The IMF estimates that if Greece left the Eurozone & went back to having its own currency,“The turbulence would last one or two years” but that, after declining 10+% in the first year, its GDP thereafter would start growing faster than otherwise would have been the case. What people don’t realize is that, due to the deep spending cuts already made, Greece’s “primary” deficit (i.e. before interest payments) has already been cut from 11% of GDP in 2009 to 1% today (i.e. less in relative terms than Spain’s, France’s & even the Netherlands’). So if it walks away from its debts (*most of them now held by the IMF & various other public sector entities, rather than private sector banks*), it would be able to meet its day-to-day domestic payment obligations (*while every Greek who had the foresight to shift his savings abroad into Euros in the last year or so, as just about every Georgios, Konstantinos & Dimitrios has done, would be much better off in local currency terms)*.

In a recent interview Niall Ferguson, the Oxford-educated Scottish economic historian who now teaches at Harvard, opined on the Eurozone crisis. After pointing out he had originally opposed the Euro idea, he says that now ‘disintegration is what should be feared and ... avoided’, that both Germany & Greece will therefore swerve at the last moment, that the present situation is the living proof that you cannot have monetary union without fiscal union, & that thus the outcome must be full integration - *He is an economic historian, not a current affairs analyst; and as a historian he should know better than most how often in history parties with opposing views painted themselves so firmly into a corner that they could no longer could “swerve”, even if they had wanted to.*

He makes an extremely valid point, however, & one that US (& Japanese) politicians should heed, when he says “They thought they could kick the can down the road. What they didn’t realize was that each time they did that, the can got more explosive.” - *a different way of restating my oft-repeated stock market adage that “the first loss is the easiest to take.”*

According to a financial blog called ZeroHedge that sometimes comes up with interesting stuff, the losses accumulated by the trading desk in JPMorgan’s London-based Chief Investment Office in a few weeks this spring may end up costing the bank not US$2BN, as originally reported, nor US5BN, as subsequently conceded by JPMorgan CEO Jamie Dimon, but US$8BN. While in the overall scheme of things this is little more than a gnat’s bite for a bank with a capital base of US$130+BN, the resultant erosion of the once Teflon image of both bank & CEO, & the succour it has given the advocates of more, & more wide-ranging regulation of US banks, has effectively spiked the guns of the banking industry apologists, first & foremost Jamie Dimon himself, who had argued that more regulation was unnecessary & the banks should be left to regulate themselves.

China no longer needs US financial intermediaries to buy UST securities for it at the Treasury’s auctions thereof since it has made the People’s Bank of China a direct participant therein.

When President Obama invited France’s newly-elected François Hollande to the White House for a tète a tète prior to the G-8 clambake at Camp David, he likely not only wanted to get the measure of man he didn’t know, but to compare notes with a soul mate; for throughout his Presidency he has had to contend with a G-8 replete with fiscal conservatives.

On May 23rd Germany for the first time ever auctioned off 2-year zero coupon securities (at an average yield of 0.07% - which in the after market declined further to 0.04%).

The PIIGS stigma continues to stick to Ireland despite the fact that it seems to be digging itself out of the hole it dug for itself by bailing out its banks (& thereby many banks on the Continent). This year its GDP growth rate, at 0.5%, is expected to be on a par with Germany's (beating the minus 4.7% for Greece, Portugal's minus 3.3% & Spain's minus 1.8%), and next year's forecast 2.0% is better than that for most, if not all, of its Eurozone partners. And the market gave this some cognizance when, after its bond yields hit a high of almost 14% last July, it had cut them by last month to less than half that (although in recent weeks the backwash of events on the Continent has caused them to surge once again North of 7%). What has also gone largely unnoticed is that tiny Iceland, where it all started, has also been doing comparatively well : in 2011 its GDP grew by 3.1%, like Germany's, & this year's forecast 2.4% far exceeds that of any other European country, except Poland.

Fitch has downgraded Japan's long-term foreign debt rating two steps from AA to A+, & its more important local currency debt one notch from AA- to A+, both with a negative outlook (vs. Moody's Aa3 with a stable outlook & S&P's AA- with a negative outlook). And it warned that further downgrades will be inevitable unless policy measures are taken to stabilize its public finances & Debt/GDP ratio (which is expected to hit 239% by yearend) - *historically, credit ratings haven't been an issue for Japan since most of its debt was held by (tame) domestic investors (93% as of last December 31st). But with growing number of pensioners net drawdowns of outstanding bonds are becoming a fact of life & gathering momentum (so Japan is becoming more dependent on global markets to fund its chronic fiscal deficits*).

Egan Jones Rating Company has downgraded Spain from BB+ to BB- on the grounds that in the past three fiscal years its GDP has declined from 1.09TR to 1.07TR Euros while its debt had grown from 381BN to 563BN Euros. And it expects its debt to skyrocket due to a need to bail out its banks & weaker provinces (on May 22nd the Washington-based Institute of International Finance, the global banking industry lobby group, said Spain's banks will need 76BN Euros to cover loan losses on bad loans as high as 260BN Euros. And this is the low end of the range; other, more objective, sources put the Spanish banks' need for new money North of 100BN Euros - *Saline, Mich.-based Egan Jones is a rating outfit with a difference : while the Big Three get paid by the issuers they rate, Egan Jones is paid by investors, thereby avoiding the inherent conflict of interest that can lead, & has led, the Big Three astray.*

The Province of Québec has for 102 days suffered through mass demonstrations. It started with students peacefully protesting government plans to hike tuition fees at post-secondary institutions over five years from levels far below-, to levels less far below-, those in the rest of Canada (which David Frum characterized as an inter-generational-, not just a student-, protest by a younger generation against their elders who, after having lived beyond their means during their working careers, - *as evidenced by decades of government deficits* - now expect to continue to do so at the younger generation's expense during their no-longer-productive years). But over time it ceased to be non-violent as other small, more extremist groups with different agendas joined the fray, causing the original protesters' case to lose resonance with the population at large. This emboldened the, not overly popular, provincial government to pass an emergency law last week to limit the protesters' scope to carry on. While it now may have morphed into an effort to impose minority mob rule less than twelve months before an election, the real reason for the students' original rebelliousness was revealed by the student who told CBC Radio, quite indignantly, after the law was passed "They won't let us do what we want to do!", suggesting that in its origin it was a rebellion by what the Chinese call "Little Emperors", a younger generation that has never faced much, if any, hardship, or wanted for much, if anything, and/or that had never had anyone say "NO" to them.

Sometimes one wonders about the media! The Globe and Mail on May 19th contained an article with the breathless headline Changes to OAS equal big savings for Ottawa, big costs for seniors. It reported that, once fully implemented by 2030, raising the Old Age Security eligibility age to 67 will save Ottawa $10BN annually - *This is news? Wasn't that the object of the exercise all along?*

Andrew Coyne had an insightful column recently on Canada's 'employment insurance' scheme. He noted its name is a misnomer. For previous Liberal governments had structured it to charge all workers the same 'premium', regardless of whether they had permanent or seasonal jobs (i.e. whether they drew 'pogie' seldom, if ever, or annually) & to allow regular users with seasonal jobs to draw benefits for longer periods than occasional users. The Harper government is now proposing changes to make it less of an income maintenance scheme for Atlantic Canada (& a lesser extent Québec), prompting one New Brunswick Liberal MP to complain "I am convinced the Conservatives ... (*want*) people ... to relocate to where the jobs are." *This is a bad thing?*

India is doing a delicate dance. It must stay on the right side of Washington& thus must be seen as going along with the sanctions on Iran. So it recently announced an 11% cut in its oil imports from that country. But Iran has long been an important source of its crude oil imports (*in fact, some of its refineries are specifically configured to process certain types of heavy Iranian crude*). So it has been aiding & a betting Iran in circumventing its exclusion from the global payment clearing system by bartering food grains & palm oil for crude oil & by setting up a rupee account to enable Indian exporters to get paid for their shipments to Iran from the proceeds of the amounts it owes to Iran for oil.

As noted on other occasions, while Canada's Royal Canadian Mountain Police (aka The Mounties) was once rightfully a source of national pride, today it is a national embarrassment, due to senior management that is unable, or unwilling, to comprehend and act on Peter Drucker's dictum that "Management is doing things right - leadership is doing the right thing." The latest example thereof occurred in Edmonton where a Staff Sergeant (in its hierarchy a rank indicative of senior middle management) was charged with seven cases of "disgraceful conduct"over a three year period ended in 2009, incl. inappropriate sexual innuendoes about a female co-worker's sexual life with her husband in her presence & in front of others, indecent exposure to a co-worker, having sex with two subordinate co-workers in his office & in a car in the office parking lot, keeping alcohol in his office, drinking on the job & offering drinks to subordinates. Last January, almost three years after the fact, he was rapped across the knuckles by being reprimanded, docked ten days' pay, reduced one level in rank & transferred to BC. A spokesman for the force told the media "Dismissal was an option but deemed too harsh" (*although with 25 years' service he was pensionable*), that he had been given a break "because of his long years of satisfactory service and the support of other Mounties", & wouldn't reveal his current whereabouts on the grounds this would be "an invasion of his privacy" - *"satisfactory" service in performance appraisal terms means "barely adequate"*

& the reference to "support from other Mounties" suggests an unhealthy condoning within the force of behaviour by those 'on the inside' which 'on the outside' the force is mandated to ferret it out for prosecution. The Commissioner appointed last year, whose previous posting had been that of the force's senior man in BC where a undue share of the force's embarrassing incidents in recent years had occurred, & who, upon assuming office, vouched to clean up the force & make sexual harassment his top priority, should take Robespierre's admonishment to heart that "omelettes are not made without breaking eggs" (a sentiment paraphrased in the 20th century by, among others, Lenin & Krushchev). It's like the old joke about the mule that had to be treated with kindness to make her work, provided she was first bonked on the head with a club to get her attention : he will never clean up the Augean Stables in the force until, figuratively speaking, he puts a few bad apples against the wall & shoots them. Some damned fool "expert" interviewed on CBC on the subject said this proved the force "needed" a union, a total non-sequitur : what it needs is management that manages & provides leadership, not one that not just wears pretty red serge uniforms with lots of gold braid, talks the talk but won't walk the walk, & allows the wagons being put in a circle when one of the 'brothers' screws up.

GLEANINGS VERSION II
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EURO CRISIS 'THREAT' TO GLOBAL ECONOMY (al-Jazeera)

- In a report made public on May 22nd, OECD Chief Economist Pier Carlo Cardoan says "the crisis in the Euro area has become more serious recently and it remains the most important source of risk to the global economy". He forecast the Eurozone economy will shrink by 0.1% this year before rebounding to 0.9% growth in 2013 & that growth in the 34 nation OECD area will ease this year to 1.6% from 1.8% in 2011 before recovering to 2.2% in 2013. And he revised his forecast for US growth for this year from 2.0% to 2.4%, & foresaw 2.6% in 2013. While he also opined "Elections in a number of Euro area countries have signaled that reform fatigue is increasing, and tolerance for fiscal adjustments may be reaching a limit", he was relatively positive on the outlook for Brazil & China (*the latter is rather surprising; for in March power generation was flat MoM & down 11% from last July & rail freight volume growth decelerating, in April loan growth had fallen far short of expectations, and in the First Quarter government tax revenues showed the slowest YoY growth in three years, while copper & iron ore stock piles are well above normal - which has led to a cratering in Baltic Exchange dry cargo hauling rates).*

With the growing concerns about the state of health of many European banks, it is worth noting that they collectively hold 5TR Euros in claims on third parties in the rest of the world, roughly twice that of US banks; so, if they were to be forced to start retrenching even more than they already have, this will have major implications for credit availability in the emerging economies

GERMANY HOLDS A GUN TO GREECE'S HEAD
(The Telegraph, Ambrose Evans-Pritchard)

- On May 23rd, *the day of the Eurozone Summit*, the Bundesbank said a Greek withdrawal from the Eurozone would be disruptive, but "manageable". This was seen as an attempt to undermine claims by Alexis Tsipras, the Leader of Greece's anti-austerity Syriza Party, that Europe wouldn't dare pull the plug on Greece. The German financial daily Handelsblatt said it was "holding a gun to Greece's head" to hammer home the message that Germany wouldn't cave in to populist politicians in Athens. During the Summit there were rumours, attributed to leaks by German officials, of a coordinated move underway for countries to draw up contingency plans for a Greek exit; these were, of course, promptly denied by both Athens & the EC (although an official of the latter said "We are not preparing such a plan though we are ready to face any eventuality - *i.e. we already have a plan*). And, *to add to the confusion*, IMF Managing Director Christine Lagarde said the IMF is braced for a Greek exit, while mooting the possibility that Greece's creditors (*among whom the IMF looms large*) may be willing to modify their loan terms to defuse the crisis, since Eurozone members "may consider the integrity of the zone to be more important."

A dovish "Latin Coalition" is emerging, centred on France, Italy & Spain, intent on bringing Germany to heel & pulling Chancellor Merkel off her hawkish austerity high horse. But contrary to many media reports, Germany is not "isolated; for it has the Dutch & Finns, & several other non-deadbeat countries in its corner. One risk to the Eurozone that nobody is focusing on may well be less that Greece, Spain, Portugal and/or Italy may leave, or be forced out, but that countries like the Netherlands or Finland would choose to do so, or countries like Poland would change their mind about joining, on the grounds that the cost of staying in, or joining, was excessive.

FRANCE TO PUSH HARDER FOR EURO BONDS (G&M, Eric Reguly)

- After making his pitch for *mutualizing individual countries' debt through the issuance of* Eurobonds (that would be backed by the full faith & credit of all 17 Eurozone member nations, *much of it not worth the powder to blow it to Hell*) at last week's G-8 Summit at Camp David, President François Hollande was expected to renew it at the May 23rd Eurozone Summit. But, since Chancellor Merkel remains adamantly opposed to the idea, this summit, like so many before it, is unlikely to be any more productive than its many predecessors in coming up with a watershed Eurozone rescue program, especially so ahead of France's June 10th Parliamentary elections & Greece's on June 17th (in the event all the Summit achieved, apart from some apparently acrimonious exchanges of views, was to agree to meet again in about three weeks, right after the Greek elections).
- The idea of Eurobonds was derided in a radio interview on May 21st by Steffen Kampeter, Germany's Deputy Finance Minister, as "the wrong prescription at the wrong time with the wrong side-effects." The Merkel government is concerned, & justifiably so, that Eurobonds would raise its own cost of funds & fears that affordable interest rates for all Eurozone countries would reduce fiscal discipline *& increase the potential for "moral hazard* (*she has history on her side; this is exactly what happened when the weak sisters were admitted to Eurozone membership : they were engulfed with cheap money & spent it foolishly*).
- The technocrat/ big government types, Hollande, Italian Prime Minister Mario Monti & his Spanish counterpart, Mariano Rajoy, and the EC favour the idea, as does British Prime Minister David Cameron, even though Britain, while a member of the EU it has *wisely* stayed out of the Eurozone *& it is therefore none of his business*. And while it wouldn't fly without Germany's concurrence, for it has the

Eurozone's biggest economy *& greatest creditworthiness*, it is increasingly isolated ***(this is a misrepresentation - see above***).

- On the other hand, the German Chancellor is in broad agreement with M. Hollande's position for growth strategies to run in parallel with austerity. Proposals to do so include boosting the capital of the ECB to enable it to fund more development if poorer EU regions & issuing "project bonds", underwritten by the EU's Budget, to finance infrastructure. And in the May 21st Financial Times Poland's Finance Minister, Jacek Rostowski, said that to build 'the ultimate firewall' in case of Greece leaving the Eurozone, the ECB should announce that "it will stand ready to buy unlimited amounts of the sovereign bonds of the countries remaining in the euro for a limited period of time - say a year to 18 months."

Following the Summit, the lame duck Dutch Prime Minister Mark Rutte expressed concerns that Eurobonds would raise Dutch governments' borrowing costs. But the case against Eurobonds was made most bluntly by Jurki Katainan, Finland's Prime Minister who said "I don't support Eurobonds. Too many countries have got too many loans for too low a price for too long. Eurobonds would institutionalize this problem; that's why we are not interested." Never, ever in the history of Mankind has anyone dug himself out of a deep debt hole by digging deeper; while this may be theoretically possible if there were investment opportunities with very fast dispersal-, & very short payback-, periods, the infrastructure investments being talked about have neither.

<u>THE POST-BOOMER MAN</u> (NYT, David Brooks)

- Two smart US analysts reviewed Obama's re-election chances six months ahead of the election. The Brookings Institution's Bill Galston says he has a modest advantage over Mitt Romney & pollster Peter D. Hart "this election is ... a 50-50 proposition for the president."
- This raises the question why he is even close. Going by fundamentals he should be deader than a dodo bird right now & about to share the fate of Gordon Brown & Nicolas Sarkozy. The economic mood is terrible. 75% of Americans believe the economy is still in recession. Only one-third believes they are better off now than four years ago and/or that the country is headed in the right direction. The economic climate is as bad as in 1968, 1976, 1992 & 2000 when incumbents were defeated. He has governed from the Left while the country has moved Right : more Americans than ever (40%) now call themselves conservatives. Only 22% of voters share his views on the size & role of government. The number of those who say the current level of inequality is unacceptable has grown since 1998 by seven percentage points to 52%. His healthcare initiative has only 39% support (& 52% opposition). And he has lost ground among key constituencies, incl. independents, Catholics, young voters & Hispanics.
- But like all re-election races, this is not a choice between visions, but a referendum on the incumbent. Part of the reason for his 48% approval rating is demographic : the Democrat voter base, incl. single women & the unchurched, is growing while the solidly Republican one, two-parent families & practicing Christians, is shrinking. But most of it is personal. While only 36% of voters think he has a plan for fixing the economy, 48%, an amazing 12% over & above that, approve of his performance. Polls suggest his leadership style is far more popular than his policies. Instead of being melodramatic & changeable, he comes across as self-disciplined & willing, *if pushed*, to use lethal force (with drones &

the like). And while presidents often look weak in economic hard times, he comes across as restrained, and not given to self-doubt or self-indulgent.

- While in 2008 his campaign had a transcendent, messianic tone, the current one has a 1998 Clinton-style feel, with strong partisan attacks intermingled with small- & medium-sized policies like the Buffett Rule & student loans that make him look aggressive & yet, unlike Romney, classless & in touch with middle income groups. So, while the economy will grind away at voters, his leadership style will likely *help to* keep him afloat.

While the Presidential race is getting all the headlines, the real issue is less whether he or Romney will be in the White House for the next four years, but who will control Congress for the next two (& the latest polls seem to suggest the Democrats will keep control of the Senate, & may just eat a bit into the Republican majority in the House); for, like the Eurozone, time is running out for rolling the nation's problems 'down the road'.

<u>MULCAIR DIGS IN FOR LONG DEBATE ON DUTCH DISEASE</u>
(G&M, Gloria Galloway)

- He (& Ontario's Premier Dalton McGuinty before him) upset Western Canada's Premiers by claiming Canada suffers from the 'Dutch Disease' (named after Holland's experience after 1959 when the discovery of vast amounts of natural gas boosted the value of its currency & undermined the global competitiveness of the rest of its economy) *that is destroying well-paid manufacturing jobs in Central Canada*, although since then credible evidence has emerged they're exaggerating. Saskatchewan's Premier Brad Wall accused him of ignoring the facts, and Alberta's Alison Redford & BC's Christy Clark called his comments "divisive and ill-informed" & "goofy" respectively.

By shooting off his mouth the way he has, he detracted from his more popular & valid argument that the oil companies aren't paying their 'fair share'. In last year's election the late Jack Layton schmoozed Québec voters into making his New Democratic party the Official Opposition in Ottawa, & Thomas Mulcair, a true political chameleon if ever there was one, who started out life as a (Québec provincial) Liberal, who then briefly angled to join the federal Conservatives (but only if Harper gave him a Ministerial post) & who finally found his true destiny as the leader of his own party, now has the unenviable task of trying to make this more than a one night stand. His strategy seems to be to jettison his party's Western roots & turn it into a BUOWC (Beat Up On Western Canada) party, expecting this to sell well just about anywhere in Canada East of the Manitoba/Ontario border. This is a high-risk strategy; for it ignores that economic & political power in Canada is shifting West & that Québec is Canada's Greece with similar expectations of endless largesse on the part of its partners, with its voters taking it for granted that their politicians will 'deliver the goods', which is difficult to do for an opposition party, even if the Official Opposition.

<u>RIVLIN : WE CANNOT IMPOSE TAL LAW SOLUTION ON HAREDIM</u>
(JP, Yonah Bob)

- He told the Israel Bar Association that across-the-board exemptions from military- & national service cannot continue. But that, while Likud, Kadima & Yisrael Beitenu don't need the support of the Shas & United Torah Judaism haredi (*political*) parties to impose a solution, it must be reached with the haredi on a cooperative basis; for they are no longer an insignificant minority "like the Amish in the US." For this to happen, however, he said, there had to be a paradigm shift in the haredi community's thinking : it can no longer think of themselves as a minority under attack, when they have representatives at the country's most senior decision-making levels. For this makes it hard to explain to a public *subject to military & national service* how a haredi minister can be involved in "deciding to go to war without his kids or his constituency bearing the consequences of this decision".

Reuven Rivlin is the Speaker of the Knesset. One must wonder what he is thinking of when he talks about a "paradigm" shift in haredi thinking when what sets many of them apart from the rest of global Jewry is that they recognize only the authority of the Almighty, not that of any secular government, incl. that of any Israeli Prime Minister, past, present or future.

ISRAELI SETTLERS SHOWN FIRING ON ARABS
(Guardian News Service, Harriet Sherwood)

- The Israeli human rights group B'Tselem on May 19th uploaded a video on YouTube that showed *a couple of* settlers from the nearby settlement of Yitzhar firing, with police & IDF soldiers standing by & watching, at a group of Palestinians from the village of Asira al-Qibliya, near Nablus, resulting in one Palestinian being carried off with facial injuries.
- Two days later the IDF issued a statement saying it was investigating the incident but that "it appears the video in question does not reflect the incident in its entirety." Meanwhile the PA demanded an impartial investigation & action from the international community over settler attacks & provocation, saying "the gravity of the footage lies not only in the settlers' provocations and shooting live ammunition towards unarmed residents, but also in the irresponsibility of the Israeli soldiers who stood watching the events." (the sergeant in charge supposedly 'fled' after being hit by a rock).
- Yitshar is one of the most hardline settler communities on the West Bank; last November the Education Ministry closed a state-funded religious school there after *the internal security agency* Shin Bet reported it had evidence its students engaged in acts of violence against Palestinian villagers.

When two parties fight, both typically are to blame to some degree. But the video suggests the settlers were not firing in self-defense.

MORE TALKS PLANNED ON NUCLEAR ISSUE (al-Jazeera)

- After meeting on May 23rd & 24th in Baghdad the P5+1 group (representatives of the five permanent UN Security Council Member countries plus Germany) & Iranian nuclear negotiators parted company, having agreed to meet again, in Moscow on June 18th & 19th to try & solve the long-standing dispute over Iran nuclear program which the West's fears is a front for the development of a nuclear arms capability. The Group's lead negotiator, Catherine Ashton, the EU's Foreign Affairs Commissioner, said afterwards it is clear that both sides want progress to be made & that there is some common ground, but that there are also significant differences.

The key issue for the Group is the degree of 'fissile purity' to which Iran processes uranium. Most commercial nuclear reactors use 3.5% pure enriched uranium. But facilities like the Tehran Research Reactor, that is used for medical purposes, need 20% pure material. The problem is that from 20% it is a relatively small hop, step & a jump to 90% pure weapons-grade material. The meeting foundered on Tehran wanting a commitment from the West not to proceed with the next stage of sanctions, the embargo on Iranian oil that is to come into force on July 1st (which the White House, prior to the meeting, reconfirmed was "not on"). Iran is not in a strong bargaining position & time is not working in its favour. The sanctions are starting to bite domestically to a point that domestic unrest is becoming more of a probability than a possibility. It has managed to annoy both of its traditional apologist 'friends', China & Russia. And it doesn't seem to have had much luck driving a wedge on this issue between the US & the Europeans (despite the fall from grace of Nicolas Sarkozy, the most hawkish European leader on the Iran issue). This is, of course, of great importance to Netanyahu c.s. in Israel; while he maintains Iran is just playing with the P5+1 group & stalling for time, and on May 21st reiterated "The objectives of Iran are clear : it wants to destroy Israel and is developing nuclear weapons to do so", the influential left-leaning Israeli daily Haaretz that very day carried a front page article quoting unnamed government sources as saying his administration "may be more flexible about Iranian low-level uranium enrichment (i.e. to 3.5%) than it is ... willing to let on."

IRAN'S "GREAT GAME" IN AFGHANISTAN (Reuters, Amie Ferris-Rothman)

- With most foreign troops set to leave Afghanistan by 2014 *at the latest*, Iran is using the Afghan media to gain influence. Nearly one-third of the media in the country is said to depend on Iran for financial or content support. It is spending money there at a US$100MM annual rate with most of it going into the media, civil society and religious schools (*for the Shiite minority*). The withdrawal of foreign troops by 2014 could lead to increasing instability & civil war , creating opportunities for Iran & others to move into the resulting power vacuum by proxy by sponsoring local war lords (just as happened after the Russians pulled out in 1989), in which context Iran looks upon the 'strategic agreement' that Presidents Obama & Karzai signed during the former's lightning visit to Kabul on May 2nd as a threat; for it commits the US to provide financial & security support to the Afghan government through 2024, especially as it related to funding for the Afghan National Army.

There won't be a shortage of sponsors for local warlords. Apart from the US & Iran, Pakistan has long wanted to have a foot in the door in Afghanistan, if only to keep it from becoming an Indian ally, China has a growing involvement on Afghanistan's resource sector (the same reason India cannot help but get involved), and even Russia might be tempted back in.