



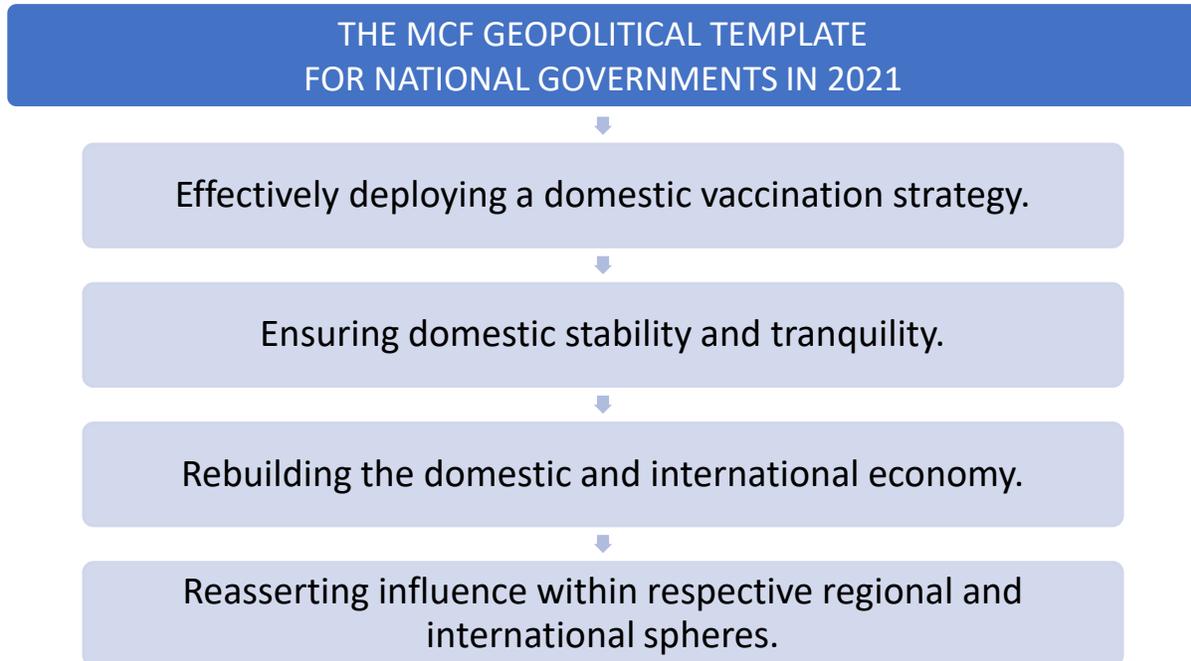
## The Geopolitical Reset

March 2021 | Robert R. Fragnito | Chief Operating Officer & Financial Advisor

The COVID-19 pandemic dominated the focus of international relations in 2020 and effectively changed the course of domestic and international politics for all critical power centers around the world. The geopolitical landscape has changed, and investors should be aware of emerging geopolitical dynamics in 2021.

The consensus on the pandemic is that it will end [late-2021](#), but in the lead up to this milestone, all countries in the international system are faced with similar challenges. This broad assessment formed our 2021 geopolitical template which outlines where governments will need to focus as they transition out of the pandemic.

Our framework is general in scope and can certainly be expanded into many subcategories ranging from the climate, energy, sovereign debt, security, human rights, and many others; but for the sake of simplicity, we believe these encompass the basic guideposts for most governments in the international system.



The starting point is deploying an effective domestic [vaccination strategy](#). Domestic lockdowns on an international scale have prompted a variety of civil and economic challenges. For investors, the visible progress of domestic vaccination strategies offers more clarity and confidence in a steady and orderly recovery.

At the same time, [civil unrest](#) remains an area of major concern for governments around the world. We believe global unrest will encompass an important part of both domestic and even international policy for many nations. Interestingly, investors are [historically](#) unphased when it comes to unrest and will likely continue to be unphased unless there is a direct effect on the economy.

The [economic impact](#) of the pandemic has been detrimental and remains the single greatest challenge for policy makers. This impact is not solely isolated towards individual domestic economies either, the global economy also suffered. According to the [International Monetary Fund](#), global growth contracted by 3.5 percent in 2020. Although the IMF forecasts growth at 5.5 percent in 2021 and 4.2 percent in 2022, achieving these benchmarks may prove difficult as governments attempt to stimulate [growth](#) at home.

The final point in the template relates to reasserting influence or power within a country's regional and international sphere. The pandemic has left global powers in an interesting position relative to economic declines and growing domestic problems. In our view, governments are making the calculation that foreign policy cannot come at the expense of domestic policy, but for world powers they are equally important and have a symbiotic relationship.

Again, for the sake of simplicity, this divides the world along the classic East-West line leaving all major players in a new power competition. In a sense, the pandemic inadvertently created a geopolitical reset where all major powers are again at the starting line in a race for dominance in the 21<sup>st</sup> Century.

### Who Are the Players?

This new race for dominance features the same contestants competing in familiar territory. The major competitors are China, Russia, and The United States. The changing geopolitical landscape is being driven in large part by the fallout of the pandemic and the advent of the new Biden Administration.

The power shift to the new Biden administration in the U.S. offers many contrasts to the international policies sojourning by the Trump presidency. In his first major foreign policy [speech](#), President Biden addressed the U.S. State Department by conveying to diplomats that “[America is back, diplomacy is back at the center of our foreign policy.](#)”

The U.S. is implementing a “[back-to-the-future](#)” foreign policy approach focusing on traditional alliances in countering threats and rising influences from geopolitical competitors. This means that the U.S. will reengage the world community as it did prior to the Trump administration and will focus on working with organizations like the [United Nations](#), [World Health Organization](#), and [NATO](#) to meet foreign policy objectives.

## Where is the Game Being Played?

There are three major regions where this competition will take place, we will briefly summarize which areas of the globe we are monitoring as we manage geopolitical risk in our model portfolios.

**The Middle East.** Although previous U.S. administrations attempted to strategically [disengage](#) from the region, the Biden administration, like its predecessors, may be [incapable](#) of executing a meaningful withdrawal. The U.S. will have to deal with [Iran’s nuclear program](#), the war in [Yemen](#), and an ISIS [resurgence](#) in Syria and Iraq. In addition, a [competition with Russia](#) over influence in the Gulf is quickly emerging in response to Biden’s positions on [U.S.-Saudi relations and Iran](#). We should also note that ties between Israel and Arab signatories to the Trump brokered [Abraham Accords](#) are likely to [strengthen](#) and will seek coordination in countering Iran’s regional and nuclear ambitions.

The bottom line for the Middle East is that it still remains a critical piece of U.S. foreign policy. If the Biden administration aims to [strain relations](#) with the traditional regional partners, it can result in an opportunity for adversaries to make greater inroads with these partners thereby diminishing American influence and power in the Middle East.

**The Putin-Sphere.** In our view, Russia is perhaps the greatest beneficiary of COVID from a geopolitical point of view. Relative to the U.S. and China, Russia has the most to gain and the least to lose as a result of this reset. At home, it is facing an economy hit by the pandemic coupled with [political disenchantment](#) and protests by the masses over the arrest of opposition leader Alexei Navalny. Russia’s sphere of influence generally impacts nations along its borders, Europe from a security and energy standpoint, and the Middle East vis-à-vis Syria and Iran. The prospects of a [Russian-Chinese alliance](#) are limited, although it is likely Russia will utilize the perception of this alliance to its advantage.

Russian President Vladimir Putin’s most concerning threats are countering Western influence in [Ukraine](#), [NATO deterrence](#), and [sanctions](#) from the European Union and the United States. We expect Putin to continue leveraging his country’s geographic proximity, military power, and energy wealth to oppose Western pressure and intervention along its western and southern border. As a beneficiary of the COVID reset, Russia will find [entry points](#) to disrupt American and Chinese advances in the developing world posing viable challenges where in a pre-COVID world were not possible.

**All Things China.** In the past, we have written extensively about [China’s rise](#) as a dominant world power, and the momentum of this reality will likely continue to develop following the COVID pandemic. As it stands, China is the world’s [second largest](#) economic power and its military strength is [impressive](#) but still lacks adequate experience in distinguishing itself from the United States.

Internally China faces many issues ranging from [rising debt](#), [declining population](#), and [fiscal difficulties](#). Relative to the global economy, China managed to grow its economy by 2.3% despite its GDP contracting by 6.8% in the

first quarter of 2020. China was the epicenter of the COVID-19 pandemic, but fared better than its global competitors and is expected to [grow](#) by 8.1% in 2021 according to IMF projections.

More clarity on China's domestic economic policy will be revealed during the up-coming annual "[Two Sessions](#)" meeting during the first week of March. So far, China's [dual circulation strategy](#) offers insight on the domestic economic front. The overarching theme of this strategy is to reduce dependence on imports while maintaining foreign trade and diversifying the domestic market in the areas of high-tech goods, agriculture, energy, and other consumer staples.

Chinese foreign policy should remain the same and will follow the course laid out by President Xi Jinping—a vision to make China the [center](#) of international affairs. Security concerns for China still revolve around thwarting Western influence namely from the United States and maintaining a strategic position in the [South China Sea](#), exerting pressure on [Taiwan](#), and solidifying power over [Hong Kong](#).

Our expectations for U.S.-China relations are consistent with our previous assessment—the competition is fierce. In comparison to the Trump administration, Biden's China policy should be [assertive yet tame](#). The U.S. will attempt to contain China by leveraging its [alliances](#) in Asia and with Australia while using "[all available tools](#)" to counter China, including the use of tariffs. Keeping this in mind, China is interested in a [reset](#) in relations but has already aired several grievances indicating the easing of tensions between the two powers are far from over.

## Let the Race Begin

The geopolitical template allows us to assess how governments are progressing in transitioning to normalcy following the pandemic and where it places them in the race for dominance on the international stage. As we stated for global powers, foreign policy cannot come at the expense of domestic policy in leading and winning the race.

We acknowledge that we did not mention all geopolitical power centers, namely the European Union, India, and Turkey, but these nations will also be monitored relative to American, Chinese, and Russian foreign policy. Highlighting the European Union, the Biden administration's efforts to strengthen alliances offers the E.U. a new opportunity to deploy a more assertive foreign policy and depending on the circumstances, providing a backstop of support or consequently further [complicating](#) Trans-Atlantic relations.

The COVID-19 pandemic inadvertently created a geopolitical reset relative to competing interests among the three major global powers—China, Russia, and The United States. The battlefields are the same, the players are the same, and the stakes are once again very high.

**If you have any questions, please contact us directly at 949.472.4579.  
Feel free to forward this article to anyone who might be interested in our insight.**

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