A Volatile Future: Walter Russell Mead on the Coronavirus’ Global Impact

TRANSCRIPT

Excerpts from a phone briefing with Walter Russell Mead, the Ravenel B. Curry III Distinguished Fellow in Strategy and Statesmanship at Hudson Institute. This compilation features his analysis on the vulnerable global regions soon to be impacted by the pandemic, and the influence of the coronavirus on US politics, markets, and political thought.

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Please note: This transcript is based off a recording and mistranslations may appear in text. To read more of Hudson Institute’s coronavirus analysis, visit hudson.org/coronavirus.
China’s pivot to take advantage of the Coronavirus:

We’re seeing is a win-win situation for Xi Jinping where he has kept pointing a finger at American "racism", at American attacks and unfairly blaming China and rallied support for him at home, maybe get people more interested in what's wrong with America than asking questions about why wasn't the response in Wuhan more effective earlier on. And in the same way I think on our side, American politicians only gain by highlighting the fact that this problem isn't something that we caused ourselves. It's something that is coming at us as a result of actions that people overseas took.

I think we've also seen China begin to try to take advantage where it can, score propaganda points. Jack Ma has proposed to send this large relief shipment to the US. A plane load of goods has arrived and medical supplies in Italy from China. I hear from friends in Italy and contacts in Italy that this is having a real impact there because they feel actually abandoned both by the EU and the United States. And it's a great moment of psychological and political vulnerability for Italy. I hope that in the US, even as we focus and rightly so on the needs of our own citizens, we remember that it's at times like this that you really find out who your friends are and that we think long and hard about how to uphold our reputation as a strong and solid ally in times of need.

COVID-19 in the Middle East:

If we look out beyond the developed world into emerging markets, developing countries, the thing to remember here is that these countries are facing an overwhelming series of shocks for which they are not well prepared. You first of all have, classically these countries have large populations, are poorly funded, and in some cases, have very sketchy medical systems and public health systems.

If we look at the Middle East, I think we also see a very, very difficult humanitarian, economic and ultimately political situation. If we think beyond Iran, Iraq, the borders are very permeable with Iran. In parts of the country that had been in almost constant war for a number of years, public services, institutions, hospitals are in terrible shape.

Then you have obviously Syria, you have millions of refugees in Syria, Lebanon, and Turkey who are having difficulty feeding themselves and staying warm at night, trying to imagine how you get ventilators and other medical supplies into these areas is very difficult. I think what you can find is a great vulnerability to the disease plus a certain lack of capacity to respond. Fortunately, if you want to try to find a brighter side in this, many of these populations are younger than the global norm and what we've seen so far is that the death rate is much lower for younger people. The disease tends to be less serious, but even so, it does not take much to overwhelm health systems and even political systems in some of these places. Egypt appears to be having a major outbreak. The Egyptian government is strongly defended by its security forces, but it remains a somewhat volatile situation.

This is going to knock a big hole in MBS's [Mohammad Bin Salman, Crown Prince of Saudi Arabia’s] plans and timetables for the economic redevelopment of the country. This is going to be a difficult issue for him. It's not surprising in some ways that he's been battening down the hatches by sort of preemptively arresting people who he thinks might be a threat to his power. I would also mention that Pakistan is probably one of the countries that's most vulnerable to a
very, very serious outbreak and may well already be in one in the early stages. It did not close
down travel from China for a long period of time. Its border with Iran is also porous in some
areas. So I think we're likely to see some big problems there.

The pandemic's impact on domestic politics:
The key to understanding the political change here is that President Trump, whatever people
want to say about him, has a very good instinct for power. Pundits were all mocking him for
talking about balance of trade deficits as in some ways an indicator of national problems and so
on, Trump's people went around and found legal authority that basically allows him to levy tariffs
of virtually any amounts on virtually any good that is being imported into the United States,
which is to say it has given him tremendous power over the stock valuations and supply chains
industries in a way that we haven't seen exercised in peacetime for a very long time. Maybe
since the oil shocks and the wage and price controls and so on and so forth.

An epidemic which puts the country on war footing will also create enormous opportunities in
the run up to an election for the presidency, for the president to accrue power. If we're going to
have a bailout fund, this to some degree again means that all kinds of companies and interests
around the country will be coming to Washington hat in hand. Large cities desperately need
federal assistance.

We are going to see an activist presidency coming out of this. It will be inventive,
unconventional, sometimes not particularly well organized, but relentless in its effort to ensure
that President Trump's handling of this crisis helps secure his reelection in November.

The battle between expertise and populism:
I'm going to close with a few thoughts about what I think will be the big political issues that we're
all going to be looking at as we pick up the pieces after this event. And I can't tell you how
they're all going to work out, but I do believe that some very, very momentous decisions are
going to be made in the next months and years. The first one is going to be... This is the battle
over experts versus populism. There's a tremendous sense around the world from the academic
experts, from the bureaucracy, civil servants and various governments and sort of leaders in the
media and the universities, all of it, that something terrible is happening. That the public has lost
its faith in people who really know how things should be done and has been listening to snake
oil salesman and populist and on and on and on.

If you follow Twitter at all, you may have seen that many people are sort of saying, "Ah, well,
now the epidemic is going to prove that you need experts." And so it's going to bring people to
their senses. They will now understand that the qualified people, the degreed people, the
establishments know is their best source of guidance. And so we'll see an end of this populist
revolt. I am not so sure that's true. I think that from a populist standpoint, people are going to
say, "Gee, you built this complex global economy and you didn't take any precautions at all
against some kind of epidemic coming out of China and laying waste to the world's economy
and causing all of this harm? What kind of an expert are you? What other fundamental mistakes
have you made in constructing this global architecture that you were telling me is the greatest
thing the world has ever seen?"
The argument between the [experts’ and populists’] points of view is going to become more heated. It will probably play a role in the fall election. And it’s very hard, but it won’t just be in the US. It’ll be in countries all over the world.

**The political whiplash and economic turbulence to come:**

What you're going to see is in general kind of a shifting of a political turbulence: political whiplash and economic turbulence dominating a lot of countries. Countries like South Africa where things are already in poor shape where you're going to see commodities falling in value and the political system is already under a lot of stress. You could see some really difficult unrest there. Pakistan, again, I think is another one in there. They have nuclear weapons. So what policymakers are going to need to do is a form of triage of thinking about the places and the people who are of the greatest importance to our interest, but also the interest of stability and security.

For the United States, this is going mean an accentuation of a trend we've seen already in the Trump administration, which is our own region matters. Mexico, Venezuela, Central America, we cannot be indifferent to what happens there because of its consequences for us. So we may be less involved with Burkina Faso or other more distant places because some of our attention is going to have to be reserved for what's happening here.

**China’s economy and initial signs of recovery:**

It would appear that the Chinese are taking some calculated risks, they try to reopen factories and keep things going without another outbreak occurring. They probably don't know whether this strategy will succeed, and we certainly don't know.

We should remember that even when large parts of his own population were starving to death, Stalin was ostentatiously doing all kinds of things to show Russian wealth. And he was selling wheat to the West even when peasants were starving all across Ukraine. So a totalitarian government that is determined and focused can get a lot done. Whether the Chinese economic system and particularly financial system can weather the storm is, again, something we will see.

**On oil prices and shale:**

This is obviously a very problematic time for the shale patch and for people who've invested a lot of money in it. I will say that from the standpoint of the world economy, I would rather see Russia and Saudi Arabia right now pushing the price of oil down than trying to jack it up to some astronomical level. And we should always remember that oil is one of those things that a low price for oil functions a lot like a tax cut and is going to help a lot of places with liquidity and so on. So it's not all bad, though it's not great for shale.

I would like to see ways, and this is going to be very politically difficult in this climate and with the election coming, but shale is an important national interest of the United States and as an industry, it is being attacked deliberately by foreign powers. And so there is a real case for
looking, whether it's a tax relief or other kinds of things that we could do, that would ensure that the industry doesn't suffer an unnecessary and destructive shock.

On the positive side, shale can hibernate, it can go out of production for a while and then when prices recover it can spring back to life in a way that's much tougher for some conventional approaches. But yes, I would support seeing the administration find ways to keep shale healthy.