



The Perch Pod Episode 51

Emergency Podcast – Russia/Ukraine

With Marko Papic

Jacob Shapiro:

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Jacob Shapiro:

Hello listeners, and welcome to an emergency episode of The Perch Pod. As usual, I'm your host, I'm Jacob Shapiro. I'm also the founder and chief strategist of Perch Perspectives.

Jacob Shapiro:

Joining me to make sense of the Russian invasion of Ukraine is cousin Marko Papic, the partner and chief strategist of Clocktower Group. Thanks so much to Marko for coming in and doing this emergency addition. Happy to have Marko here to discuss war in Europe. It's really depressing to say those words, but if you need more insights about what's going on beyond this podcast, check us out at perchperspectives.com. Otherwise, take care. We'll see you out there. Cheers.

Jacob Shapiro:

Marko, how much of your 85-page report have you eaten since the Russians invaded Ukraine?

Marco Papic:

I said I would eat it if Ukraine joined NATO.

Jacob Shapiro:

Is that... ? I was actually thinking about this. I have a basketball metaphor to start us off. You and I famously said that the Brooklyn Nets trade for James Harden was going to be an epic disaster. Then it looked like we were wrong and that it was going to be the greatest team in history. Then they only played 16 games, and now James Harden is away, and the Brooklyn Nets' experiments- [crosstalk 00:01:13].



Marco Papic:

I know where you're going with this. I love it. Please finish the analogy.

Jacob Shapiro:

Complete the metaphor. Do it.

Marco Papic:

The metaphor is we may have been wrong for 16 days, but constraints are going to bite Russia in the butt. I'm actually writing a report right now and I'm flirting with a title, "In Russia, Constraints Overcome You," is the title.

Jacob Shapiro:

My hot take right now is that Russia has gone... Congratulations to Putin, Russia has gone from being a great European power to China's gas station. Good job.

Marco Papic:

Yeah. Things are moving and so on, but let me backtrack. My view that a large scale invasion of Ukraine would not happen was based on a number of different things. First of all, Putin was getting what he wanted by just putting pressure on Ukraine. Destroying its economy, dividing the West. If he had done this for another three months, just like flirting with 200,000 troops on the borders could that not have accomplished kind of the same thing? That's the first issue.

Marco Papic:

The other reasons are material constraints to an actual conflict, like demographics. There's no pro-Russians in Ukraine. This is a myth. If you're a Russian speaker, it doesn't mean you're pro-Russian. Zelenskyy is a Russian speaker. There are people who are Ukrainian who are native Russian speakers and we saw in Donetsk and Luhans'k, the most pro-Russian, most Russian ethnics, not just speakers, only 40% of the territory was captured with the Russian rebels. So there's clearly a huge resistance to Russia. How do you occupy a country like that?

Marco Papic:

David Patraeus gave an interesting interview. I forgot where. People can Google it. He said, look, "What we faced in Iraq, this is like 10 times worse for the Russians." It's a motivated population. They're not demotivated, like Iraqis were. There's nobody to welcome them. None, zero. It's not Crimea. And, unlike the Iraqi revolutionary guard, these guys actually have just fought eight years of conflict against the pro-Russian rebels and they know how to fight.

Marco Papic:



The second is geography. Huge country. We talked, you and I, the shock troops come in and then some fresh-faced youth has to drive a truck to bring the toilet paper to the Spetsnaz. And he has to do that across 200 kilometers, because Ukraine is bigger than the UK and Germany combined.

Marco Papic:

Then, also, you have the fact that the military in Ukraine, the tactics they're play right now, I think, they just don't want to play the game. They just don't want to play with the Russians. The Russians thought we're going to roll the tanks in, they're going to meet us, we're going to have an epic cavalry charge and it's over. And the Ukrainians are like, "Oh, okay, cool story, bro. We're going to go back to the cities." So they're now waiting for them, clearly, in the cities and then Putin has this problem because his fourth constraint is domestic.

Marco Papic:

There's nobody in Russia actually really wants this. They didn't expect it. They got caught by surprise. Polls suggest maybe like 40% of Russians are okay invading Ukraine to keep it out of NATO, but it's not even clear that was imminent. Now they're switching to this de-nazification platform, which is so maximalist it doesn't make sense.

Marco Papic:

So I agree with you. This is, Harden got traded and looked good for 16 games, and it's about to get really bad and could be the end of the Putin regime, I think. This could be his Cuban Missile Crisis like it was for Khrushchev.

Jacob Shapiro:

Yeah. In some ways the most... Well, I mean there have been so many surprising things, so I shouldn't say most surprising, but the protests in St. Petersburg and throughout the rest of Russia in the last 24 hours, incredible. They're having to suppress all the news about it, it seems in Russian press, but the videos are there on social media. I've been thinking about the fact that there's a generation of folks who have come of age, both in the United States and in Russia, for whom the Cold War didn't exist, and for whom the United States and Russia, these are not the big enemies and they don't want these big power conflicts. They just want the economy to work. They want to be able to do what they want to do without having to go to war over stupid geostrategic issues like this. So I wonder if he really has miscalculated on that kind of level, but I think you'd agree though, that in the short term he's eventually going to the take Kyiv, don't you? Or do you think he's not going to be able to do it?

Marco Papic:

I don't know. Look, I've always been extremely skeptical of the myth of the Russian might. We have no evidence of that. We have zero evidence the Russians know how to fight a war. Sorry, like zero.

Jacob Shapiro:



No, if anything we have evidence of the opposite because, even in Georgia, Georgia was a pitiful, puny state compared to Russians military. But when you actually read the reviews of what happened for those three or four weeks that they were in Georgia, it was so bad that they were having to use text messages to tell the aircraft what sites to hit. Nothing actually worked for them on the ground.

Marco Papic:

Supposedly they fixed that. Cool. I get that. Again, this isn't Georgia so I don't know. I don't know what to say. There are unsubstantiated reports that they are bringing in like 10,000 Chechens to fight.

Jacob Shapiro:

I saw that.

Marco Papic:

But that is, again, that is the end, because if they bring in Chechens to clear out Kyiv, and for those of you who are not familiar with the IRL version, they are the Uruk-hai of IRL. And so my point is like, look, if they bring in the Uruk-hai, the protest at St. Petersburg and Moscow, people will be aghast. That's where this gets really messy and really bad. I think that not only do we not have any evidence, recent evidence, we also have evidence of Putin being very strategic and calculated.

Marco Papic:

That's what's interesting. Because a lot of people ask me, Marko, your constraint-based framework is basically saying that full-scale invasion would be disastrous for the Kremlin, but what if Vladimir Putin has lost his mind or something like that. And, again, we don't have any evidence of that. His geopolitical ROI, it's high. In Syria, very small intervention yielded huge gains. You could argue 2014 was also very calculated. Just stick to the parts of Ukraine that are going to welcome the intervention. But if you go through history, and I don't know if we talked about this on our last pod so stop me if we did, but history of Russia, so 200 year history, is replete with examples where offensive campaigns are disastrous.

Marco Papic:

Starting with the Crimean War in 1850s, that led basically... I mean, Nicholas I died in deathbed. Some say he killed himself because it was such a disaster. Then Alexander II came in and helped to emancipate the serfs, and he did all these reforms after that Crimean War. He ended up being assassinated for it. That was basically a revolution in the Russian Empire.

Marco Papic:

And in 1905... 1904, 1905, they fought the Japanese. They sent three different fleets successively to the Pacific Ocean and the Japanese kept sinking it. That was such a shock, domestically, that a rising Asian power just beat the crap out of their three fleets, that there was a revolution in Russia in 1905, which was kind of like the first dress rehearsal for the Bolshevik Revolution and Nicholas II had to give Douma powers in 1905 as a consequence of that.



Marco Papic:

Then of course, 1916, Vladimir Lenin's case for the revolution... There were many cases, but one of them was that he revealed through these secret documents that Russia was promised by the UK and France, that it would get territories in Poland and [inaudible 00:09:04] the Austro-Hungarian Empire, if they joined the fight. So that First World War was then reinterpreted by the Bolsheviks, not as a defensive war, but as a war of imperial aggression by the Romanov family. That led to the Bolshevik Revolution, of course.

Marco Papic:

The 1980s, you have Afghanistan where obviously that contributed to the fall of the Soviet Union because of the angst of all the people who were dying. And by the way, most people, not most, but there was a larger percent of people from Belarus and Ukraine who were conscripted for that war that led to lot of resentment in places like Minsk and Kiev.

Marco Papic:

Then, finally, the 1990s, the Chechen War, the First Chechen War was basically the reason Yeltsin collapsed and Putin came in. So the same advantages that Russia has on defense, huge territory where it can always withdraw, it also plays really poorly for them on offense. They have to support these huge supply lines and their soldiers have to fight in regions that are so far away from the daily life of someone in Omsk, or Novgorod, or Moscow, or St. Petersburg that, invariably, the population of Russia is isolationist and gets really mad. Anyway, sorry for that history soliloquy, but I think that this is something that I'm very surprised Putin hasn't thought through.

Jacob Shapiro:

Well, I think that's what I'll ask you then, because I think they're actually probably going to be able to handle... Well, I don't want to say that. They're probably going to get to Kyiv. They're probably going to put "mission accomplished" on a banner and then the insurgency is going to begin and it's going to be absolutely horrible for them. I agree with all that, but the thing I still can't get my head around is why. Why did Putin do this? Like you said, we have all evidence that he's a pretty good strategic thinker. He was getting most of everything he wanted, anyway.

Jacob Shapiro:

I guess the one thing we could say, and I've been getting the same kind of stuff as you have, people sending me, "Oh, he's got autoimmune disorder. He is going to be dead in two years." "He cares about his legacy." This, that, and the other thing. I guess it's possible, but he has built an entire career on not doing that, on always doing the smart thing. I just don't get what he's seen. I guess you could make the argument that he knew that the West wasn't going to lift a finger over Ukraine, and he thought that he'd been able to insulate the Russian economy from the sanctions that were going to come, that he just decided to take Ukraine. But that seems like a really short-sighted point of view from somebody who has been fairly long-term oriented his entire political career.



Marco Papic:

Well, so first, it's not clear that they are going to occupy all of Ukraine. My number one war scenario... I was 50/50. I was in the 50/50 camp, and of the 50% of probability to evade, my number one scenario was the Georgia scenario. The reason that I flagged that to clients and investors that I speak to as a really risky scenario is that in the initial stages of a 2008 Georgia scenario, that one is indistinguishable from a full occupation. In Georgia, we didn't know... I mean, the tanks were outside of Tbilisi at one point. That's why I think it's still premature to say that we now know it's an occupation of Ukraine, because it could be a flex where Russia showcases its awesome power to Ukraine, to the West, to other denizens of the former Soviet union sphere, and then just pulls back to what it actually wants.

Jacob Shapiro:

Yeah, except it failed to do that. They still haven't even knocked out the Ukrainian air force. We got these things about the ghost of Kyiv running around, shooting down MIGS kind of at will. It's unbelievable.

Marco Papic:

And that's the danger, right? That failure that forces it to be like, "Okay, now we are good." So I agree with that. But I think there is a way out of this, and the way out of this is pretty simple. They put up a "mission accomplished" banner by just saying they've demilitarized Ukraine. Like, "No, no, no, no. We just hit their military installations. We hit 75 of them, whatever, one day, 800 the next day, and it's over. We have degraded Ukraine's military capability."

Marco Papic:

Which was what NATO said in 1999 with Serbia. During the 1999 NATO air war against Serbia, it was all about degrading Serbia's military capability. And after three months of bombing, when they finally stopped, the columns of Serbian tanks coming out of Kosovo were like days long because they didn't hit a single one. They hit two tanks. I think NATO went back in and checked. It was a PR disaster in a way, but it was covered up in the West. It was like, "Nah, we won."

Marco Papic:

Similarly here, why can't Russia do the same? Why can't Russia simply say like, "Oh look, we destroyed all their airports, and runways, and hangars, and cruise missiles," proclaim victory, sit down with Zelenskyy as he has offered, and talk about neutrality of Ukraine, which I generally think is a way to create the new equilibrium that will satisfy everyone.

Jacob Shapiro:

You think they're going to let Zelenskyy remain president? It seems to me that what they want is to get rid of Zelenskyy and put in some puppet in Kyiv and back door it that way.

Marco Papic:



I hear you. I also want to have a six pack, you know? So like, as I often say... Zelenskyy can be harmed, obviously, I understand that, Kyiv can fall, all this stuff, but this is a country that cannot be ruled by puppets. I mean, you just can't. That was the error in 2014 that we talked about before. He took Crimea, and Donetsk and Luhans'k out of Ukraine. That would be like taking Texas and Florida out of America, then trying to put a Republican puppet in charge of the United States. It's not going to work. You don't have enough support. So I think that whole de-nazification and that whole theme of regime change, just how does it happen, Jacob? You would have to permanently occupy this country with 200,000, 300,000 troops-

Jacob Shapiro:

More than that.

Marco Papic:

More than that. The only off-ramp I see here... Well, there's two off-ramps, really. One, is regime change in Russia, like surprise regime change. The other one is they just proclaim victory, say they degraded Ukraine's military capacity, then they tell Zelenskyy, "Look, we're going to send in the Chechens unless you sign neutrality. Can we have a deal on that front?" That's how I can see this end.

Jacob Shapiro:

Yeah, but just to push back a little, I hear what you're saying but I still don't understand then why Putin did it this way? Because just putting up a "mission accomplished" banner and saying you've degraded the Ukrainian military, is that really worth the economic damage, both the short term and long term, this is going to do to Russia? They had made some progress here in the last eight years, diversifying their economy and trying to actually modernize and not just being the Slavic Saudi Arabia. That's all gone now, and it's not like the West is just going to rescind the sanctions because now Putin wants to negotiate. They just saw what Putin's quote/unquote "negotiating" looked like.

Marco Papic:

The problem with what you're saying is we are now, you and I are trying to imbue rationality into a policymaker who has miscalculated their material constraints. Now, to explain, like in the book I wrote and in the framework I created, I always call it a framework, it's not a foolproof method. You're going to be wrong. You're going to be wrong because you describe material constraints that policy makers faced. And we just did it, right? Demographics, geography, military history level. Then you assume policymakers are going to be forced to follow those, but if they don't it's okay. You were wrong initially. Like Harden did go to the Nets and they did win 16 games.

Marco Papic:

But then, as I said, in Russia constraints overcome you. Those constraints start biting, and so there's no way for you and me to really try to explain why he did it. He made a mistake. He made a mistake. He miscalculated, he thought the constraints was... Maybe he's surrounded by sycophants, who knows what explains this act. But now they're starting to bite. Right now, if your assessment of constraints was



correct, there should be an outcome that's disastrous for the policymaker who mistook their material constraints. I think that's what's happening with Russia.

Marco Papic:

I think it's very similar to the Cuban Missile Crisis in a way. Khrushchev, man, if you look at Khrushchev's career, like 1950s were just amazing. He did the Sputnik. He did so many things...

Jacob Shapiro:

The Korean War. I think that was pre him, but that was also a big victory for them, I think in the end.

Marco Papic:

For the Soviets. He was just crushing it. Khrushchev was crushing it, and he was riding high in the 50s. American intelligence community was penning these documents about how Russia was going to overtake US in terms of economic growth by 1990s, hashtag, kind of like China. Let's leave that aside. Then, this happens, he sees this young kid, JFK. He's like, "I'm going to crush him. I'm going to freaking crush him." He goes hard, Americans stand firm, and two years later he's the only Soviet leader who didn't die, or was replaced like Gorbachev, the country ended, but he was retired two years later because of this. I think that's a really big warning right now for Russia. I think that they have misjudged their material constraints and this is going to be bad.

Marco Papic:

What's funny about it, as I was writing reports, and talking, and talking to clients I was using material constraints that are very material. Demographics, military strength of Ukraine, blah, blah, blah. But the greatest one may be the median voter in Russia. And that's to your point, the protests have been pretty significant. With the social media that we have, and with how savvy Russian population is in using social media, it's just very difficult to paint a picture of Ukraine as riven with Nazis. Most people are just not going to believe that. They're not only not going to believe it, they're going to put up with it but when you start having young men come back from the front dead because of that, I think that's a problem.

Jacob Shapiro:

Let's play it out then a little bit based on what you're saying. I was still sort of thinking that... and I'm still, I'm being convinced by argument, but I still feel like they're going to try and install someone in Kyiv. I don't really see how they can let Zelenskyy go and still claim any kind of victory whatsoever, although maybe what you're talking about at home in Russia, that kind of prevents things. But it seems to me, the flip side of this is that suddenly NATO is back from the dead, and the EU is going to be really tight and have its own self defense capability, and Turkey is going to be back in NATO, and maybe they're going to throw... Erdogan has gone from crazy ravings about the lira to NATO should be doing more to help Ukraine and talking about the Bosphorus. How do you feel about NATO, and Turkey, and Europe in the context of all this?

Marco Papic:



That's where just more puzzles, Jacob. Putin was on his way to getting so many things out of this very strategically, and one of them was to split NATO, and that was working. I'm not sure that this really changes that trajectory. The reason I say that is US played a role in instigating this war. That's not a popular view, and I don't want to sound like an RT journalist here.

Jacob Shapiro:

I don't think anyone will mistake you for an RT journalist. Don't worry.

Marco Papic:

The first part of this pod was very not RT, but let put on my conspiracy theory hat... No, listen, here's the thing. The US basically has goaded Ukraine into a pretty aggressive posture. After 2014, France and Germany said, "We're going to put Ukrainians onto the negotiating table with Russia." And they concluded a Minsk agreement, and it's deeply unpopular in Ukraine because one of the things that it basically does is it gives Donetsk and Luhans'k, if it's ever implemented, kind of a veto to international agreements and memberships like NATO. And so, over a successive number of years, Ukrainians have been emboldened, and I would argue mainly because of American support, to say, "Well, we're going to scrap that. We're just not going to do that and we do have a future in NATO," even though they don't.

Marco Papic:

And that's where me getting you back to eating [inaudible 00:21:55] comes in. There's just no way that they're ever going to join NATO. So what's happened over the last couple of months is that America has continued to support Kyiv's NATO ambitions, has forwarded offensive, I would argue, weaponry that they call defensive, and that has emboldened Kyiv to take a very, very hard stance. Now that we have this situation, Europe is paying for it. I don't see how this ends with NATO being in strength.

Marco Papic:

I think we're in an invariable decline in NATO unity. I think that the French and the Germans are going to re-arm, that's for sure. I think you'll see re-armament. You'll see Obama, Trump and Biden, they all tried to get them to re-arm. Finally, Putin got them to re-arm. That's going to happen, but I don't think it's going to be in the NATO construct because clearly the United States has the luxury of being far away. This is not on its door stop, and it can play a very, very aggressive game here, not allowing the situation to reach equilibrium.

Marco Papic:

This is what's happening right now. The equilibrium here is going to be reached when Kyiv realizes no one's going to help them. Then Zelenskyy is saying this himself, he actually said, when he said a couple hours ago he's open to negotiating neutrality, he said, "We now have evidence that no one's going to come and help us, so we are willing to sit down with Russia and discuss neutrality provided they also offer security guarantees, which the West hasn't provided."

Jacob Shapiro:



You think he didn't already know that? You think he really thought that he was getting troops or anything out of the West besides some kind of middling sanctions?

Marco Papic:

No. When he said that, Jacob, he was speaking to the right wing lunatics in Ukraine.

Jacob Shapiro:

Hmm.

Marco Papic:

This is something that in the West, no one's going to talk about. Obviously, there's no Nazis in Ukraine, first and foremost, or neo-Nazis. Russian propaganda, "Okay, thanks guys." But there are right-wing nationalists, and they definitely played a role in Euromaidan, and they've definitely been a thorn in the side of the democratically elected leaders of Ukraine because they are putting pressure on people like Zelenskyy to oppose [Manskin 00:24:09] and stand up. What Ukraine needed was a cathartic moment when Zelenskyy can then turn around to those critics on the right and say, "Hey, listen guys. Do you now understand no one's coming? Okay, can we just forget about NATO membership now and pretending we're going to be the 51st state of the United States of America, which is not going to happen? We need to go and negotiate with Putin."

Marco Papic:

I think this is where the Finlandization of Ukraine... It's such a dirty word in Ukrainian politics. In Ukrainian domestic politics, you are basically a traitor if you infer you're a pro-Russian useful idiot. But the truth is, there needs to be an equilibrium that is sustainable, and what we had before is not sustainable. And the US was pursuing a policy of supporting an unsustainable equilibrium between Ukraine and Russia. I think the US did so because it's in its interests to provoke Russia in some way, because the blowback is not coming to the US, it's coming to Europe.

Marco Papic:

This is where, if you're European, if you're in Paris, or Berlin right now, you're saying, "You know, we didn't have to have this conflict. We could have just put Kyiv into a room and told them the truth, but that didn't happen because mainly of US and UK support for this membership that is never going to happen."

Jacob Shapiro:

Yeah. I think the Trump administration actually overcompensated for their domestic issues with Russia by trying to be really strong and in supporting Ukraine too. It kind of was a ramp lead up there. Although, I also feel like, ironically, you're describing a scenario in which this wasn't a huge mistake for Putin. That he actually has calculated things fine, and he's going to get what he wants out of this whole thing, and look good, and go home if that's really what he's after. Don't you think?



Marco Papic:

Yes. There is a scenario where... But that's provided that he does that quickly. The more this prolongs itself, the worse it gets, but, yes, that is true. If he is willing to disengage the moment he gets those commitments here, then I agree with you. It might not look so bad.

Jacob Shapiro:

Yeah. All right. Last question, before I let you go, I've got to run, and I know you've got to run. China. I think China's role in all this is I think they were maybe conflicted about it at first, but now they basically get to do with the Russians whatever they want, because the Russians are going to be more dependent on China importing their energy going forward. This is a conflict half a world away. It takes the world's eyes off of what China is doing in the South China Sea and some of the domestic problems they're having in their economy.

Marco Papic:

I understand.

Jacob Shapiro:

Where do you put China on the dart board?

Marco Papic:

What I would say is this: It's clearly a winner. Clearly a winner. There's an element here where Russia and China are like two young adolescents staring down a cliff into a pool. It's a hot, hot summer day and they want to jump. And China looks at little Russia and says, "Hey, I'm right behind you, man. You go first." And then Russia basically drops like, "Yeah." Falls. And China's like, "Yeah, [Eddie 00:27:33] rocks. How was it?" That's what is happening. "I'm right after. I'm coming right after." Then it's like, "Okay, let's see what happens here."

Marco Papic:

I think China gets so many things to do now. First of all, it seems like Xi Jinping has been involved in actual trying to pacify the situation, which raises the profile of China. I mean, if China just swoops in and solves the problem, it's going to be such a great PR win for China. Second, as you pointed out, Russian has to sell whatever it can to China. The problem with that though, is there are still infrastructural problems between China and Russia. Oil, Russia could divert more of its seaborne trade to China, but it still has the pipeline infrastructure on both natural gas and oil that goes to Europe.

Jacob Shapiro:

Yeah.

Marco Papic:



Building it out to China is going to be very complicated, especially for natural gas. It's going to be probably the greatest infrastructure project man has ever undertaken. I mean the Yamal Peninsula is on the wrong side of the Urals in the Arctic. Getting those pipes to China, it's going to cost half a trillion dollars as the deal that it signed in 2014 infers. The thing is, I think China is definitely winning, but I don't want to overstate Russia's ability to pivot to China because a lot of its energy is locked into being shipped to Europe because it is down through pipelines, which are nailed to the ground. You can't move them to China. They can't wish that they were an Asian supplier.

Marco Papic:

I also think this is another reason to question the Kremlin's logic here, because Europe is so much better of a partner for Russia than China. So much. So much. It's weaker. It doesn't have military capability. It has technology Russia needs. It has the money. It has the insatiable appetite for resources. It's closer. And, it doesn't threaten Russia in any way, whereas China kind of does and you are clearly going to be a junior as you've described it. You're just going to be China's petrol station. I don't understand, really, the logic in pursuing this course of action that so severely severs links with the West, especially Europe.

Jacob Shapiro:

Yeah. The last two times I've been in Moscow, I've asked Russian analysts what's going on with China? I don't understand the logic behind Russia's foreign policy towards China. I was always struck because the answer I always got was something along the lines of, "China's really unsophisticated. They don't think strategically. They still have a lot to learn. Don't worry about us, we'll be able to handle the Chinese." And it was the one moment that I've been in Russia and talking to Russian analysts where, in the back of my head I was going, "You're fucking crazy. Why would you underestimate these guys? Everybody's been underestimating them for decades. You underestimated them for decades. They're still hanging around. They didn't have to give up the global proletariat revolution. They're still rocking and rolling." But I do think, we're talking about Russian miscalculation, in some ways I think the biggest Russian miscalculation of all is they think they can handle China. And down the road they think they can handle India. And they think Iran is just going to kowtow to whatever they want to do. I think they're in for a rude awakening when it actually comes to that.

Marco Papic:

Well, that's great insight. Really great insight. There's a lot of arrogance and miscalculation, I think, that's seeped through the analytical community in the Kremlin and in Russia. I think they've ignored their reality of material constraints.

Marco Papic:

You mentioned Iran, to pivot to that. I think it's interesting what's happening on that front. No one is paying attention, but basically the Biden administration is probably going to rename Minneapolis to Tehran as part of the negotiations. I don't know if you know, that's one of the clauses in the new JCPOA that we're negotiating.



Jacob Shapiro:

Is it? Wow. Yeah.

Marco Papic:

Yeah, yeah. And-

Jacob Shapiro:

The Tehran Twins of the Major League Baseball Association.

Marco Papic:

No, but it's just interesting because... and by the way, the new [inaudible 00:31:41] of Tehran is awesome. They're just sitting there, "No, we want that, and also this." Because you have this inflation, you have this Russia thing, and Iran just gets to do whatever they want. We need that oil. Now, suddenly, everybody needs that oil and even the domestic political scene in the US has stopped talking about it. There doesn't seem to be a lot of backlash. Am I wrong about that, or-?

Jacob Shapiro:

No, there's backlash. The Republican congressmen were trying to convince Biden that they had to approve whatever he was doing a couple weeks ago. He basically said, "No, I don't." The Wall Street Journal, I think, was reporting that one or two of the American negotiators pulled out because...

Marco Papic:

Oh yeah, that's right.

Jacob Shapiro:

... they felt like they were giving too much up to the Iranians, which again tells you the Biden administration told the negotiators give them what they want. We need to get this deal done like yesterday. Everybody from the Washington Post to the Wall Street Journal, the headlines are all the same right now. It's like a deal is imminent. If everybody from the left to the right is saying a deal is imminent, I'm pretty sure it is. I think the last thing I saw was that the chief Iranian negotiator flew home to Tehran, the real Tehran, not the one in Minnesota, on Wednesday for some last-minute deliberations there with the Iranian government, but I would assume this is happening real fast. That could really change the entire Middle East, could change central Asia, the Caucasus. If Iran is back from pariah state and is actually going to live up to all of its... all of the resources that it has, the world gets a lot more interesting with Iran not on the sidelines.

Marco Papic:

Well, I also think it's important for a number of other reasons. I've hesitated to be long on oil during this crisis. One of the reasons is because I had 50% probability that Putin was bluffing, and I worried about the downside risk to oil in a world where there's more supply coming because of Iran, and because of



the feds tightening. I've preferred wheat and gold. So those were my two hedges for Ukraine. That's worked out and I continue to be cautious about oil given this Iran and just the fed.

Marco Papic:

It's interesting, though, because one of the reasons... In the book, when I wrote Geopolitical Alpha, I start the book by saying, "Look, if you think that what I do for a living is tell people what happens after a war, then forget it. You need to read four pages of this book because there's this table in this book where I say like, 'It's almost always a good time to buy when there's a conflict.'" We know that through history, and one way in which that may not be the case, though, is when the macro context is so inflationary and you have something like this happen. If it really drags itself out, I could see you Russia imposing a self embargo.

Marco Papic:

On a lot of things. Starting with palladium, which they produce 47% of, they have about \$550 billion worth of [inaudible 00:34:33] reserves. Six months embargo on palladium is \$3 billion bucks. They don't care. And that's just palladium. You can go down the list. There's nickel. There's obviously wheat. But oil and natural gas. And honestly, they could stop exporting oil for about six months. It would be maybe \$30 to \$40 billion. Again, they could actually overcome that, given their ample of reserves and given their huge current account surplus. That would be a cherry on top of a very inflationary sundae right now for the macro context that we're in. The one conflict on my table in the book that did produce sustainable drawdowns over the period of the next year and a half was the Yom Kippur War of '73, which was a very similar setup.

Marco Papic:

I guess that's the danger for the markets right now, and I see the markets obviously rallying two days strongly. Yesterday, February 24th, we finished with NASDAQ up 3%. And I get it, but I also think it's premature, not just because of this macro context, and inflation, and the fed, but also what happens if... We're not done here. As you said, you have a view they're going to go after Zelenskyy, and what I'm worried about is what if one of the like Russian Sukhois accidentally goes into Polish airspace and the Poles shoot it up? I think there's just way too much premature [inaudible 00:35:59] dip view.

Jacob Shapiro:

Yeah. Flip side. What if one of their quote/unquote "precision-guided munitions" hits a major pipeline and they get the self embargo just because of their own incompetence? That can also happen. I'm with you. Golden wheat, also [CI 00:36:14], those have been big topics there. Apparently, nickel and aluminum should have been the ones that we were going after, but I think those panics, that's about macro stuff happening with China, and Indonesia, and all that other stuff.

Jacob Shapiro:

This is also one of those moments where... you probably felt this as well, everybody and their mom has texted me in the last two days asking about geopolitics. I'm like, "Yeah, there's some interesting stuff



here. We can talk about the Russia stuff, but there's a lot of other stuff happening behind the scenes, and if you're trying to understand how markets are moving, like this knee-jerk thing, there's a lot of other stuff going on that you need to understand if you want to [crosstalk 00:36:46].

Marco Papic:

Markets were correcting in January, not because of Ukraine, Russia, they were correcting because the tenure was going up. They were correcting because of this outflows out of the US. That's why I would fade the tech rally in the US right now. The tech rally in the US makes no sense because if this really does dissipate as a risk, then the tenure is going to continue on its trajectory of higher yields, which would be bad for tech. In fact, the only reason you should be buying tech, honestly, is if you think things are going to get worse in Ukraine, Russia. Now, because they're getting better, that's the irony. But even on that front, the tenure yield is reacting the way oil prices did in 2014.

Marco Papic:

Let me explain, 2014 you have Islamic State rampaging Iraq. You've got Russia annexing Crimea, and oil prices collapse. And throughout 2014, from January to May, oil prices were flat despite all these risks. I remember I was bullish oil at the beginning of 2014 and then, boom, Islamic State takes over Mosul, boom, there's Crimea annexation, and you're just like, "Wait, oil is not rallying. Oh my God." That's when you're like, "Oh, oh." Then you changed your view because those were hints to you that you were in a profoundly bearish macro environment in 2014.

Marco Papic:

Similarly today, the fact that the tenure hasn't budged in this potential World War III. Man, we're in a profoundly bearish bond environment. I just don't see how NASDAQ is going to do well with the tenure ending this year, let's say at 3%, because all this war and we're at 1.9. Right now, we're 1-9-9-1. We're close to breaking to 2% again, despite everything that's going on. And that is a premier geopolitical safe haven asset, and it hasn't acted like it. I think that's something we need to note from here.

Jacob Shapiro:

All right. What else should I have asked you that I didn't, Marko? Or did we cover it?

Marco Papic:

I think we covered everything. I think we should have done some over-unders. Okay. Let's do an over-under. I have one on the top of my head. Let's say that the Kremlin doesn't pursue the logical, proclaiming victory quickly, getting Zelenskyy at a table, getting that neutrality that's just bouncing. Let's say this goes really bad. Let's say we have five to 10,000 dead Russian troops. I'm going to set the line at 12 months for Putin, over-under I'm being aggressive, 12 months, on purpose. I'm being aggressive on purpose because I'm going to take the under.

Jacob Shapiro:



I know what you're going... but hold on, I need you to clarify the scenario. So wait, the variable is 10,000 Russian dead troops if Putin lasts 12 months?

Marco Papic:

Yes.

Jacob Shapiro:

I think that depends entirely on what... If he loses 10,000, but he gets to Kyiv and he replaces Zelenskyy, over 12 months. If he loses 10,000 and we're still talking about the ghost of Kiev, and we're still talking about Ukrainian helicopters still in the air, probably less. But it kind of depends what they actually accomplish, but give me the under.

Marco Papic:

Just for the sake of it, I'm going to take the under. I think history is really clear. I think that's where my confidence is, and I think that we've seen policymakers before go over their constraints. You've seen that happen before and it always ends in disaster. The only way it doesn't end in disaster is because you didn't do a good job as an analyst, in this case me, of identifying those material constraints.

Jacob Shapiro:

The one thing that cuts against that is what's the alternative to Putin? I don't think people are going to go for chaos. I don't think Navalny is coming out of the bullpen saving the day. He has really neutered, anybody else who would replace him.

Marco Papic:

But every example I gave you from history didn't involve an alternative other than the Bolsheviks. Other than the Bolshevik Revolution in '17. Every single other was an insider move, and many of them didn't involve any sort of violent actions. They just involved, "Hey, okay, you kind of messed up. Sorry, we're going to go with someone else," and that's what I think that... There's been some really weird, strange stuff coming out of Russia.

Jacob Shapiro:

Yeah, there has.

Marco Papic:

Like that weird thing where Putin went after the SVR head.

Jacob Shapiro:

That's been bothering me so much, I still don't get what that's all about.

Marco Papic:



I mean, it was clearly made for TV event and I think that-

Jacob Shapiro:

I should just say for the listeners, this is right before he recognized Donetsk and Luhans'k, he had all of his security council in a room where he was 30 feet away from them, and he literally just dressed him down. He yelled at him and the guy was stuttering, and then he yelled at him some more. It was really depressing.

Marco Papic:

Yes. And this is the head of the SVR, which is the foreign intelligence agency. What was interesting to me about that is that was either organic and it really did happen that way, or if it was made for TV, it was meant just so that people like you and I don't think there's anything, anybody in there that can challenge him. I don't think that's the case. I think Russia is a sophisticated enough of a political system that if this doesn't go well, I do think that there could be alternatives. That would be interesting because I'll tell you this, I keep thinking that there is a lot of value in Russia as an investor.

Jacob Shapiro:

Sure. There absolutely is.

Marco Papic:

Yeah, and that's where I think long term investors have to really be watching this situation very carefully, because a shift away from antagonistic policy could unlock a lot of value for Russia.

Jacob Shapiro:

At CI, we were long, kind of Russian equities, a very small position, because I was 70/30 that there wasn't going to be an invasion. I was even more optimistic than you there. We took it off after we looked like we were wrong, but I agree with you, it's undervalued. But the devil's advocate of what you're saying is the Germans have thought that since Otto von Bismarck and it hasn't gone particularly well for them has it?

Marco Papic:

Yeah, it's a bear trap. Pun intended.

Jacob Shapiro:

Literally, literally a bear trap. I think that's a good place to end it. Marko, thank you so much, man. We'll have you back on soon.

Marco Papic:

Thanks. Thanks cousin Jacob. Any time.



Jacob Shapiro:

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