

In time the Ukrainian 'crisis' may prove, despite all the current media hype, to have been in relative terms a storm in a tea cup, the main outcome of which was to shatter Putin's *pipedream* of restoring Russia to the glory days of the Soviet Union. But it will nevertheless turn out to have had major global geopolitical consequences if it were to be seen by America's detractors & allies alike, especially those in the Middle East & Southeast Asia, as the second time in eight months President Obama didn't back up big words with action (the first one being when he made a U-turn on military action after Syria's President al-Assad used chemical weapons on his own people last August) & that therefore he may be an unreliable ally.

China is backing Russia in its dispute with the West over Ukraine. This should surprise no one; for Beijing welcomes any international event that it thinks will demonstrate to the world, & especially America's allies in Southeast Asia, that it is a 'Paper Tiger' no longer able, or willing, to use its still considerable military power to back up its economic & political objectives and defend its allies (& in this case seeing Putin taken down a peg or two would just be the icing on the cake). For Putin, & for Russia in general, China's support may be *marginally* positive in the short run, but could be a Trojan Horse over the longer term. For, as Moscow has grown increasingly worried about, China has been extending its influence in Eastern Siberia. In the past two decades the Russian population there has shrunk by one-fifth to 6.3MM (& is expected to decline by another 25% over the next decade while China's three abutting provinces in the Northeast have a population of over 110MM) while the number of Chinese living there (semi)-permanently have swelled to over half a million. Many of its businesses are now Chinese-owned, large swaths of its land are now farmed by Chinese & Chinese money is pouring in at a rate double or triple that from Moscow. While, in attempt to offset China's growing influence in the region, Moscow has been encouraging people from Central Asia to move there, this merely causes another problem; for most of them are Muslims with whom the locals don't get along (while the latter also don't like the Chinese much either since they will work cheaper). So Putin's move to 'protect' his fellow Russians could backfire by creating a precedent for Beijing at some point in the not too distant future to declare a need for military intervention in Eastern Siberia to 'protect' the Chinese living there..

The pressure by people in Eastern Ukraine for equal treatment with Crimea & incorporation with Russia will fall on deaf ears in Moscow. For it doesn't have naval base & its continued presence in Ukraine will help ensure that it won't get too close to the West, and it is chock-a-bloc with state-owned coal mines that last year lost money at a US\$500MM monthly rate; so Putin doesn't want to add them to his fiscal problems & would prefer that they remained a millstone around Ukraine's neck. And the coal miners will be an ongoing source of unrest in the latter; for the EU will be disinclined to let its money going down bottomless coal pits while the locals will fight any move to rationalize the Ukrainian coal mining industry tooth and nail.

The whole Ukrainian affair comes at a bad time for European banks. For it comes just as the ECB is scheduled to do stress tests to gauge their capital adequacy, which in the case of quite a few of them will be affected by their exposure to Ukraine.

Any serious visa restrictions by Western countries on Russian nationals could have an impact far beyond that generally perceived; for it would disproportionately affect the 'oligarchs' who are the power behind Putin's throne, whose children go to school abroad and whose wives & daughters looove shopping in London & Paris.

In the US the ISM's Non-Manufacturing Index in February fell by 2.4 points to 51.6 in February, a four-year low, while the market had expected a 0.5 point decline to 53.5. And more importantly the employment Sub-Index fell nearly 9 points to 47.5 (which put it in contraction territory for the

first time since December 2011). Meanwhile the ADP private sector job growth number (that always come out a few days ahead of the BLS & for the past seven months has been higher than the BLS number), came in at just 139,000 (whereas the market had expected 155,000), after a drastic revision of the January number from 175,000 to 127,000 - *in the event, the BLS number came in at a much better than expected 179,000.*

US personal consumption in January was up 0.3% MoM, better than the 0.2% expected, but the PCE (Personal Consumer Expenditures - an indicator of the change in consumer prices) was up 0.4%, vs. the 0.3% expected (*so volume-wise consumer purchases were actually down marginally*). The Fourth Quarter annual GDP growth rate was revised from 3.2% to 2.4% (well below the Third Quarter's 4.1%), dragged down by 1% lower governments spending. And for 2013 as a whole GDP was reported as having grown by 1.9%, down from 2012's 2.8% (whereas analysts had expected it to come in at anywhere between 2.0% & 2.3%).

On March 4<sup>th</sup> & 5<sup>th</sup> no fewer than 25 major companies tapped the US high grade bond market for a total of US\$38.75BN - *given that their treasuries are supposedly overflowing with cash, the only reasonable explanation is that corporate treasurers aren't buying the Fed line that it will keep interest rates low for quite some time yet. Much of this money will be used to buy back their own shares; this has a double whammy effect of leveraging up their balance sheet & being able to report faster earnings growth than warranted by their day-to-day operations.*

This cannot have been a great week for proponents of TransCanada's Keystone XL pipeline. For last Saturday March 1<sup>st</sup> its main cross-country natural gas pipeline ruptured in Southern Manitoba, sending flames as much as 300 meters up in the air for twelve hours, & on Wednesday March 5<sup>th</sup> a contractor in Ewing, New Jersey, who in the recent past had been fined over US\$100,000 for safety violations, ruptured a gas line, causing an explosion that killed one person & injured several others, and destroyed a condo complex - *while the latter is wholly irrelevant to the Keystone XL issue, its detractor will likely still use it to poison the public mind.*

Prime Minister Harper won points for statesmanship when he invited former Prime Ministers & opposition MPs to accompany him to South Africa for Nelson Mandela's funeral. But he, or his people, quickly that when he/they refused to include opposition MPs in the "Canadian delegation" that accompanied Foreign Minister John Baird on his photo-op mission to Ukraine.

The following was part of the case made in a Canadian newspaper column, The Wrong Way to Pay Teachers (by an education 'industry' dinosaur?), against the idea of performance-based pay for teachers : "The Single Salary Schedule *in Ontario* has resulted in a high degree of job security. Once hired, teachers are on a slow and steady payment schedule **that is unaffected by the quality of their classroom instruction.**" - *such a view is unfortunately shared by many of today's soi-disant 'public servants' (who give the good ones a bad rap) - **bolding added.***

While on the subject of education, those in charge of the Alberta Department of Education seem to have lost touch with reality. For it is pushing a new grading system for all students that, rather than percentage marks would use four 'achievement levels' (0-49% - "beginning", 50%-66% - "developing", 67%-83% - "achieving" & 84%-100% - "excelling") despite the fact that many parents (& students) don't like it &, more importantly, that it won't work in high school since post-secondary admissions require percentage grades. And, to make matters worse, it is also pushing a new curriculum that would focus on "inquiry-based, discovery learning" & do away with *such outdated concepts as times tables & spelling tests.*" - *in so doing, it is only about half a century behind the then Ontario Education Minister, & later Premier, Bill Davis' experiment with "New Math" that, while not an unmitigated disaster, was eventually quietly dropped*

On March 6<sup>th</sup>, Alberta's Minister of Finance presented the Province's latest Budget. It was basically a matter of 'same s%^&, different pile'. Despite his claim of "prudent spending decisions" & the Premier saying the government was "being conservative in our budget planning and living within our means", its bottom line appears to be that :

- borrowing for an unprecedented slew of infrastructure projects will triple the amount of the Province's direct debt outstanding by March 31<sup>st</sup>, 2017; and
- debt serving costs will almost double (from 33.8% to 61.5%) as a percentage of the Province's self-imposed limit of 3% of its operational revenue in the two years ending March 2017 unless, as the Minister conceded in his press conference, interest rates were to rise (as the budget anticipates), in which the ratio will go higher still.

It was also noteworthy that its operational plan is based that "major pipeline expansions will be approaching completion by then" (i.e. 2017) - *not a "prudent" assumption; the odds now seem better than even that within the foreseeable future Alberta will lose its vaunted triple-A rating.*

In December France's unemployment rate hit a record high 11.1%, almost double that a year earlier thereby making President Hollande looking like even more of a fool for earlier having promised it would be declining by year end - *this could have two serious consequences : it may make France a serious foot-dragger in any effort to impose economic sanctions on Russia (for it has some major contracts there) and it cannot help but further improve Mme. LePen's chances in next May's elections for the European Parliament - it has already made it very clear that the Crimean crisis would cause it to scrap the Russian Navy's US\$1.2BN order for two helicopter-carrying amphibious assault ships; in fact, the first of these, the Vladivistok, left Nazaire on Wednesday March 5<sup>th</sup> for three days of sea trials.*

Last week Autumn Radke, a Singapore-based, high-flying 28 year-old American citizen, was found dead on the second floor parapet roof of a building she had visited. Her death was ruled a suicide & would have passed without much notice but the fact that she had headed First Meta, a start-up that is an exchange for virtual currencies, incl. Bitcoin, & creator of the first-ever virtual credit card. So her death set the conspiracy aficionados' tongues awagging.

The common wisdom holds that India's ruling Congress party will have its head handed to its in the month-long election in April/May (although it has been known to prove the polls wrong); for 63% of Indian voters, incl. many Muslims, are said to want the head of the BJP party to be the next Prime Minister. But this may have just become a little less of a done deal for the BJP; for late last month several regional-, & four left wing-, parties came together in a "third front" to fight the BJP, decrying it as a "dangerous mix of aggressive capitalism and a rabid form of communal ideology" - *since the new group has the backing of the Prime Ministers of three States & of one former Prime Minister (albeit for less than one year in the mid-90's), it possibly could syphon off enough anti-Congress support from the BJP to spoil its dream of emerging from the election as the largest party in the Indian Parliament.*

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**FED PLOSSER 'VERY WORRIED' ABOUT QE CONSEQUENCES (CNBC, Matt Clinch)**

- He told CNBC the US is still suffering from the "lasting after effects" of the recession & "may never return" to its previous growth rates. Hence monetary policy should not bet on growth returning to previous rates & at 2.4% *it might be as good as it will get and that at that rate of growth* the US economy might now be "pretty close" to its steady growth rate,

and that trying to get it higher might be “overplaying our hand.” He also said that Bernanke had been, & Yellen was right, not to worry about the impact of US monetary policy on other countries’ economies since “the best thing the US can do for the global economy is to have a strong economy itself.”

*These remarks were in line with what he had just told a meeting of the Official Monetary and Financial Institutions Forum in London during which he told those assembled that the present rate of tapering risks the Fed getting behind the curve”, i.e. keeping monetary policy too easy for too long. This may be the first time that a senior Fed official has publicly acknowledged that Americans may have to get used to a GDP trend growth rate slower than it used to be (Plosser has been President of the Philadelphia Fed since 2006, & hence is one of the longer-serving members of the FOMC, among the most hawkish of them, and this year a voting member).*

#### **WHEN BIBI MET OBAMA (Times of Israel, Joshua Davidovich)**

- *Right-leaning Maariv (since gone into bankruptcy protection) reprinted the previous day’s harsh editorial in the Washington Post which assailed the Commander-in-Chief for a foreign policy based on fantasy. Centrist Yedioth, Israel’s largest circulation newspaper, quoted Obama as saying it is now time for hard decisions by the Israeli government. Haaretz, Israel’s oldest paper, & with a left-liberal bias, said Israel has done its part & it is now up to the Palestinians to step up to the plate. And Israel Hayom, far right with a circulation second only to Yedioth & owned by American gambling magnate Sheldon Adelson, quoted Netanyahu as saying that Israel wants real peace, “not a piece of paper, but real peace.”*
- *More specifically, Maariv also reported Israeli security officials & businessmen dealing with US security firms are having difficulties getting US visas. Yedioth’s Shimon Shafir’s guess at what went behind closed doors at Monday’s Obamad-Netanyahu meeting was that Obama likely sought a guarantee the peace talks would be kept alive while Netanyahu told him that anytime Israelis had talked to the Palestinians they had been repaid with rockets & terrorism (*which has not been the case lately*). Haaretz’s Barak Ravid noted Obama met Netanyahu the day after he had lambasted him *by name* on Bloomberg TV & believes his patience with the slow progress of the framework talks is wearing thin (& that he may be getting ready to impose a framework), while its Washington correspondent speculated Obama might have asked Netanyahu not to whip the pro-Israel lobbyists & US lawmakers into even greater frenzy about his supposedly weak leadership in his speech the following day at the AIPAC Annual Conference.*

*AIPAC stands for American Israeli Public Affairs Committee. It is Washington’s most influential Jewish lobby group. Its annual conference this year was attended by 14,000 people, and as usual was addressed by Netanyahu (on Tuesday) who, whether prompted by Obama or not, made only one brief reference to him. The whole Obama-Netanyahu dialogue came at a bad time coinciding as it did with news from Israel that in 2013 settlement construction activity had been up 113% YoY. And after Obama in his Sunday interview on Bloomberg interview had also warned the Iranian leadership they should take his “all options are on the table incl. that of a potential military strike” serious, Iranian general Masoud Jazayeri, the Deputy Chief of Iran’s armed forces dismissed the “low IQ” President’s threat as “a farce”.*

#### **ISRAEL TAKES RISK WITH AIRSTRIKE ON HEZBOLLAH (AP, Josef Federman)**

- This week (*i.e. that starting February 24<sup>th</sup>*) Israel conducted an air strike inside Lebanon to try & halt the flow of weapons from Iran via Syria to Hezbollah. But for the moment the odds of another direct confrontation between the two seem low for Hezbollah is too busy supporting the al-Assad regime in Syria. So, while Syria's state media reported that on February 26<sup>th</sup> army troops had killed 175 mostly al-Qaeda rebel fighters in a dawn ambush, an opposition group said it had been Hezbollah fighters who had done so.
- Israel has so far refrained from *actively* taking sides in the Syrian conflict, content to watch the two sides beat each other up. But Israeli officials worry about the battlefield experience Hezbollah fighters are gaining & about the fact that, despite repeated air strikes, sophisticated weaponry is slipping into Hezbollah's hands that will make any future confrontation with Israel more intense than previous ones.
- And while neither Israel nor Hezbollah had acknowledged previous air strikes, this time, after two days of silence, the latter acknowledged the air strike, saying it had caused material damage but no casualties & vowed "We will retaliate ... and the resistance will choose the appropriate time and place, as well as appropriate means to respond."

*While the world's attention is riveted on Eastern Europe, in the Middle East & Asia, where longer term the risk to world peace may be far greater, it is 'business as usual'.*

#### **MIDDLE EAST NATIONS LOOK TO CRACK DOWN ON FIGHTING ABROAD (AP, B. Mroue)**

- Lebanon's social fabric is being torn apart by Sunni extremists retaliating for the Iranian-backed Shiite Hezbollah militarily supporting the al-Assad regime in Syria. In recent months at least five Sunni men from the once tranquil, religiously-mixed but mostly Shiite, village of Bisariyeh in South Lebanon left to join the anti-al Assad forces. On February 19<sup>th</sup> two of them blew themselves up outside Iranian targets in Beirut, killing eight-, & wounding 100+ more-, people. When news thereof reached their home village angry Shiites burnt down the home of the parents of one of them, along with the family's grocery store & four vehicles (after which his father commented "He was a good man with a good heart, but it seems that people who have no conscience brainwashed him ... He destroyed himself and ... us with him.")
- Tens of thousands of *Sunni* foreigners have flocked to Syria to join the anti-al Assad forces while thousands more Shiites, incl. many Hezbollah operatives, have rushed there to his defence. Concern about their radicalization has prompted a trend in the Middle East to criminalize fighting abroad. Thus, after years of turning a blind eye to its jihadist activists taking up arms abroad, Saudi Arabia has now enacted laws to stop its citizens from joining the fight in Syria, Egypt has taken a stricter stand, Bahrain is preparing legislation & Tunisia says it has prevented 8,000 men from going to Syria & is creating a data base of those who had nevertheless gone there, & had returned.

*Washington has now fallen in the same trap three times in a row, first in Iraq, then in Afghanistan & now in Syria, of failing to act early, decisively & smartly, thereby dragging out the conflict & allowing it to become a training ground for extremist fighters.*

#### **'ZERO OPTION' CLOSE TO AN ADMISSION OF DEFEAT FOR OBAMA (AP, Robert Burns)**

- President Karzai has so far refused to sign the deal he negotiated with Washington last year that would provide a legal basis for a military advisory force to remain in his country past January 1<sup>st</sup>, 2015. And the White House position to date has been : "No deal, no troops", according to the Brookings Institution's Michael O'Hanlon this zero option is "perilously close to conceding - or at least risking - defeat" in Afghanistan; so, even

though the American public has little appetite for it, he doesn't think Obama, *while in typically Obama fashion talking about 'keeping his options open'*, is leaning towards it.

*The hope is that leaving an advisory team on the ground would give the Afghan Army a better chance to hold its own against the Taliban & thereby create a better environment for arriving at a favourable long-term political solution. Meanwhile, a study by CNA Strategic Studies, an Alexandria, Va.-based, federally-funded think tank, made public last month concluded the Taliban will gain strength after 2014 & pose a threat to the government in the years 2015-2018, even if foreign advisers were to remain, but that the picture will worsen greatly if they leave.*

### **HIT US WITH SANCTIONS? WE' LL SEIZE WEST'S ASSETS, WARNS (CNBC)**

- European leaders have threatened *economic* sanctions on Moscow unless it reverses course in Ukraine. So now a law proposed by Andrei Klishas, Head of the Russian Parliament's Upper Chamber's Constitutional Legislation<sup>1</sup>, would allow Moscow to seize Western companies' & individuals' assets in the event sanctions are imposed on Russia.

*This is a hollow threat that, if acted upon, could easily backfire. For it would lead to a tit-for-tat move with the West seizing Russian assets in the West, among the highest profile of which are the Chelsea-, Arsenal- & Portsmouth football clubs in Britain, and the Brooklyn (former New Jersey) Nets of the NBA, all owned by oligarchs. Secondly, most Russian assets abroad are owned by oligarchs who are the power behind Putin's throne & who would exert great pressure on him to avoid doing anything that would put their wealth at risk. Thirdly, in a trade-off Russia would lose; for Russian investment in the West is far greater than the West's investment in Russia (thus Russian investment in tiny Holland alone is estimated at US\$30BN), in part because many companies have had less-than-ideal experiences with investing in Russia<sup>2</sup> & have left. And finally, Russia's primary export earnings' generator, the oil & gas industry, is critically dependent on foreign expertise to modernize its antiquated infrastructure & bring new capacity on stream. Last but not least, longer term the flow of foreign direct investment, that has already significantly declined, would totally dry up completely; so seizing Western assets would be a matter of Russia shooting itself in the (other?) foot.*

### **GERMANY APPEARS CRUCIAL TO ENDING CRISIS (NYT, Landon Thomas Jr.)**

- Ten years ago Russia was in the ascendancy as high oil prices, robust GDP growth & political stability caused investors to flock there, while Germany, *then in the late stages of its post-reunification economic overhaul*, was uninteresting. But today those roles are reversed : Germany is Europe's powerhouse while Russia is suffering from the end of the commodities' boom, slowing economic growth slowed & a worsening fiscal situation. So 'Mutti'<sup>3</sup> Merkel, long an advocate of closer EU-Ukraine ties, could play an incisive role in getting Putin off the petard he has hoisted himself on. And while still dependent on

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<sup>1</sup> Who teaches constitutional law part time at the university level.

<sup>2</sup> Last fall, when the CEO of a \$100+BN asset manager, after making a presentation about his operation, was asked if it had any exposure to the BRIC countries, his answer was : 'All but Russia' and when pressed 'Why not Russia', his answer was along the lines of 'You cannot be sure if you will still own tomorrow what you supposedly own today'.

<sup>3</sup> The German equivalent of 'Mommy'.

Russian natural gas (it accounts for one-quarter of all Russian exports thereof, more than anyone else), Germany has been reducing its reliance on the Russian market<sup>4</sup> in favour of the more dynamic export markets in Asia (albeit in part also since Russia under Putin had become increasingly corrupt & difficult to do *profitable* business in).

*Germany is nevertheless still the second largest investor in Russia (after Cyprus, the Russian oligarchs' favourite conduit for recycling their ill-begotten gains back into their businesses).*

### **EU MAKES OFFER TO UKRAINE (WSJ, Lawrence Norman & Vanessa Mock)**

- EU President José Barroso announced on March 5<sup>th</sup> that the EU would make at least US\$15.2BN in loans & grants available to Ukraine in the next couple of years, although it will come with strings attached & require the approval of its member states & other institutions (this came the day after the US announced US\$1BN in loan guarantees). And he also said it would be a package designed to assist “a committed, inclusive and reforms-orientated Ukrainian government.”

*There are concerns that, once the heat is off, things in the Ukraine may return back to ‘business as usual’, only with a different, possibly less blatantly greedy, bunch of shysters in charge (although neither the interim president & prime minister have a criminal record, as Yanukovych did). While one might wonder what the outcome might have been if the EU had made Yakunovych an offer he couldn’t refuse before he spurned it to cozy up to Putin, that is idle thinking since a) the EU couldn’t offer him cheap gas, b) Putin & he were birds of a feather & thought alike and c) Yakunovych’s whole orientation has always been East-, rather than Westward-, bound. Last but not least, if he had chosen the EU’s offer he might still be in power.*

### **THE NEW UKRAINE : INSIDE KIEV’S HOUSE OF CARDS (Der Spiegel, Christian Neef)**

- On Wednesday February 26<sup>th</sup> Rinat Akhmetov, Ukraine’s wealthiest & most powerful oligarch<sup>5</sup>, who controls more than 100 companies with 300,000 employees & was a close confidant of former President Viktor Yanukovych, issued a statement saying “Like all Ukrainians, we want to create a new country in which democracy and the rule of law are supreme. We will participate in the blossoming of Ukraine.” While he may have switched sides, many other oligarchs have fled, considering Yakunovych a traitor who flinched at a decisive moment & plunged the country into chaos by his indecision.
- But anarchy is making inroads and the Speaker of Parliament, Oleksander Turchinov, the eminence grise of Yulia Tymochenko’s Fatherland Alliance, is gathering all the reins of power in his hands<sup>6</sup>. So what’s may be happening, as it has in many revolutions, power may be suborned by a new clique of power brokers, although Valery Kalnysh, a Kiev-based publicist remains hopeful the political system will be able to clear itself up.

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<sup>4</sup> Thus in 2012, while Germany’s two way trade with Russia was US\$74BN & was pretty well balanced, that between between neighbouring Holland (with one-quarter of its population) & Russia was US\$83BN & major league imbalanced in favour of the latter.

<sup>5</sup> Estimated wealth : US\$15+BN.

<sup>6</sup> Thus local businessman reported that he had already been told that the tribute he had paid to the Yanukovuych crowd would henceforth go the the Fatherland Alliance.

*In the end much may well depend on Akhmetov as to how things will turn out. And there is no natural affinity between him & Turchinov, because when, after the Orange Revolution a decade ago, Viktor Yushenko & Yulia Tymochenko held the reins of power, a good part of their time was spent trying to separate the oligarchs from their wealth. And Akhmetov has always had more of a business orientation towards the West than most of the other oligarchs.*

### **CHINA SUES UKRAINE FOR BREACH OF US\$3BN LOAN (South China Morning Post)**

- In 2012 the Export-Import Bank of China advanced Ukraine US\$3BN with the latter undertaking to service the loan from the proceeds of the sale of 3MM tonnes of grain annually at concessionary prices. But so far Chinese importers have received only received 180,000 tonnes, worth US\$153MM, and China has lodged a suit against Ukraine with the London-based Court of International Arbitration.
- China in recent years has stepped up its agricultural 'cooperation' with Ukraine. Thus State-owned Xinjiang Production and Construction Corp. last year signed a 50-year deal with KSG Agro., a leading Ukrainian agricultural company, whereby the latter undertook to provide it with the crops grown on 3MM hectares of Ukrainian farmland (almost 10% of its arable land), with the government denying that the land had been sold, or leased, to China (although last year it changed the law to let foreigners to own farmland there).

*China, & a number of other countries, incl. Saudi Arabia, South Korea, & UAE, have been on a farmland-buying binge all over the developing world to secure what they believe will be long-term captive sources of food stuffs. It is said to have totaled as much as 20MM hectares in recent years and resulted in such anomalies as Saudi Arabia in 2009 celebrating the arrival of the first shipment of rice grown on land it had purchased in Ethiopia while at the same time the World Food Program was shipping grain to Ethiopia because people there were starving. And things haven't always gone smoothly; thus the Philippines & Mozambique backed out of deals with China while in Madagascar a land deal with China led to a coup that overthrew the country's President. And trouble starts to build when China imports workers from back home to work "its" land & longer term, it is unlikely that locals anywhere would sit by idly if the time came that they went hungry as grain grown nearby went down the road to feed the Chinese.*

### **UKRAINE'S IMPLICATIONS FOR ASIA (Nikkei Asian Review, Daniel Twining)**

- Asian nations are watching if Russia will get away with impunity with attacking a pro-Western state & looking to learn from it. So far there seem to be nine lessons to be drawn from the biggest security crisis in Europe since the end of the Cold War :
  - economic interdependence is no safeguard against military attack;
  - autocracies overestimate their power & leverage, and democracies underestimate theirs;
  - globalization creates acute economic vulnerabilities for authoritarian states;
  - the foreign policy of an authoritarian state is bound up with the nature of its domestic regime - *this is true for every state whether democratic or authoritarian*;
  - status quo democracies suffer from competitors' first-move advantage;
  - allies must guard against divisions sown by adversaries to secure a strategic advantage - *so Beijing is currently making nice with Seoul in the hope it can inflame its anger vis a vis Japan over their conflicting sovereignty claims over the Liancourt Rocks in the Sea of Japan so as to loosen the ties they both have with America*;
  - there is no substitute for American leadership;

- it is a mistake for Washington to engage regional competitors at the expense of regional allies - *in other words trying to get closer to China and in the process making the allies fear that they are about to be sold down the river*; and
- domestically driven political liberalization can shift the balance of power.

*Some of the above seem more valid than others.*