Critical Corporate Issues
Report on economic and business risk conditions in Brazil, South America, and the global economy
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Dear Reader,

This issue's opening comments center specifically on Brazil, its path to recovery and the issue of sustainability of growth over the long-term. For years clients have told me they thought Brazil looked good in the long-term in spite of short-term problems. Now, Brazil looks good in the short-term and it is appropriate to ask how it might look in the long-run.

Recent reports from the World Bank and the World Economic Forum (See **BRAZIL**, *below) provide us with some data we can use as a point of departure. The World Bank report listed Brazil as 129th in a field of 183 countries in the "ease of doing business" category. That's a pitifully poor showing. Brazil's tax burden, measured by the number of hours a business owner has to work to pay taxes, is the worst by a very wide margin. The World Economic Forum report showed Brazil moving up 8 levels (from 64th to 56th) on its "competitiveness" scale. That's good news! However, China ranks 29th and India ranks 49th – both ahead of Brazil. When the two reports are compared, the conclusion is that the public sector (tax burden and ease of doing business – i.e. bureaucracy) serves as a sea anchor on the private sector (competitiveness). In short, Brazil succeeds in spite of itself. The tax burden and the bureaucracy are two major elements of what is referred to as the "Brazil Cost" – i.e. a collection of inefficiencies that increase the cost of doing business in the country.*

As long ago as 1985 a number of reforms were suggested to reduce the "Brazil Cost". They involved tax reform, administrative reform in the public sector, labor law reform, and political reform. By way of example, a Brazilian worker costs roughly twice his/her salary in terms of out-of-pocket expense because of certain "overlays". Thus, an employee earning say, R$4.000 (roughly US$ 2,000) per month actually costs the employer just over R$8.000 (US$4,000) per month). Because of poor government service, many of the overlays (e.g. public health care) have to be provided to workers via additional company-funded private health programs. The burden can be reduced.

Implementing the reforms is an indispensible requirement to positioning Brazil as a player in the global economy. There are other issues that beg to be addressed. For example, Brazil's "regionalist" world view (See issue no. 13 of this report at www.criticalcorp.com.br *) The emphasis on a South-South foreign policy orientation and membership in the dysfunctional Mercosul tend to cast Brazil as a potentially unreliable actor in the global context. The recent apparent direction toward increased state participation in the economy is another area of concern. Before Vale do Rio Doce was privatized and when Petrobrás enjoyed monopoly powers in exploration, refining, and distribution of petroleum, both companies were ponderous bureaucracies that were slow off the line and Brazil produced only 200,000 bbl of oil per day vs. consumption of 1 million. Today Brazil is self-sufficient in petroleum and Vale is a well-managed and highly respected multinational company. Coincidence? I think not!*

Brazil's private sector contrasts sharply with the issues and policies previously mentioned. The country has an excellent cadre of managers and highly productive workers. Since the early 1980s (when Brazil experienced its first negative growth in 40 years), the country's private sector managers have had to work their companies through:

- *The fallout (negative growth) from the renegotiation of Brazil's foreign debt in the 80s;*
- *A sharp downturn in the economy during the decade of the 80s;*
- *Hyperinflation in the first half of the 90s;*
- *Another downturn of the economy in the second half of the 90s;*
- *A slow upturn of the economy in the first years of the 21st century;*
- *Rapid recovery in the second half of the first decade of the 21st century;*
- *The current global recession.*

That's a pretty steep learning curve for a generation of managers! In the 15 years following the Real Plan Brazil has:

- *Gained investment grade status;*

- *Become a net creditor to the IMF;*
- *Become a net creditor to the USA (6th largest purchaser of Treasuries);*
- *Become the world's largest beef exporter;*
- *Consolidated its position as the world's largest citrus exporter;*
- *Become one of the world's largest producers and exporters of steel;*
- *Become the world's largest producer and exporter of fuel ethanol;*
- *The world's "greenest energy matrix" (50% renewable);*
- *Become a regional power and global leader for free trade;*
- *Become the world's 4th most desirable investment site.*

So, if it ain't broke why try to fix it? Brazil's greatest (and really only) enemies going forward are: hubris, exacerbated nationalism, and xenophobia. All the country has to do is build on the strengths it has developed, make it easier for business to do the same, and reap the rewards of a long and difficult path to the present. The country's political institutions and its statesmanship badly need improvement and the reforms should be addressed. Elections are slated for 2010 and both leading candidates are known to favor a strong state presence in the economy. If Brazil's next leadership moves in that direction, a lot of progress will have been lost to the unfortunate tendency in Brazil to "re-invent the wheel" when the one it has isn't broke!

BRAZIL

Executive Summary

Brazil's recovery is increasingly "firm". The private sector is gearing up to invest and the economy looks solid. There are some concerns about the growth of the state's role in the economy, especially but not solely in the pre-salt oil deposits regulations. And politics continue to rule the roost.

Economy

About that "Brazil Cost"
Code Red Risk: An anchor on sustainable growth?

In my last two issues of this report I commented on the collection of inefficiencies that make doing business in Brazil more expensive and more difficult than in some other countries. It was recently reported by the World Bank that Brazil ranks a dismal 129th of 183 countries as regards ease of doing business. According to the report, opening a company in Brazil takes an average of 120 days vs. an average of 45.5 days in Latin America. Moreover, a Brazilian business owner has to work a walloping 2,600 annual hours (an average of 325 8-hour days – that pretty much blows an entire year!) just to pay taxes! It's the highest "tax burden" of the 183 countries in the study. However, the bureaucracy and tax burden have not taken the "edge" off the Brazilian private sector. According to the World Economic Forum, Brazil advanced from 64th in 2008 to 56th place this year in terms of competitiveness (meaning perhaps that Brazilian entrepreneurs work their tails off to compensate for the tax burden!) By way of comparison, China came in at 29th and India at 49th. Just imagine what it would be like if Brazil was "business friendly".

Industrial sector employment improving
Code Green Risk: Could mean sustainable improvement

After 9 consecutive months of decline, employment in the industrial sector has risen. It still remains well below the same period in 2008 but is improving nonetheless. Salaries in the sector are also growing but less quickly. In the automobile sector, companies registered the second consecutive month of employment increase. The growth in the auto sector has been sufficiently strong that the unions now feel confident enough to strike for wage increases! (Well, you can't have everything!) Retail sales growth in July 09 was 5.9% higher than July 08. When you read the previous item and then this one, you can't help but wonder why the government does not get off its butt and build on Brazil's strengths! What would Brazil be like if the government actually passed the reforms that have been discussed since the time Moses wore short pants?

How 'bout that, ain't that somethin'?
Code Yellow Risk: Room to expand

Brazil is expected to finish 2009 with the lowest nominal deficit of any of the G-20 countries. (As long as the administration watches its spending). That's good news indeed since it means the country has a little bit of "wiggle room" on public sector spending. The key risk is whether the government will spend on the "right stuff". The Accelerated Growth Program (Portuguese initials: PAC) is not very accelerated. The various government agencies involved seem unable to get their respective acts together and the delays are enormous.

OK you guys, that's quite enough
Code Yellow Risk: Protectionist barriers going up.

Brazil has slapped import tariffs on shoes and tires from China. Shoes are now subject to a flat tax of US$12.47 per pair and tires will be taxed at US$0.75/kilogram. An estimated 85% of Brazil's shoe imports are from China and local producers have complained vociferously charging dumping by the Chinese in this sector. Brazil is not the only country to impose a tariff on Chinese tires (See **WORLD**). Expect more restrictions on Chinese goods going forward as the economy improves. Argentina, US, & India are also on the list for protective measures by Brazil.

Turn-around time
Code Yellow Risk: Sustainability now the issue.

GDP Growth -QII09

Sector	*QII/QI -09*	*Annualized*
Industry	2.10%	8.67%
Ag/Livestock	-0.10%	0%
Services	1.20%	4.89%
Consumption		
Private	2.10%	8.67%
Government	-0.10%	0%
Investment	0.00%	0%
Exports	14%	68.90%
Imports	1.50%	6.14%

GDP growth in QII-09 was 1.9% over QI-09, signaling an official end to recession. Annualized, the 1.9% yields 7.8%, which is where the economy was headed when the stuff hit the fan in 2008. The chart to the left shows specific sector growth rates for the quarter and the rates annualized. Some adjustments were made to the annualized numbers. The agriculture/livestock sector showed negative growth in the quarter but this situation is unlikely to continue throughout the next 12 months so the annualized figure was presented as 0%. The same was applied to government consumption (a surprising quarterly figure) and investment. While exports were annualized using the quarterly rate, a 69% rate of expansion is not considered likely over the next 12 months. The figure was used simply to illustrate the current dynamism of the export sector. It should also be noted that exports are largely concentrated in commodities at present. The press and some in government have expressed concern for the flattening out of investment but that is to be expected until excess manufacturing capacity is absorbed. The capacity utilization rate in industry in December 08 was 78% having fallen from 86% at its peak. It is currently reported at 81.3%. As this figure improves investment will follow. In fact, the investment cycle has already begun. Orders for machinery and equipment are up 30%. This will soon be reflected in production. The issue now is to ensure continuity and sustainability of the improvement. Follow this situation closely.

Those Class-C consumers just keep coming

Code Green Risk: Continued migration into the middle class

The growth of a consumer class in Brazil has continued in spite of the recession. Membership in the Class C consumer group rose 2.5% in July 09 over July 08 and has grown 23% over the 2003-2008 period. This group is now 53% of the population. (See item on previous page re industrial growth) The global crisis did the most damage to the Class A and Class B consumer groups. Those groups actually declined in number by 0.5% during the recession. This should come as no surprise since they are the groups most likely to have investments in the stock market which plummeted at the outset of the crisis. It is also noteworthy that strikes for wage increases are occurring in some sectors – most notably auto and banking. The former has been recovering at record rates and the latter has been highly profitable overall. Real wage increases are likely to emerge from the strike activity so it is likely that the Class C consumer group will expand further, if not in number of members possibly in income level.

Pre-salt regs draw criticism from majors

Code Red Risk: Weaker than expected foreign investment in pre-salt area.

The new regulations for exploration and exploitation of the pre-salt oil deposits (See previous issue of this report at www.criticalcorp.com.br) have drawn international criticism, especially from the larger oil companies. The line of investors might be smaller than expected. The real challenge facing Petrobrás is the supply chain of locally produced equipment that could slow production.

Other regs in the works

Code Red Risk: More state control over the economy.

The administration plans to create another regulatory agency to "watch over" (read interfere in) the mining sector. The electric energy sector will witness the strengthening of Eletrobrás, and the practically defunct Telebrás will return to manage a public wide band using optic fiber from Petrobrás and Furnas Centrais Elétrica. The concern is as much over the tendency of the public sector to manage things poorly and with excessive red tape as it is over state ownership. Watch this.

Politics

She's moving up!

Code Yellow Risk: Marina is going to hurt Dilma's candidacy

A recent poll (from now to elections there will be many!) with 7 different candidate-scenarios showed former cabinet member Marina Silva with from 4.8% to 11.2% of the estimated valid votes depending on the candidates in the field. In the main scenario, Marina gets 9.5% - pretty good for someone considered a "one-issue-candidate"! Lula's approval rate also declined in the poll but still remains high (64.5%) in his last year in office. Well out in front is the as-yet-undeclared PMDB candidate José Serra, current governor of São Paulo with a very comfortable lead of 20.2 percentage points over Lula's chosen successor, Dilma Rousseff.

Security

Guns and butter

Code Green Risk: Nothing to worry about.

The "much ado" over Brazil's plan to spend R$32 billion (approximately US$16 billion) on military equipment is exaggerated. Some of the projects now being negotiated date back as far as the 70s and the plan to re-equip the Air Force with new jet fighters has been actively discussed since 1994. France is going to provide Brazil with a nuclear submarine (as mentioned in a previous issue of this report) and is bidding to provide Brazil with its Rafale fighter jet. Boeing is in the race with the F-18 and Sweden is bidding to sell its Gripen. President Lula recently expressed his preference for the Rafale during a visit from French President Sarkozy (*sans* the presence of Carla Bruni, unfortunately). His comment caused a minor institutional crisis with the Air Force which has indicated a preference for the F-18 for its greater range and the fact that it is combat-tested. The Air Force rushed to declare that the decision had not been announced and the president had merely announced his personal preference. The cheapest option is the Gripen but the winner will be the country that promises the most technology transfer. The argument that an arms race is underway in South America is wrong. Brazil's armed forces have long needed equipment upgrading and a strong military is a requirement, if only symbolic, for a country that aspires to regional leadership.

Management Risks

The major risk to management in Brazil is whether there will be a change of economic policy direction toward more state control as we lead up to the 2010 elections and afterward. Why the government seems to be moving in this direction is a total mystery. Everything appears to have been working just fine for the past 15 years. If the government wants change it should act on the reforms that have been the subject of debate for almost 25 years! However, this does not appear likely with the currently enthroned legislature and the recent actions of the executive branch. I guess those reforms don't seem dramatic enough so the continuity risk is one we will have to live with. However, it is worthy of note that the press has revived the issue of the reforms, so maybe there is an outside chance something will happen in that direction.

Recommendations

Ride the current recovery wave for as long as it lasts. It will add impetus to the issue of the reforms. Also, watch the growth of Class C consumers closely. Do what you can to improve competitiveness and monitor your inventories closely. Seek to increase market share and continue to look for profitable niches. Now is the time to start analyzing the issue of customer retention.

THE REGION

Executive Summary

The region continues to reflect the tensions between and among the Bolivarians and the non-Bolivarians. Venezuela's recent agreement with Russia has led to "turnabout" as UNASUL prepares to ask Hugo Chavez to "clarify" and explain the nature of Venezuela's military agreements with Russia. The economic malaise of the Bolivarians continues while Brazil, Peru, and Chile continue to recover. That's about it!

Economy

No news is not good news

Code Red Risk: Continued growth of the good guys and continued malaise of the Bolivarians

I wish there was something more to say about the regional economy other than Peru, Chile, and Brazil look good. The Bolivarians continue to spout their socialist rhetoric which is really little more than the old populist nationalist and xenophobic nonsense of the past. They need to realize it's a different world out there. Mercosul is dysfunctional and a drag on Brazil's forward progress. Argentina's downward drift continues and Hugo Chavez continues to implement his plan to create a socialist enclave in the region. What a mess!

Politics

She's got the Bolivarian blues

Code Red Risk: Stifling the press won't solve any problems.

Convinced that she is getting a bad rap from the press, Cristina Kirchner has introduced legislation to stifle criticism. A (big) team of tax auditors recently invaded the opposition newspaper *El Clarin* but Cristina said she didn't send them in. Right, and Carla Bruni is going to leave Sarkozy to marry me!!

Promise they won't come after us

☯ Code Zen Moment: It's a silly request.

UNASUL's Bolivarians again insisted that Colombia provide guarantees that US troops stationed there will not be used to conduct actions against other countries in the region. The request is ridiculous. Colombia cannot guarantee how the US will use its troops any more than the US can guarantee how Colombia will use Colombian troops. Now, if UNASUL wants Colombia to promise not to use its own troops against its neighbors, that's a different matter.

Security

Hugo get your guns!

Code Red Risk: What's he gonna do with the stuff?

Hugo Chavez has negotiated a military and energy pact with Russia. The military part involved the purchase of submarines, air defense systems, and tanks. Chavez claims that he has also purchased medium range (300 km) rockets and said "they don't miss" (well, they are not supposed to, right?) Remember that at the UNASUL meeting Hugo repudiated foreign military presence in the region. Moreover, UNASUL is now asking Chavez to "clarify" the agreement with Russia much as he asked Colombia to "clarify" the agreement with the US. Hugo, remember, you can't bring in troops – only equipment, OK? (Yeah, right!)

Uh oh!

Code Red Risk: Al Qaeda in the region?

A former head of Federal Police Intelligence in Brazil testified to the Congress that Al Qaeda continues to plan terrorist activities in the tri-border area where the frontiers of Brazil, Paraguay, and Argentina meet. For more details see **WORLD: Security**.

Management Risks

I suggest that the risk of military confrontations in the region is low. Venezuela's military is no match for the well-trained and combat-tested military of Colombia. Chavez has no reason to take on Brazil or Chile and if he did he would lose to both. From a security standpoint there is a risk that if the comments about the tri-border area are correct, the credibility of the entire region could suffer if a terrorist attack planned in the tri-border area should occur. A reputation for relative stability would quickly erode. Moreover, there is the possibility of attacks against Jewish "targets" within the region that cannot be wholly dismissed. Another risk is that Brazil continues with its policies of accommodation in the region instead of pursuing and assuming a leadership position. That South-South world view is a loser. Given the foregoing, if you stick to the well-managed economies in the region, you will not experience major problems.

Recommendations

Continue concentrating on the dynamic 3 – Peru, Chile, and Brazil. Mexico offers possibilities if it can get the drug issue under control. The Mexican private sector is experienced and capable but the institutional framework is suffering and Mexico's dependence on the USA is problematic.

WORLD

Executive Summary

The good news is that the recession seems to be bottoming out in the "developed" countries. Unfortunately, that's also the bad news. In the absence of an exit-strategy from the recession the risk of a double-dip (i.e. W-shaped in the lexicon of economists) is palpable. China has started throwing its weight around with the USA and that could be problematic. The emerging countries are showing the strongest recovery patterns.

Economy

The recovery leader board
Code Yellow Risk: Watch this scoreboard going forward.

GDP Growth -QII09 vs. QI09

Country	*QII/QI -09*
Turkey	12.1%
China	7.9%
Russia	7.4%
India	6.0%
So. Korea	2.6%
Indonesia	2.4%
Brazil	1.9%
Japan	0.6%
Australia	0.6%
Poland	0.5%
Germany	0.3%
France	0.3%
Sweden	0.2%

To the left is the "leader board" of those countries emerging most quickly from the global recession. In fact, China and India never entered it! Similarly, Poland and Australia cannot be considered as having been in recession because they began turning around early in 2009. Turkey and Russia show high growth because they are coming off dismal first quarter performances. Russia fell a walloping 23.2% in QI. Backing out the first four countries, Turkey and Russia because of the poor first quarter results and China and India because they never entered the recession in the first place, South Korea, Indonesia, and Brazil are the three emerging countries which seem to offer interesting recovery potential and deserve your consideration in formulating your investment strategy. Japan is the only G7 member in the top ten performers in the second quarter. Presumably, your recovery strategy already includes China and India. I still consider Russia a wild card because of issues involving transparency and local politics.

And those still in the negative growth category
Code Yellow Risk: Recovery still slow in the developed countries.

GDP Growth -QII09 vs. QI09

Country	*QII/QI -09*
USA	-0.3%
Switzerland	-0.3%
Belgium	-0.4%
Italy	-0.5%
UK	-0.8%
Canada	-0.9%
Holland	-0.9%
Spain	-1.1%
Mexico	-1.1%

The countries on the chart to the left are those considered to still be in recession. Second quarter over first quarter growth remains negative for those on the list. With the exception of Mexico all the others are among the world's more developed countries. All of the countries on the list are still in recession although showing signs of improvement. Anti-recession policies will remain in effect and unemployment is likely to remain a problem into the final quarter of 2009. Companies in those countries should continue with anti-recession policies – i.e. cost reduction, margin protection, and employment cutbacks. Recovery in the developed countries is vital to bringing the global recession to an end. Mexico's recovery will depend heavily on improvements in the USA.

About those Chinese tires…
Code Red Risk: This could get ugly.

In addition to Brazil, the US also slapped an import duty (three years at 35%) on tires from China sparking a nationalist reaction on the part of the Chinese who quickly promised retaliation against US auto parts and chicken meat. The Chinese press and Internet bloggers went bananas over the imposition of the tariff. Since the Chinese government exercises considerable control over Internet content and the media, we can safely presume it at least approved of and may have even encouraged the outbursts. Some of the bloggers suggested that China should start dumping its US$ 2 trillion of reserves. You can see where China will apply pressure in future trade issues as the recession abates. Is this protectionism? Of course! However, it is within the rules negotiated between the US and China when the former endorsed the entrance of the latter to the WTO. The deal was that if any imports from China disrupted a US industry, the US could apply protective tariffs for up to 3 years to allow the affected industry time to upgrade and compete on a level playing field. A deal is a deal! However, the situation could get ugly especially since the opposition in the US jumped on the bandwagon, too, and is screaming “foul”. China is sure to lobby with the opposition opposing the tariff. This is not the first time the US tire industry has gotten into trouble because of cheaper imports. Watch this situation closely.

US consumption slows recovery
Code Yellow Risk: Good for the future, bad for the present.

US consumer spending is rising but not from credit purchases which have declined precipitously. Total consumer credit in July fell at an annual rate of 10.4%. Two problems affect consumer spending: 1) home foreclosures continue and; 2) incomes are flat to slightly declining. Mortgage delinquencies reached an all time high in QII. Ninety percent of all existing home sales are distress sales and the next real estate crisis could be in commercial properties. With unemployment at a 26-year high, consumers are anxious about the future. All of the foregoing and the attendant erosion of wealth and income imply that consumption will be a weak driver of the US recovery. While slow consumption growth is good news for the future (relative to the feverish debt-financed consumption of the recent past) it is bad news for the present because it implies a very slow recovery and the risk of a second dip when inventories are depleted.

Now what?
Code Yellow Risk: How do we get out of here?

Signs are that recession is bottoming out, albeit at different rates between developed and emerging countries, the former lagging the latter, give rise to the question of what is the exit strategy of the “developed” countries against the anti-recession measures implemented in the early months of the recession. A lot of liquidity was thrown into the global economy to stave off a depression. That liquidity will have to be absorbed without throwing the developed countries into a second “dip”. It’s time to be mapping the way back. Watch this because it’s not clear yet that the exit strategies have been developed, most especially but not exclusively in the USA.

More bubbles?
Code Yellow Risk: Overkill on financial regulation.

Former FED Chairman, Alan Greenspan recently announced that Wall Street has not mended its ways and that new financial “bubbles” could result. So, what else is new? The only thing that is required in my view is sound, prudent regulations (many of which were in place anyway before they were suspended) that are enforced. You don’t need to regulate bonuses and salaries. Speculation and high risk financial products need only be kept separate from regular operations and be appropriately reported. (None of that “off-balance-sheet” stuff!) I believe that if investors know the risks they are assuming, they will act accordingly. Derivatives have a place in the financial sector but because they are gambles, they should not be mixed with the investments of people who do not want to gamble. And, as appropriate, those who do gamble should have to deal with the consequences of the risks they assume. Compartmentalizing transactions to protect the assets of those who do not wish to gamble is the appropriate way forward. A company or financial institution that is "too big to fail" is "too big to manage" because management includes the possibility of failure. The anger toward the fools who created the current crisis is understandable but should not influence the creation of sound principles of governance and risk management. Transparency and compartmentalization are the operational words for the new financial regs. We don't need lynching (no matter how well-deserved it might be!)

Politics

You're a liar, a socialist, a communist, and (heaven forbid) black*!*
Code Red Risk: A US polarized by hatred will find recovery difficult.

There's plenty to debate in the US without resorting to hatred and racism. It's disheartening (to me as an American and presumably equally disheartening to those who depend on the US recovery). Barack Obama's health care reform program falls far short of the French model and France can hardly be called "socialist" or "communist". (But of course don't tell that to an American!) As mentioned in report no. 13 (www.criticalcorp.com.br) death threats to the US president have reached 30 per day – 400% more than made against G.W. Bush – and Obama is only into the first 9 months of his administration! The polarization is not healthy - especially in view of the issues that need to be addressed.

Security

Yet another "infomercial" from Osama Bin Laden
Code Red Risk: Hyperbole or threat?

Why is this guy still on the loose? Osama Bin Laden (aka Osama Bin Missing) recently issued yet another "warning" to Western "infidels". Interestingly, just before Osama's tirade I received an unconfirmed report of testimony to Brazil's Chamber of Deputies by a former Federal Police Director of Intelligence regarding activities of terrorist groups in the "tri-border" area – i.e. where the frontiers of Brazil, Argentina, and Paraguay meet at the Iguaçu Falls. The ex-Director's reported testimony suggested that terrorist groups in the tri-border area are planning new attacks on Western targets in other countries. He added that in his opinion Brazil does not give the desired level of attention to this issue. While I cannot sustain a claim of any link between Osama's "infomercial" and the activities in the tri-border area, it would seem that some additional attention to the area might be justified.

Management Risks

The risk of a "double-dip" recession is a function of the exit strategies employed by the "developed" economies. A careful balance of monetary and fiscal policies will be needed to ensure a balanced recovery. The USA offers the greatest risks principally because of its size and importance to the global economy. The US "recovery" is extremely fragile. Incomes continue to fall, the wealth of American middle-class consumers continues to erode, unemployment will continue to climb in the very short-run, and some heavy lifting is needed to restore manufacturing price competitiveness. Innovation and technology continue to support US competitiveness and those are strengths that should be used by companies to emerge from the crisis. I am less worried about a W-shaped recovery pattern than I am about the possibility of long-term malaise.

Recommendations

Emerging countries should continue to build on their domestic economies. Anti-recession policies are still called for in the "developed" world until an upturn begins. However, if you are in the so-called "developed" part of the world you should already be looking downrange toward managing a balanced recovery anyway. It won't be easy! Keep a strong balance sheet and invest any excess cash in real product opportunities. Improve communication throughout the enterprise and look for niche opportunities for future growth. Concentrate on building shareholder value. It's going to be a long and rocky way back!

Until next issue,

Jim