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### Welcome to the Change Challenge Newsletter

The feature article in this month's e-letter titled "*World War III*" claims that a global economic war is already in progress, and the U.S. is behind just like it was at the start of both world wars in the 20th century.

The *Results Through Relationship* article this month is titled: "*Do You Trust Me?*" It offers a novel approach for building trust in business and personal relationships by suggesting that, contrary to the popular maxim, trust is given not earned. And the *Future Change* article titled "*Conventional Warfare Disappears*" says that bullets-and-bombs warfare is no longer effective as an instrument of national policy because of its devastating impact on the economy.

Your feedback and recommendations to improve this e-letter would be appreciated via return email or The Change Blog at [www.dickstieglitz.com](http://www.dickstieglitz.com).

Sincerely,  
Dick Stieglitz, PhD

### Feature Article WORLD WAR III

World War III has already begun. Most people don't recognize it because World War III isn't anything like World War I, World War II, or the Cold War. We are fighting to sustain the highest living standard in world, which ultimately will determine our political freedom. Instead of a simple fight between the Allies and the Axis powers, World War III is a struggle among several economic super-powers, countries like China, Japan, the European Union (especially Germany), India, and the U.S., of course. The weapons aren't ships, planes, and tanks; instead today's weapons are government fiscal and trade policies, industrial

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Business Consultant, Author  
and Keynote Speaker

### In This Issue

World War III

Do You Trust Me?

Conventional Warfare  
Disappears

Business Tools

**Looking to have your  
organization embrace**

innovation, and cyber-intrusions.

The winners of World War III won't capture a single square mile of their opponents' land. Instead, the victors will control their opponents' governments through debt instruments and own their businesses and infrastructure by producing significantly more than they consume. By that measure, the U.S. is losing the war badly - but it's traditional for the U.S. to begin a world war on the defensive. We begin World War III with a leaning toward isolationist trade policies and a government deeply in debt.

For decades, growth in the U.S. economy was driven by consumer spending enabled by rising real estate values and easy credit. We built bigger and bigger houses, and filled them with more and more stuff. That spending spree caused the U.S. balance of trade to fall from a surplus in 1980 to a deficit of 5 percent of GDP - as a nation we consume 5 percent each year more than we produce. But everything changed when the recession destroyed \$13 trillion in property and stock wealth. The sudden drop in consumer spending was replaced by record government spending. The \$700 billion bailout package and \$787 billion stimulus bill combined with anemic tax revenues to produce a 2009 federal deficit *three times* the previous record deficit.

Once upon a time, American spending fueled global growth - now it is a drag on that growth. The core question is: Can the U.S. switch from a consumer-driven economy to a trade-driven economy? And, if so, can it be done before the federal government goes bankrupt? Historically, the U.S. has been adept at shifting workers and resources from declining industries to growth industries. But so far the government's economic policies have failed to stimulate growth, increase trade, or create new jobs. China, Germany, and Japan are winning World War III with large trade surpluses, and are using those surpluses to build their infrastructure, expand their overseas investments, and increase their foreign debt holdings.

Of the three, China is the most ominous threat. Even after growing 9 percent last year, China's GDP is still only one-third as large as the U.S. GDP. On a per-capita basis, China's GDP is less than one-tenth that of the U.S., and the innovation gap between the two countries remains as wide as the Pacific Ocean that separates us. Further, the U.S. defense budget is six times China's. So how could China overcome the U.S.? Clearly, a bullets-and-bombs war would fail. The U.S. faced a similar challenge from Japan in the 1960s and 1970s. "*Made in Japan*" was as prevalent then as "*Made in China*" is today. But today Japan is losing its place as the world's second largest economy, even though its per-capita GDP is roughly the same as the U.S. The difference is that China, with ten times as many people as Japan and three times as many as the U.S., has tremendous untapped growth potential!

The U.S. and Chinese economies (the world's largest and fast-growing, respectively) are linked in ways neither side can afford to break. China depends on the United States as the largest market for its exports. Similarly, the U.S. depends on China as the largest foreign purchaser of treasury bills. It is an economic version of the mutually assured destruction (MAD) stalemate between the U.S. and the Soviet Union during the Cold War. Either side could destroy the other's economy, but at the same time would destroy its own. Nevertheless, the stage is set for economic war on a global scale.

I grew up with bomb shelters and the fear of a nuclear attack, but today's threats are very different. Today, I worry about having my identity stolen and my computer hacked. Economic warfare won't be as lethal as the 20th century's shooting wars, but it is likely to be more disruptive to the average citizen. Cyber-warfare destroys enemies by attacking the infrastructure that supports the economy: financial systems, communications, computer networks, power grids, and the like. Our economy depends so heavily on sophisticated computer systems that we are more vulnerable to cyber attacks than nuclear attacks. We must defend ourselves against cyber-attacks even as we maintain the conventional warfare capabilities that make the U.S. the world's police force, the protector of free trade routes.

The federal government must meet the challenge of cyber-warfare by regulating cyberspace, establishing security standards, defending against threats and attacks, and enforcing the law. Information technology experts in government and industry fight cyber-security battles daily. The threats include penetrations by foreign users, viruses, worms, spyware, Trojan horses, and data theft. Inappropriate surfing, dangerous downloads, and violations of security policies by employees open the electronic doors to these cyber-threats.

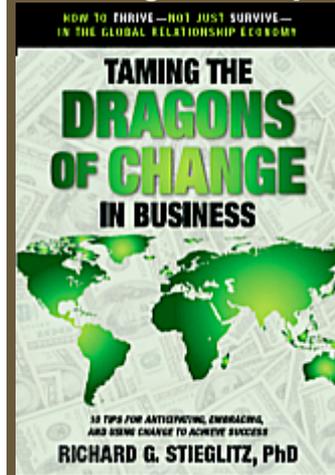
World War III has huge implications for the world of business. Every business, from Fortune-100 companies to mom-and-pop shops, must protect itself from cyber intrusions. On the other hand, cyber-warfare also presents business opportunities on the offensive as well as the defensive side. But the biggest opportunities lie in creating products and services that the world will buy in large quantities. It's time to shift the focus from consumers to trade - even if the leap from that leap is uncomfortable. To be successful in times of like these, we must anticipate what the changes will be, embrace the changes, and use them to produce new successes. On a national level, we are at war with ourselves as much as with other countries. Hopefully, Congress and the President will do their part by reversing anti-business policies, making it easy for businesses to compete internationally, and investing in cyber-security.

## Leading Change DO YOU TRUST ME?

I was one of 54 strangers who participated in a group exercise about trust. We faced one another, looked each other in the eye, and said either: *I trust you, I don't trust you, or I'm not sure if I trust you.* About 50 percent of the strangers said they weren't sure if they trusted me, while 25 percent said they trusted me and 25 percent said they didn't trust me. Interestingly, my responses to them were exactly the same with just a few

change?

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exceptions. The conclusion is: 75 percent of people who have never met us either don't trust us or aren't sure if they trust us - and we feel the same about them. No wonder new relationships are so hard to build!

Contrary to the popular maxim, trust is given - not earned. We choose who we will trust and not trust. One effective way to build trust is to be trusting. Trust creates trust in personal and business relationships. Studies show that when one person trusts another, the second person is more likely to be trustworthy. It seems we trust those who trust us, and vice-versa. The same holds true on an international level.

Effective relationships depend on trust. Verbal and non-verbal communications in trusting relationships are spontaneous. Trusting partners understand and accept each other intuitively. On the other hand, communications in relationships that lack trust can be strained and tenuous. A simple "Good Morning" can trigger doubts and fears: "*What does he/she mean by that?*" Such relationships are like walking on egg shells. Every word is chosen carefully to avoid breaking the shell.

As children we were taught not to trust strangers. It seemed like good advice at the time. But too often mistrust persisted in adult relationships such as jobs, marriages, families, and communities. The belief that "*I don't know you, therefore I shouldn't trust you*" is too common. Unfortunately, when I mistrust you, you immediately mistrust me. Therefore, let's begin each relationship by trusting our new partner - even if there is little evidence to justify that trust. If you are trusting, someone might take advantage of you. Be trusting anyway.

## Future Change CONVENTIONAL WARFARE DISAPPEARS

Fighting for resources and land may have produced economic benefits in 20th century, but today countries exist in an interdependent ecosystem. Whether big or small, rich or emerging, their economic well-being is linked: when one is sick or gets hurt, they all suffer. Since terrorism and aggression by rogue nations damage the ecosystem, countries will cooperate to preserve their collective health and eradicate such threats - even if the collaboration may be tense and suspicious at times.

Governments, even the powerful U.S., are learning that war is no longer an effective national policy because of its devastating impacts on the economy. For example, the declining war in Iraq still costs about \$5 billion per month. Since war and threats of war are passé, governments will resolve differences through economic compromise. That means conventional wars are a thing of the past and the tools of such warfare (e.g., \$50 million tanks, \$500 million planes, and \$5 billion warships) are marginally useful and unaffordable. Market pressures will force the mega-companies that manufacture such weapons to transform their business base in the next ten years.

President Obama and Defense Secretary Gates are struggling to change the U.S. military into a more flexible force. They are trying to cancel the acquisition of weapons designed 25 years ago to battle Soviet armies, and replace them with systems more suited to fighting pirates and counterinsurgency wars like Iraq and Afghanistan. For example, they cut the budget for additional C-17 transport planes. Unfortunately, Congress, motivated to protect jobs in home districts by building weapons that, in the President's words: "*we don't need at a cost we can't afford,*" ordered ten new C-17s at \$250 million each even though the Pentagon didn't want them.

On the other hand, tools and technologies for intelligence gathering and law enforcement are rising in value; as much for their vital economic importance as for their military uses. Cyber-warfare is replacing bullets and bombs as the weapon of choice for international aggression. The Chinese are among the world leaders in using such tools for economic espionage. Even if Defense isn't your line of business, consider how will such a gigantic resource re-allocation will affect the economic future of your company.

### Friends & Colleagues,

I'm certainly not an expert in cyber-warfare, but I can help you implement change in your organization - contact me to discuss the possibilities. If you found this e-letter to be useful, send it to a friend. If you didn't, let me know why at [dick@dragonsofchange.com](mailto:dick@dragonsofchange.com).

Until Next Month,

*Dick*

[www.DickStieglitz.com](http://www.DickStieglitz.com)

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