
The best lack all conviction, while the worst
Are full of passionate intensity...”

—From “The Second Coming”
By W.B. Yeats