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Geopolitics in the Age of Pandemic

Inside view with Mellon's Richard Bullock

Rafe Lewis: Hello folks. Welcome to another pandemic edition of Double Take, the Mellon podcast. I'm your cohost and director of investigative research here at Mellon, Rafe Lewis.

Jack Encarnacao: And I'm your other cohost and investigative researcher, Jack Encarnacao. On today's episode, the geopolitics of pandemic. How has the novel coronavirus, COVID-19, upended the power dynamics in two key regions of the global economy, Asia and the Middle East? To help us dive deep into these topics are two key experts. Rafe, take it away.

Rafe: Thanks, Jack. Yes, to discuss the emergent geopolitical realities in Asia, we have Mellon's own Richard Bullock, the firm's chief geopolitical analyst who's coming to us from his home in Singapore. And to discuss the Middle East, we have Professor Chuck Freilich, a former deputy national security advisor in Israel and long time senior fellow at Harvard's Belfer Center, who's taught political science at Harvard, Columbia, NYU, and Tel Aviv University. He's author of *Zion's Dilemmas: How Israel Makes National Security Policy*.

Jack: Okay, so let's kick things off with Richard Bullock. A little background first. Richard is a native of England. He holds a Master's degree in history from the London School of Economics and is currently pursuing a Master's in international relations from Harvard. He's a chartered financial analyst and has worked for Mellon and several other financial institutions including Santander and JP Morgan. He's led Mellon's geopolitical coverage since 2019. Richard, it's great to have you on and we ought to let our listeners know right off the

top that you're speaking to us today from Singapore, which of course, has been quite the Petri dish in terms of COVID-19 and lessons learned in ways governments can approach containment. You've had an interesting experience living in that country through this and we thought since COVID is the topic du jour, if we couldn't start asking you for a little bit of a sketch about what the government's done from the perspective of someone living and working in Singapore and sort of where you're at, how you're doing right now.

Richard Bullock: Yeah hi Jack. So we've been in lockdown now for about a month, and we've had one extension in terms of the timeframe for when we would expect to come out of lockdown that's been pushed back now to June 1st. So we're anticipating that things will end in a staggered manner. We're not going to come out of lockdown suddenly and everyone go back to work. I think it will be more phased, as it will indeed in a lot of the different countries around the world. I think the government here has done a good job in guiding expectations. They've been good at communicating ahead of time when people need to start going into lockdown, what the expectations are, what's permitted, what's not permitted. And so we're under no misapprehension about what are the rules here. Just hope that it doesn't persist too much longer. I went out today for the first time in two months from my community to collect a new laptop from the office. My current laptop's almost burned out through overuse. And it was just remarkable and quite stark how quiet it is out there. The streets, it was like being in a ghost town. The Roads were empty, the buildings were empty. Some

of the most iconic buildings, like the Marina Bay Sands casino, was closed. Driving past there, normally it's a hive of activity. And so, I think for me, what's going to be crucial, is that when things return to normal, after June the 1st, if activity levels and utilization of the economy can get back to high levels so that companies can return to prosperity again.

Jack: Let me ask you a quick question. Sorry, Rafe. Richard, in terms of government monitoring, this is something we're trying to figure out, of course, in the United States, how we can track people who have been exposed. And it's our understanding that Asian countries, not all of them, but most of them seem to have a little more leeway in terms of how they're able to track their residents and track their comings and goings. What's been your experience in that regard?

Richard: Yep, so in Singapore, they have introduced an app, a track and trace app called TraceTogether. Now the problem has been that it's been voluntary in terms of downloading and usage. So I think the efficacy of that has been rather limited. But you're right, I mean, the government here, remember Singapore is a city state. The population is only 5 million people and it's relatively easy for the government to put out a recommendation and a mandate. And they've been very good at giving advanced warning of what's going to happen. So for example, when lockdown took effect about a week and a half ago, they gave us three or four days warning before then. So communication's good. And the government's really in control here, I think. And that's manifested itself in the number of deaths that have been remarkably low. So we've had 11 deaths in Singapore out of 8,000 cases. So it must be one of the lowest mortality rates of any country in the world.

Rafe: Well, it looks like you picked the right place to work from these days, Richard. Well done. Massachusetts, where Jack and I are, has been kind of stuck at the third most cases in the United States now for weeks. And if we were our own country, I believe we'd be in the top 10 for the world. So definitely staying inside, wearing masks a lot, and a lot of hand washing.

Rafe: But why don't we pivot a little bit, Richard, because I know you spend an awful lot of time thinking about the US China trade dynamic and power dynamic, in particular. And I'll just step back for a second. Let's just set the stage, right? It's been roughly three years since President Trump of the United States, he kicked off a trade war with China. I think it's fair to say it was pretty unilateral when that began at the time. And we explored that pretty extensively in our first

episode of Double Take several months ago. And since then, it looked like we were achieving a sort of detente. We had a big deal established where China was going to be making agricultural purchases, there'd be some crack down on the intellectual property theft and things like that. And then all of a sudden, wham, we get this coronavirus emerging and the world economy is brought to it's knees. So I guess what Jack and I and our listeners are wondering is how is this pandemic altering and affecting the US China power dynamic?

Richard: Okay. So I think what we're seeing is an acceleration of the existing geopolitical trends that were happening prior to the virus. And they're going to be accelerated and we're going to see them playing out in real time. So the first thing to mention is that America has been operating under a America first unilateral policy under the Trump administration. That's become even more pronounced during the coronavirus, as we've experienced. And then, in terms of China trying to influence institutions and reshaping the world's institutions, they've had the advantage of coming out of the coronavirus seemingly before Western countries. So they've had some more flexibility to be able to pursue a diplomatic agenda as well.

Richard: So they've been to two very different ways in which China and the US have been acting in the international sphere. They're the same trends that we saw over the last few years. Then in terms of actual country to country relations, I mean, you've seen increased hawkishness in Washington, both parties in the US, this is a bipartisan thing, anti-Chinese sentiment's been growing. But then the Chinese side of that is that you're seeing increased nationalism and assertiveness by the Chinese. So a lot of these trends are accelerating. And for me, I think what's going to be very interesting towards the end of this year, the US presidential election in November, how the anti-Chinese-

Richard: ... how the anti-Chinese rhetoric might grow louder into that, and there was even talk just three months ago with all of the hype around signing of the phase one trade agreement that negotiations for phase two could begin even before the US presidential election. I think that's obviously off the table now given both the coronavirus disruption to economies and the decline in relations that we've seen in recent weeks.

Rafe: Yeah, there's so much to dig into there, Richard, but just real quickly, one of the things that the Trump administration was actually taking some flack for was sending a lot of N95

masks to China as their coronavirus outbreak was really turning into an epidemic. I kind of wonder how that fits into the narrative you just painted there. On the one hand, blaming China, ramping up the hawkishness, becoming very nationalistic on our side here in the US, and, on the other hand, that shipment. Is this a mixed message? Was it just a one off idiosyncratic move? How do you read that?

Richard: Well, I think Trump and US policy makers clearly underestimated the potential of coronavirus to become a global pandemic. At that point in time, they had surplus masks, and they were still at a point where they were fresh off the phase one trade agreement and relations were good. Now that it's become a universal challenge and a pandemic and there's been a global mask shortage, there was recent news that Trump had requisitioned a consignment of N95 masks from 3M manufactured in Bangkok, in Thailand, I think. They were on their way to Germany, and the Trump administration, a couple of weekends ago, commandeered them back to the United States. Clearly, desperate times call for desperate measures. This is just another example of how, when countries' backs are against the wall, they will take unilateral options rather than multilateral ones, which is what we're seeing right now, and I think the Trump administration, the US is one of the worst offenders of that.

Jack: Richard, has the onset of a likely global recession changed the conversation around the tariffs President Trump applied to Chinese exports to the United States. As a complete outsider looking in, I think it would be quite attractive for the US President to remove tariffs at a time when US businesses and consumers are hurting and less and less capable of paying a trade war premium on goods.

Richard: Tariffs have always been an unpopular option in the business community. Right now, obviously, with companies in the United States and elsewhere suffering liquidity problems and having the weakness in demand, this is just an extra tax on them, having to pay the tariffs. There was recent talk of giving a 90-day postponement on some of the tariffs on application, so individual companies would need to apply for that postponement, but let's be clear. I don't think the tariffs go away. The reason is that the Trump administration, this is one of the defining policy goals and results so far in his first term is to win these concessions against China. Putting tariffs in place, getting China to, in the trade agreement, accept tougher controls on IP theft and technology transfer. For the US and for

the Trump administration to now back down on that would be a big concession to the Chinese.

Richard: I think the other point is, if we are looking forward to a potential phase two trade agreement, that this is a big bargaining chip for the United States to already have the tariffs in place, the potential promise of removing them, if a phase two agreement gets signed. If they're removed now, then that removes the leverage that the US negotiators have with China at a later date.

Rafe: That's a tough calculus I would think for President Trump because, on the one hand, it's leverage in the China/US relationship, but, on the other hand, as Jack I think rightly pointed out, it feels like a bit of an impediment to a restoration of growth to our economy at a time when things are incredibly trying, but, I guess, speaking of that, speaking of, I guess, domestic political considerations and popularity of these leaders, I mean, when you look back at catastrophes and wars, they do tend to kind of serve to rally a given populace around their political leaders, looking at George W. Bush after the 911 terror attacks. President Trump had a bit of a bump amid this pandemic recently. I think it started to fade a little, but can you give us and the listeners a sense of the Chinese leader, Xi Jinping's, domestic political standing and whether this pandemic has helped or hurt him?

Richard: Initially, the situation in Hubei province and Wuhan were ... The Chinese central government was slow to respond, and they were suffering reputational damage on the back of that, but the government has acted swiftly and opened up a huge propaganda campaign to reverse that. I think that, now, Xi Jinping and the communist party, the central government in Beijing, are now on the front [inaudible 00:15:12] again. I think they've been able to demonstrate or at least put out the propaganda message that China's dealt with this more efficiently and swiftly than the West has been able to, that the Chinese system has been robust in doing so and that the official case count and death count now, I was checking recently, think the United States has almost 10 times as many deaths officially as the Chinese. Now, not attaching a huge amount of credibility to the Chinese numbers, but these are at least numbers that Xi Jinping and the communist party can communicate to the people of China.

Richard: I think to kind of sum up, they've been able to restore the situation, put control back around it, and I think Xi will

come out of this stronger or with strong domestic standing provided the economy stabilizes. We saw, in the first quarter, a 6.8% contraction year on year. Assuming we see stability and recovery in the second half and there isn't another coronavirus outbreak, a recurrence outbreak, then I think he'll be able to exit this with good standing domestically.

Jack: Richard, can you give us a sense for Xi Jinping's motivations? Is there anything that keeps him up at night? What, if anything, could truly threaten his power and his status as a leader for life?

Richard: The one key consideration or the one priority for Xi Jinping is retaining the monopoly of power for the Chinese communist party. He's been in power now since 2012. The Chinese communist party celebrated 70 years last year the founding of the people's republic. Typically, strong men, like Xi, like to leave a legacy. We'll see, in coming years, whether he adopts any ambitious, adventurous policies that could help to create a legacy, but for China, as a whole, it's an enormous continental size country, and a country such as China always faces challenges, no matter how successful a 30-year story's been in growing the economy and pulling millions of people out of poverty. I would say there's three big challenges for China. The first one is the economy. The level of growth's clearly slowed a lot. The level of debt is very high.

Richard: The level of debt is very high amongst corporates and consumers and the government, and the demographics are not favorable either, so the legitimacy of the Chinese Communist Party rests on the economy and continuing to raise prosperity. You have to remember that China still has a GDP per capita about six times lower than the United States, so the economy is the first thing.

Richard: The second thing is domestic cohesion and security. This is a country with a lot of different ethnic groups. The Han Chinese are 90% of the population, but there's a lot of other ethnic groups in China, some of them extremely disenfranchised and disenfranchised, and so there's a constant need for China to spend a lot on internal domestic security to keep the country as one cohesive whole.

Richard: Then the third is the international side of that security. China is in a very tough neighborhood, one of the toughest neighborhoods in the world, Northeast Asia. It borders 14 countries by land and another six countries by maritime border, so it's constantly facing off against 20 other countries, some of which it has very poor relations with. I think all of

these three things, the key message here is that if the economy doesn't go according to plan or there's a security crisis, that will be very bad news for China and for Xi.

Rafe: That is a great segue, Richard, because you've written, I think, very powerfully and compellingly to us at Mellon internally about some of the changing great power dynamics in Asia. I'd love to get some of that out even further into more detail for our listeners. One of the things you've written about a little bit is how this pandemic could potentially influence the fate of Taiwan, which is the, for everyone who might not know, the island nation off the coast of China's Fujian province. China's coveted that island nation for a long time. I guess what we're wondering is, Richard, has the chaos generated by this pandemic at all affected Taiwan's fate?

Richard: We believe that Taiwan is actually where if coronavirus geopolitics turn hard and turn hot, then Taiwan will be ground zero for where the action could be. Absolutely the security dynamic has changed for Taiwan. Taiwan relies on having US security guarantee, which, to be clear, is not a formal security guarantee, so looking through the Taiwan Relations Act of 1979, a lot of the terms in there are not hard and fast guarantees that the US will step forward with defense measures in the case that Taiwan is attacked.

Richard: The fact that the US now is distracted with coronavirus, the fact that there's a presidential administration in the US that has an America-first doctrine, these are a concern for the Taiwanese. I think this was no more evident than quite recently when Taiwan turned to Europe with some coronavirus diplomacy in offering them 5.6 million masks. They've rarely done this kind of measure where they've tried to engage with the European union because Taiwan is officially recognized by less than 20 countries, and so there's a risk that the European union would face a backlash from China and from Beijing if they were seem to be engaging with Taiwan, but Taiwan made an outreach, and clearly, I think this is a demonstration of their concerns to try and diversify their allies. The probability or the chances of a Chinese invasion of Taiwan are relatively low in the greater context, but they are larger than they were, I think, three to six months ago.

Jack: Just by way of reminder for our listeners as we're broadcasting, so to speak, from our respective homes, we are experiencing some internet issues. We're doing this over Skype to the best of our ability, so do please pardon any audio imperfections. Richard, you touched on it, and I wondered if

you could extrapolate just quickly for us. Let's think it through. If China were to take action over Taiwan, what would the international response look like, and would we be on the verge of World War III, quite frankly?

Richard: I don't believe we would be. I think the playbook for this would be the Russia Crimea annexation in 2014. It led to international condemnation, and it led to a bunch of sanctions from the United States and from Europe, but it didn't lead to any military response. As I mentioned, the fact that fewer than 20 countries diplomatically recognize Taiwan means that it would be very hard for the United Nations to put together a credible response.

Richard: Right now, countries are dealing with the coronavirus. I think the US would be very reluctant to risk lives in a war, but that's not to say that China wouldn't face very, very harsh recriminations in terms of economic sanctions, but where the lives would be put at stake, I personally think that Trump would think long and hard about that.

Rafe: Always good to think long and hard before entering into a hot conflict, I guess. Richard, before the pandemic, we heard a lot about the eventual decoupling... That was kind of the term du jour... of the US and the China technology supply chains given claims by President Trump and others that Chinese telecom and computer tech pose essentially a national security threat to the United States. Again, in the context of pandemic, has the pace of that decoupling slowed or hastened due to the pandemic?

Richard: The tech war really began with Huawei going on the Entity List in May last year. The tech war is based on distrust, and for me, coronavirus increases the level of distrust further, distrust in the way that the Chinese government has dealt with it, not being transparent about the timings and the extent of it. For me, if anything comes out of the coronavirus, it will be greater levels of distrust towards China from the United States and a propensity by the US administration to put more technology transfer restrictions in place. The US Department of Commerce is already working on a new set of restrictions to try and limit US tech hardware sales to semiconductor plants that then supply onto Huawei, so over time, Huawei will be more squeezed out of the US tech supply chain.

Richard: At the moment, semiconductor companies aren't allowed to sell to Huawei, but they can get... every 90 days, they can apply for exemption from that. I think it'll get harder

over time, and a decoupling of the technology systems that China users and the US users will be inevitable. I think it'll be a multi-year stage process because there are commercial aspects to it, and there's clearly lobbying from US tech companies that sell hardware and semiconductors to Huawei and to the manufacturing chain that supplies Huawei, but the US government will listen to these companies and not look to create a shock commercially straightaway, but this will be a process that we see unfold and continue to unfold over the next five years.

Jack: China of course, was the first nation to suffer the weight of this novel coronavirus and now it would appear they're really the first nation to emerge on the other side if only temporarily, who knows what's to come in terms of re-emergence. But what does it mean that China's reopening for business at a time when the rest of the world was locked down and sheltered in place? Is there really demand for China's industrial output at this time? Can China exploit their relative position of strength here?

Richard: So I mean that the indications that we have so far is that the key one data that came out recently for China, the economy fell 6.8% in March. Consumer demand was down around 15% while industrial production held up fairly well. It was down only around 1% it's a mixed picture, but China's industrial economy is reliant on trade. We know that, the fact that the European economy is in lockdown right now means it'll be a tough second quarter and third quarter for China. What we're already seeing lead indicators of that with the new order component of the manufacturing PMI recently that points towards a big decline in exports in the second quarter. So I think China's economy domestically that getting people back into factories and shops. The official data suggests that companies are back at around 90% of operations. My personal sense is that actual effective utilization is a lot lower than that. When we look at anecdotes around retail, more visitation it seems to be a lot lower around the 50% level. So China's economy is going to recover through a U shaped grind higher, not through a V shape recovery.

Rafe: Interesting. Well here's the last one for you, Richard. You've written extensively internally for us about China's so-called Belt and Road Initiative, which for the uninitiated out there, it's really a program to build their sphere of influence through effectively cash and infrastructure building around the world. The big, I guess signature client that they signed on

last year was Italy, making an inroad into Europe was a big deal. So I guess what we're wondering is now that you have this pandemic and you have a lot of countries looking to be much more self sufficient in terms of their supply chains, looking inwardly, looking to in source and re shore a bit here. Does this pandemic dampen China's ambitions to make more nations dependent on them and to widen their sphere of influence?

Richard: China's Belt and Road Initiative (BRI), which they started in 2013 is the cornerstone of their foreign policy and they've deliberately kept it very ambiguous in terms of its scale, its scope, its objectives and I think it will ebb and flow. It's not going to be growing in a linear fashion from one year to the next. Issues like the coronavirus will set it back and put it on hold for periods of time, but it's a multi year initiative and it's core for the way that China views its interaction with the rest of the world. The way that it's shaping institutions because what the Belt and Road Initiative does is effectively, it's China's version of the IMF and the World Bank and the aid agencies like USAID. It's all of those rolled into one and China has autonomy over how it deals with all these 60 different countries that are signed up to it.

Richard: And the fact that it is very non-transparent means that they don't face a lot of questions year to year about how it's going to progress. But I think numbers that I've seen suggests they've invested between \$300 and \$400 billion already since its inception. The coronavirus is going to have a short term impact on it, that's for sure. So I saw in terms of what Africa pays to China every year in interest payments is around \$8 billion. That's what they're expected to pay in 2020.

Rafe: The entire continent?

Richard: Yeah. The entire continent of Africa will pay \$8 billion of interest to China this year under the BRI. So that the fact that a lot of African countries are going to be suffering, are suffering with corona. They may not be able to make those interest payments and you may have China prepared to offer them a debt holiday or even as we saw in the case of Sri Lanka in 2017 debt for equity swaps where Chinese companies and the BRI are able to then take equity ownership in key infrastructure assets in Africa and other parts of EURASIA come to that. But I think the Chinese will need to tread carefully. They won't look to accelerate anything that looks like they're taking advantage of the coronavirus situation.

Richard: But I think in the longterm, China will be there, it will have capital to offer countries that desperately need

it. It be there to help with the healthcare systems, with our infrastructure when the West isn't there because the West has become inward focused dealing with its own economic problems. So in the longterm, the coronavirus presents an opportunity for the Belt and Road Initiative. In the short term it'll be negative that they'll possibly be some defaults on, on debt and interest payments, but the Chinese will not to turn away from the Belt and Road Initiative because it is a multi year, a core piece of foreign policy.

Jack: And bedrock principles of geopolitics being called into question and some will prove resilient, some won't. Richard Bullock, we thank you so much for taking us through the China example on the other side. Hopefully soon of the COVID crisis, all the best to you in Singapore and I am sure we will connect again soon.

Richard: Thanks Jack. Thanks Rafe.

Rafe: Thanks.



Jack: Okay, we've heard about how everything in China, in Asia, is trending right now. So, let's pivot to another hotspot, not only geopolitically but virally, the Middle East. Let's set the scene, well before the Covid-19 virus showed up you had a hot war going on in Syria involving none other than Russia, Turkey, sometimes the United States and Israel, UN Peacekeepers, you had Iran which was moving swiftly toward rebuilding its nuclear weapons program. You had Afghanistan, where the US either was or was not pulling out troops after nearly two decades there. And now we introduce a fatal respiratory element that's leveling entire healthcare systems. So, to help us hopefully make sense of this we bring on Professor Chuck Freilich who's coming to us from Israel. Professor, welcome to the show.

Chuck Freilich: Thank you. Great to be with you.

Rafe: Chuck this is great, so it's hard to start a conversation about the middle east without discussing oil. The global pandemic has led to the lockdown of the world's largest economies and this in turn has absolutely devastated oil demand. It's led to a precipitous drop in the price for a barrel of oil. It even went negative for a little while there, which I believe is unprecedented. So, I guess my first question is what's the immediate impact of this move in oil prices on the various middle eastern regimes, and how might those impacts affect the regional power dynamic?

Chuck: I wish we could say that it was just the collapse in oil prices. And the reality is that I think we're talking of something far broader which is really a perfect storm, and in a region which is known for its instability and difficulties, this is a particularly bad situation. So, yes it starts with the severe drop in oil prices, obviously hits the oil producers very hard, their economies. It's hit their ability to help other countries in the region, those who don't have oil.

Chuck: But what I'm really afraid of here is instability across the region, potential regime change. Certainly regime instability and in some cases maybe regime change. Pretty much across the region. All of the causes that gave rise to the Arab Spring of 2011 are still there. Even worse, even without corona. Think of it this way, what caused the Arab Spring? Well, vast unemployment, a lack of economic opportunity coupled with a population explosion, a youth [inaudible 00:03:49] across the region, and a lack of political freedoms. And that's what led to this convulsion in 2011, the toppling of the Mubarak regime in Egypt, a few other regimes around the region. The civil war in Syria and Lebanon and Libya, excuse me, Yemen and Libya.

Chuck: I think that the Arab Spring is going to be with us for decades in any event, because all of those causes were still there. Now add to that the fact, exactly what we were saying before, collapsing oil prices, collapsing health systems, further loss in the effectiveness of these regimes, and that's a serious situation.

Chuck: And I can give you an example of what's happening in pretty much each of the countries in the region. They're all either in crisis or on the verge of crisis, this is a bad place to be.

Jack: So, it sounds like unfortunately, professor, if oil prices were to rebound meaningfully the situation here does not meaningfully improve just on that metric alone.

Chuck: Not at all. Let me give you the data for just a few of the countries in 2019. Egypt's economy which had grown by five percent in 2018, grew two percent last year. Iran was down six percent last year, with a forecast of minus 10 percent this year, even before corona. Lebanon last year was down minus 12 percent, Syria was down 36 percent, Libya was down a remarkable 59 percent.

Chuck: Okay, I said Syria and Iraq devastated by their civil wars are barely holding it together. Saudi Arabia is now hit by the oil crisis, it's got the pilgrimage crisis already before this. Now, take

into account MBS Mohammed Bin Salman, the crown prince, here's a guy who's gotten some bad press the last year or so for good reasons. But people also forget that this is a guy who's trying to dramatically reform the kingdom.

Chuck: He's got so many balls up in the air at once that I've felt from day one that some of them are going to fall, and the question is how many, whether he can really pull this off or not. Let me give you a few examples of what he's trying to do. He's trying to diversify the Saudi economy away from oil. There's the so-called 2030 vision which is supposed to do that, the diversification. There was frankly no chance of it succeeding to begin with in the intended timeline. Well, it's already behind the timeline and not a lot of people are aware of this, but the Saudis are in this crazy position, this is a country which sits on an absolute ocean of oil and yet because their production is relatively stable, the cap is relatively stable at about 10 million or so barrels, but their domestic consumption is growing rapidly, by 2030 they were going to hit the ... Those two lines were going to cross, and the Saudis were in danger of becoming net importers of oil, which is why the diversification program was so critical to them.

Chuck: So he's trying the diversification behind the timeline there. He's trying to change Saudi Arabia socially, beginning to grant somewhat rights to women. Allowing the opening, for the first time in the history of the kingdom, of cinemas. Allowing women to attend sporting events, beginning to rein in the religious police.

Chuck: He's been trying to change the kingdom politically and in the same time ensure the succession to him. Now, there are a lot of other princes in the country who are not at all happy with the fact that he is the heir apparent, and it was going to be a potentially difficult succession to begin with. Well, he's rounded up the potential opponents twice a couple of years ago, and now in the last few weeks, it's not yet clear that he can pull this off. He's been trying to change Saudi foreign policy. This is a country which for decades based its foreign policy on a combination of spreading the wealth, buying off good will, using their influence as the keeper of the holy places at the heart of Islam. And basically just a hunkering down style, avoiding conflict with anyone if they could. Well, he launches a war in Yemen and that hasn't gone very well either.

Chuck: The good news is he also took a positive initiative in establishing at least below the table, in other words, unofficial,

ties with Israel, but that's still a huge improvement over where we were a few years ago. But can he pull all of this off? So, Saudi Arabia may be heading to crisis. Libya and Yemen are still in pieces, ravaged by their civil wars. Lebanon has defaulted on its debts, it's in the midst of an unprecedented economic crisis. Iran saw the, what some people say were the worst demonstrations against a regime since the revolution just last year. And they face protests against [inaudible 00:09:38] in Lebanon that we've never seen before.

Chuck: They were deeply shaken by the Soleimani killing, and we saw that in the overreaction when they shot down the Ukrainian plane and that led to even more public protests. They've totally mishandled the corona crisis with horrific numbers of dead, the oil crisis now and they're reaching a point in the ongoing confrontation, the nuclear confrontation with the US, where they've mostly used up the cards available to them that are short of an actual crisis, and maybe even a conflict [inaudible 00:10:20].

Chuck: And on and on across the region. Combine that inept handling of the corona crisis and the collapsing of the health systems everywhere and like I said before, it's a perfect storm.

Rafe: Professor if I could take a devil's advocacy position here for a moment though, when I listen to you what my mind goes to is the middle east has been a hotbed of instability filled with teetering, despotic regimes, tied to commodity prices for decades. I mean, on the one hand, yes, things sound like they're immeasurably worse right now, but on the other hand they were already pretty rough and had been for a long time. Does this pandemic really materially change the overall stability and nature of the region?

Chuck: That's a good question and I can't give you a definitive answer to that. You're absolutely right, this is decades of instability. It's gotten worse in the last decade since the Arab Spring, and then as I said last year some people said that there was a second Arab Spring. And this was going to be with us for decades in any event. The corona crisis just makes it all worse.

Chuck: The collapsing health systems, the further loss of faith in leaderships in which there wasn't that much faith to begin with. So, yeah, I think this makes a difference. It's not an entirely separate factor on its own point. Okay. It may be hard a year from now, a few years from now to say, "Well, it was corona that did this." But in a region which was going to be unstable to begin with, this could be another match that sets off the regional conflagration.

Jack: So, we've been positioning our discussion from within the middle east looking out to the world, certain middle eastern countries. Let's, if we could professor, position ourselves in the US looking out towards the middle east and how all of these changing dynamics are effecting the United States relationship, particularly with oil producing middle eastern countries. We know that the Russia/Saudi oil war just hit at the same precise time that peak pandemic fears and quarantine actions from governors and such hit the headlines hardest, so it was a double punch that day. And it was a traumatic day for the markets of course. But then we saw President Trump and the US sort of try to play peacemaker and bring down the oversupply, and bring Saudi Arabia and Russia closer together as opposed to on two sides of a price war. Do you sense, as this all takes shape, the pandemic plus the oil war, that the US in the way it's positioned vis-a-vis the middle east, that relationship is changing in a significant way?

Chuck: I think it's been changing for quite a while now. Probably from the end of the Bush administration, certainly from the Obama administration and into the Trump administration, which is a desire to reduce American involvement in the region. The American public seems to be tired of the middle east, whatever is done seems to fail, whether it's wars, whether it's peace initiatives and economic assistance. Nothing seems to work. So, people are tired of the middle east and would like to wash their hands of it. President Obama famously announced his pivot to the far east. There's an old middle eastern expression which is that if you don't visit the middle east it will visit you. And I tend to think that people should take that into account. Those are wise words.

Chuck: The middle east is still a major source of challenges or threats to American national security interests. A lot of people today forget what I think was the true strategic significance of 9/11, and of course I'm putting aside now the human tragedy, but the strategic significance to my way of thinking was that the middle east became the primary threat to American national security and directly on the American homeland, the second greatest attack on the homeland in American history.

Chuck: Well, maybe the threat has eased a little bit, Al Qaeda is down, it's not out. ISIS is down, it's not out. The Iranian nuclear issue is definitely not out, and it may be nearing the next crisis point. I think the Iranians will probably want to wait till November to see if President Trump is re-elected or not and if he isn't then they'll give it another few months to see if they can work with President Biden, but we're talking somewhere

between three quarters of a year to a year before the next crisis point and one can also make the argument that it's going to happen much sooner. What's happening in Syria can lead to another crisis always. We can usually count on Hamas or Hezbollah to do something which will also lead to things heating up.

Chuck: We now also have the new government which is to be sworn in soon in Israel, and if it indeed goes ahead as the planning says, and tries to implement President Trump's peace plan in July, and to annex at least parts of the West Bank, that can also lead to a flare up. So, there are lots of reasons I think for the American public to continue to keep their eye on what's happening in the middle east. And I understand the desire to withdraw or to disengage. I don't think it's a realistic one.

Rafe: To the extent you can divorce oil from your answer, I'm wondering we're a podcast buy in for investors, and so I wonder as you look at what's going on in the middle east right now with this pandemic, with what's going on with oil, what do you see as the greatest risks right now for investors emerging from the middle east, across markets, across commodity types, across equity types?

Chuck: I would look at the issue that I said of regime stability. And the Iranian nuclear issue, Iran's regional involvement in general. I think those are probably the primary issues. I would look for changes in what's happening with Turkish policy, they seem to have run into some trouble recently trying to pivot away from the US and NATO to Russia. And then their involvement in Syria isn't going so very well, so now they're trying to make nice again to the west. The refugee crisis, which is a horror in its own right on a humanitarian level. The Turks may try to weaponize it again as a means of gaining concessions from the EU. So, that can lead to another crisis for the EU, and there's of course the danger that the coronavirus is going to sweep the refugee camps and cause another horrific humanitarian crisis in the region.

Jack: Could you talk to us a little bit about the tensions between Russia and Saudi Arabia in particular, as we referenced a bit earlier? That was a real flash point in how we're reading oil and its role in the midst of all this uncertainty and all of this chaos really. What of the two relationships there, Russia and Saudi Arabia? And do you think that on the other side of the pandemic, perhaps, would this have played out differently if not for the pandemic? Do you think on the other side this will result in any sort of different posture between those two

countries or have we seen a glimpse of a back and forth that's likely to continue for some time?

Chuck: I think the Russians have been ... Well, they've had a long time, a long standing strategic interest in trying to improve the relationship with Saudi Arabia, if only to peel them away from the US. And after the success, or at least partial success with Turkey they'd like to replicate that with the Saudis. The Saudis are in a different situation. In and of itself they actually don't want much of a relationship with the Russians beyond a working one on the oil issue, but they're quite concerned about the reliability of the alliance with the United States. They've been concerned ever since the second gulf war where they thought that the US simply didn't understand the situation, they warned that if Saddam was toppled Iraq would come apart and they and others would end up paying the price. Iraq would come apart.

Chuck: And then they were absolutely stunned by the lack of American support for President Mubarak when he was in trouble. And since then they've been trying, to a limited extent, and that's limited because they know they can't go too far in this, but they don't want to have all of their strategic eggs in just one basket, the American one. And so from a really ... What should I call it? It's more than a limited relationship, a stand-offish relationship with Russia, they did try to see if there was some room for cooperation. Both the king and the crown prince visited Russia, there was talk of maybe buying some Russian weapons, even a Russian power reactor.

Chuck: None of that has happened and I haven't seen anything more about that recently. And then there was the whole kerfuffle over the oil price issue, but you guys know more about that than I do, I'm sure.

Rafe: Doubtful. Professor one more from me, this has been fantastic. You referenced regime instability, potential for regime change as one of the bigger risks geopolitically and for investors to consider going forward from here. So, I guess what I'm wondering is which nations are most at risk, and I guess most important for altering the power and political dynamic in the world? And then, I guess my bigger question would be how different could these regimes, new regimes, the replacement regimes be from their predecessors? I mean, would it be as big as the change from Obama to Trump? Or something less or something more?

Chuck: I think the change whatever it is is going to probably be a lot more than that. United States, for all of the partisan

wars, is still in what's called an ongoing enterprise with a long history behind it, and it's hard to speak about partisan civility today, but compared to the mid-east it's still a virtual paradise. We're talking an area where regime change is violent usually, because you don't have orderly processes of succession. Now, you can like President Trump, you can like President Obama or not in both cases. The fact is you knew that at the end of four, at most eight years, somebody else was going to be there, and you knew what the process was going to be. That's not the case in most of the countries of the middle east.

Chuck: Now if you're asking which of the places that I would look at most importantly I would say it's probably Saudi Arabia, Egypt and Iran. Egypt is stable for the moment. President Sisi has clamped down hard and I don't see any dangers to the regime for the moment. But as I said before the Arab Spring was going to be with us in any event. And the tensions are all bubbling under the surface and they can erupt at any moment, and I think that's true ... Well, not at any moment in Egypt, but not necessarily far off.

Chuck: The Saudis have got multiple crises to deal with at the same time, and the crown prince has got enemies and they want to take advantage of these crises to maybe see to it that they, and not he, end up succeeding to the king. And the king himself is quite ill, so that could happen any time tomorrow or in the next couple or few years. And Iran, people have been wondering when there was going to be regime change in Iran just ever since the revolution in '79.

Chuck: There's no way of knowing when it will happen, it could happen five minutes from now or not for 50 years from now. And I don't think anyone can give a much more precise assessment than that. But there are some things that have changed. This is a revolution which is now 40 years old, all revolutions lose their fervor, run out of steam over time. That

is certainly the case in Iran where not all, but some majority of the country, we don't have precise polling information so it's hard to say what, but I think there's a clear majority of the population which wants some sort of change.

Chuck: Now, it doesn't have to be complete regime change. Some of them want a more moderate, and if you will nicer Islamic republic, but a lot of them also just want a different republic. Hopefully a democratic one. And so we've seen the protests in Iran and around the region. They have mishandled the corona crisis, they mishandled other things in recent years. The economic pain caused by the sanctions has been severe. Now, they responded by adopting what they called a resistance economy. Meaning that they cut back in all sorts of areas, they're trying to develop their own domestic industry so that they can become an economic autarchy. But that only goes so far. And if they have to face five more years of President Trump, of the maximum pressure campaign, that already becomes a big challenge to them. And I'm not saying that regime change will necessarily happen in the next five years, but it could.

Chuck: The possibility increases significantly, and then they'll have to see if they can work more effectively with Mr. Biden or not. Beyond that you've got the problems in almost all the countries in the region and your listeners are investors, so I would invest wisely. I wouldn't bet on stability pretty much anywhere in the region.

Jack: Very good, so old themes with very new dynamics. Geopolitics in the age of Covid. We thank Professor Chuck Freilich so much for the perspective on the middle east. And hope you're doing well, hope you continue to be well and thanks again for joining us.

Chuck: Thank you very much, my pleasure.

Disclosure

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