

Magellan – In The Know: Episode 24

A Pivotal Moment that could decide how this century plays out

Announcement (00:00):

The information contained in this podcast is for general information purposes, and does not constitute investment advice. You should seek investment advice tailored to your circumstances before making an investment decision.

Host (00:14):

This is, In The Know, a monthly investment podcast brought to you by Magellan Asset Management, experts in Global Investing. We bring you timely, unique and thought provoking insights, to help you make sense of today's investment landscape.

Leon Panetta (00:29):

I think the important thing in dealing with China is, in many ways, the same principle as dealing with Russia, which is if you're going to deal with Putin, you better do it from strength, not from weakness. I think that's true for China. If you're going to deal with Xi, you better do it from strength, not from weakness. If Xi reads weakness on the part of the United States and her allies in that part of the world, then he'll try to take advantage of it, and that's what he's done, very frankly.

Host (00:55):

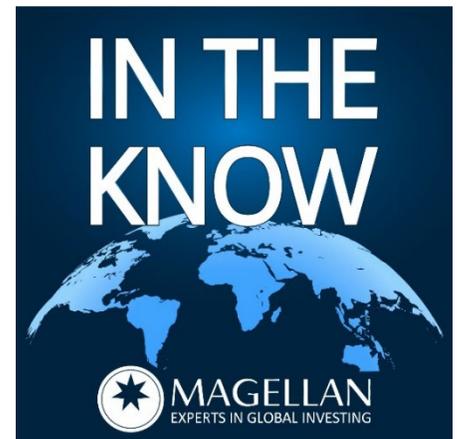
That's Secretary Leon Panetta, former US Secretary of Defense, Director of the CIA, and White House Chief of Staff, explaining how Western nations need to show the same resolve with China, as they have with Russia in its war with Ukraine. Welcome to Magellan, In The Know. In this episode, Secretary Panetta provides his geopolitical views to Magellan's Head of Macro, Arvid Streimann, and outlines why the future of the 21st century could be decided in the coming months. But first, a warm welcome from Arvid Streimann.

Arvid Streimann (01:35):

Hello everyone, and welcome to this episode of Magellan's, In The Know. My name is **Arvid Streimann**, and I'm the Head of Macro at Magellan, and also a Portfolio Manager. Now, I'm really excited today because we are going to be speaking with Secretary **Leon Panetta**. **Leon Panetta** was the Secretary of Defense in America. He was also the Director of the CIA. He was The White House Chief of Staff, and at one time he was also the Director of the Office of Management and Budget. He started his career as a Congressman, representing his fair state, California. Secretary Panetta, it's great to have you here today.

Leon Panetta (02:13):

Thank you very much. It's an honor to be with you, and all of my friends in Australia. As both CIA Director and Secretary of Defense, I really had a very close relationship with one of our best allies in the Pacific, which was Australia. The leadership in those security areas, they were really very capable and dedicated individuals who really cared about security. So, I want to pay tribute to Australia, to the leaders there, and most of all to the people, because if there's ever another country that is cut from the same cloth as America, it's Australia.



Arvid Streimann (02:57):

Yeah. Well, there are certainly a lot of similarities, and we have this very strong shared history going back decades as well. So, I'm sure people would love to hear your sentiment there. But I think a really good place to start today's conversation is, when I look at the world, there's obviously a lot going on. We've got the Russian invasion of Ukraine. You've got the rise of a superpower in China. I would say also you've got increasing partisanship around the world, that's all occurring right now. So, when I look at the world, I look at it and I say, well, you know what? There seems to be a lot of uncertainty right now. So, I wanted to draw on your background in history and say, from your perspective, secretary, how uncertain is the world right now?

Leon Panetta (03:37):

I think we're looking at a world that is both very dangerous, and very pivotal, in the sense that I really do think that this is a moment in time that could tell us a great deal about what the future holds in the 21st century. It's dangerous for all the reasons that you touched on. Obviously, what's happening with Russia and the Ukraine, China, and the competition, but the adversarial relationship at the same time with China is one that we're concerned about. North Korea and the continued building of a nuclear arsenal, along with missiles that can deliver those nuclear weapons, is a real threat to the region. But to the United States as well. Add to that Iran, which now is estimated to be a few weeks from the ability to develop a nuclear weapon. Then terrorism still remains very much a threat in the world.

Leon Panetta (04:42):

Then add to that, obviously the polarization that we see in the world, and the challenges that democracies are facing as we confront growing autocracies in the world. It is without question a dangerous world, but I also think we're at a pivotal time. I think in many ways, Ukraine will tell us a great deal about the future, because if the United States and our allies can unify the way we have in confronting Russia and supporting Ukraine, I've never seen NATO more unified. To have that unity, and to have a common strategy of not only applying sanctions, but providing weapon systems to Ukraine, and also reinforcing the NATO countries that surround Russia.

Leon Panetta (05:35):

I think that if that combination of courage and bravery on the part of Ukrainians, plus the support of the United States and our allies, if that can come together and the result is a defeated or weakened Putin and Russia, I think that is a message that not only will go out to China and to North Korea and Iran and to terrorists, but I think it can also tell us a great deal about whether or not democracies in the 21st century can sustain themselves in a way that can really give them the ability to strengthen, and to really develop in the 21st century, as opposed to autocracies. So, while it's dangerous, as I said it's pivotal. I'm hopeful that we're at a point where perhaps the future of the 21st century may well tell us what it looks like within these next number of months.

Arvid Streimann (06:40):

Well, I think that's a really interesting response and perspective, because I think a lot of people look at the world right now, and I know that in investing we always look at the world in uncertainty and say, well, there's a reason to be worried, but there's also a reason to be optimistic. I say to people, I've never found a one-sided coin. There's always a two-sided coin. So, I think that's really interesting and refreshing.

Leon Panetta (06:59):

No. I think, if you think about World War I, and your country was involved in World War I, as was the United States and others. But I really think that in many ways what happened in World War I, really set the power struggle for the 20th century. What ultimately happened, not only with a failure of efforts to try to find peace in the world, but also World War II, and then obviously the confrontation with the Soviet Union, in many ways that table was set as a result of what happened in World War I. I look at the war in Ukraine as having that same impact, in terms of setting the table for what happens in the 21st century. I think there's some truth to that.

Arvid Streimann (07:50):

Yeah. It has been a very massive event. I think that you just have to look at the potential expansion of NATO too, to see the ramifications that it has had in the military sphere. Of course, there's a lot of economic ramifications that the investment world is very clear upon, but I wanted to touch just on the Russian invasion of Ukraine, and your thoughts on how that may play out, because there's a lot of commentary on either side. On the one hand, the Russians are running out of weapons. But on the other hand, the Ukrainians are running out of weapons. Of course we know that the Ukrainian president is continually asking for more weaponry and support. So, I'm wondering how you see that particular conflict playing out in the shorter to medium term. I hear you on the longer term ramifications of it, by the way.

Leon Panetta (08:32):

I think we've gone through three stages in that war. The first stage was the invasion itself by Russia, and the goal that Putin had was to be able to capture the capital within two days, and bring down the Ukrainian government in rapid order. There's no question that that invasion failed to accomplish the goal that it was after. A lot of that was due to, again, the United States and our allies coming together, supporting Ukraine, but a tremendous amount of credit goes to President Zelenskyy, and to the courage and bravery of the Ukrainian fighters. The second stage that occurred following that, was what I call the siege warfare stage, that not only resulted in tremendous destruction that we've seen, but the one killing of innocent men, women, and children. An effort to, I think by Russia, break the will of the Ukrainian people, if you will.

Leon Panetta (09:33):

I don't think that succeeded either, even though it was devastating to see happen. We're now in the third stage, where the Russians have retreated to the Donbas area, and are trying to make gains there in the east. What you're seeing develop here is a war of attrition, in which both sides are stalled, and they're making some gains, Russia's making some gains, the Ukrainians are pushing them back. So, the issue becomes, what happens with this war of attrition? If it's a long war of attrition, I think in some ways it may play into Putin's hand, because I think what Putin is trying to do is to wear down the United States and our allies and Ukraine. The longer this war goes on, the more concern there is about the unity, and whether you can really hold these countries together. So, I think probably the worst result would be a long war of attrition that would go on.

Leon Panetta (10:37):

The second possibility is a negotiated settlement of some kind. I guess my concern is that would've happened a long time ago if Putin wanted that to happen. I just don't see him willing, at this point, to do that. I think he wants to gain more territory. I think he wants more leverage. He knows that so far, the world views Russia as not achieving the goals that it was after. I think he's concerned that unless they're

able to hit back, unless they're able to continue this destructive warfare, that Russia somehow will lose face and be viewed as a loser. So, I'm not sure whether we can get a negotiated settlement.

Leon Panetta (11:18):

The third is that it escalates and somebody makes the wrong decision. Suddenly we find Russia using either gas or chemical warfare, or some kind of battlefield nuclear weapon. If that happens, obviously that's probably as well, one of the worst consequences that can happen, because that could very well lead to World War III. So, those are the options. My view is that the key right now is for the United States and our allies, as they've shown in recent meetings, is to maintain that unity, maintain that dedication to supporting Ukraine. We've seen new steps taken on sanctions. We're seeing much more sophisticated weaponry being provided to Ukraine. They need medium and long range air defense systems. They do need the ability to have counter radar systems that can locate these missiles, and go after wherever they're fired from.

Leon Panetta (12:21):

I think with those kinds of sophisticated weaponry, that it's possible that the Ukraine could very well start pushing back on the Russians. I think Zelenskyy's right. If he could bring this war to some kind of conclusion by the end of this year, then I think we could get a good result, in the sense that Russia, no matter what they may maintain, will be viewed as having lost. Putin will have been weakened. But to do that requires that the United States and all of our allies have to hang tough. Right now that is the case. I feel good about where they're at, but as time goes on, one never knows whether that unity can hold.

Arvid Streimann (13:05):

Yeah. I agree with you completely on the unity part. I remember in the very early stages of the invasion, there were a lot of questions around that particular point. So, it's been very refreshing and very exciting almost, that that's held up from a Westerners perspective. But you mentioned some of the scenarios there, and I really would like to get your perspective on what you think Vladimir Putin actually wants here. I think the most common answer to that question is that he wants security for the Russian motherland, and perhaps Ukraine, and maybe some threats to be Belarus, Kazakhstan threatened that security. But is that actually what he wants? I'm wondering whether in this stalemate scenario that you're talking about, this war of attrition, whether he grinds back towards Kiev. It's really interesting because I've noticed that there are some foreign countries which are reopening their embassies in Kiev. So, I'm presuming that they believe that Kiev's no longer under threat in the short term.

Leon Panetta (14:01):

Well, that of course is the challenge. I have to go back to, as director of the CIA, the basic intelligence on Putin is that he's KGB, that's what his background is. That's where he comes from. I think having been in the intelligence arena for a long time, he's paranoid. He's very suspect of the United States. I think his principle goal is to undermine the United States, as well as other democracies. Add to that, he has this kind of Zionist approach to Russia, which is to regain lost territories and rebuild the empire of Russia, as it was. That's where Putin's coming from. I think he thought Ukraine, frankly would be part of that strategy that Putin was seeking. Look, I think the big problem here is that for a long time, Putin saw weakness on the part of the United States and our allies, for a lot of reasons. We were withdrawing from the world. We were saying, it's time to focus here. Trump approach of America first sent a terrible signal to our allies.

Leon Panetta (15:19):

So, he read weakness in that. So, that's why he invaded Crimea. That's why he went into Syria. That's why he went into Libya. That's why he conducted a very bold cyber attack against the United States, in terms of our election system. He never paid a price, never paid a price for any of that. So, he continued, I think, to view the United States and our allies, no matter what they said, as being substantially weaker than Russia, in terms of its ability to prevail. He found out he wasn't right. I mean, I think the good news is that the United States and our allies did exactly what they needed to do, which is to draw a line on Russia, and to make clear to Putin that he was going to pay a price and he is paying a price. So, where does that leave Putin? Putin knows that at this point, he's viewed as having not achieved the mission he was after. So, he's going to use Russian tactics that involve total destruction, wanton killing of innocence, to show that he's still in the game.

Leon Panetta (16:27):

The only thing that Putin understands is force. I think more than sanctions, more than what we're doing in reinforcing NATO. I think the issue is force. If the Ukraine can maintain the capability of pushing the Russians back, at a time when I think the Russian forces are depleted, they're in need of reinforcement. They're in need of being able to put more troops out there, even though they've sustained very heavy casualties. Their equipment is not what it was up to, in terms of being able to make the invasion a success. They're facing a lot of problems, and their command structure has problems, and so does logistics. So, if Ukraine can indeed start to push them back, then I think Putin has a very tough decision to make. Which is, does he face a total loss on the battlefield, or does he try to negotiate and at least gain some face in the end? But the only way to get Putin there, is through the use of effective force.

Arvid Streimann (17:32):

Yeah. It really goes back to that unity point you made before, given that a lot of these vectors of force are coming via Western countries, in particular NATO countries. I wanted to talk about NATO. As we're recording this, the Madrid summit has just closed, and NATO, it's communique after that summit named China, I think for the first time. It said that China is posing a challenge to the Alliance, to its interests, its security and values. Of course, we mentioned China earlier, a rising force. I think you're always going to get some sorts of tensions when there is a new rising power.

Arvid Streimann (18:06):

But when we are thinking about China, more precisely when you are thinking about China and your country, the US, how do you see that playing out? Because in some sense they need each other. There's a lot of cheap Chinese goods which come into America. Of course, I haven't met a consumer yet that likes high prices, so cheap stuff coming from China is obviously interesting to American consumers. But it's coming at a cost and we are starting to see some fractures in that relationship, or that trading relationship, maybe diplomatic relationship. How do you see that relationship between the US and China panning out over time?

Leon Panetta (18:40):

Well, I think it is important to draw a distinction between Russia and China. I mean, I think while Russia is clearly an adversary and run by a tyrant, and run by somebody who's willing to use force to get his way, and doesn't have a very strong economy, very frankly, and has really undermined the culture and economy of a country that could have been much stronger, in terms of dealing with the rest of the world. But it clearly does not represent that kind of Russia anymore. China, on the other hand, obviously is a strong economy, and we've developed relationships in terms of trade, as well as technology and other areas. I think the important thing in dealing with China is, in many ways, the same principle as

dealing with Russia. Which is if you're going to deal with Putin, you better do it from strength, not from weakness. I think that's true for China. If you're going to deal with Xi, you better do it from strength, not from weakness.

Leon Panetta (19:40):

If Xi reads weakness on the part of the United States and her allies in that part of the world, then he'll try to take advantage of it. That's what he's done very frankly. When the United States pulled out of the Trade Treaty, TTP, he then immediately went into those countries and tried to take advantage of that. So, he's looking for weak spots and he's looking to take advantage of it. So, it's very important that the United States has to have a strong Alliance in the Pacific. That the United States, Australia, South Korea, Japan, India, the Quad, the Asian countries, ought to come together in a strong Alliance. Similar to the way the United States and NATO came together. If they can come together in that kind of Alliance, and I'm talking both economic and security, then I think when approaching China, China will look at the United States and that Alliance, and realize that they really don't have a choice but to try to reach out, if they want to maintain their economy, if they want to maintain where their country is going in the future.

Leon Panetta (20:53):

Look, if there's one thing China cares about first and foremost, it is China. This is not a country that I think is looking for military domination of the world. I think they're concerned about China. So, if they are concerned about China and want to be able to negotiate approaches on trade and the economy and other issues that we're dealing with, climate change, et cetera, then I think there really can be a hopeful result to the dialogue with China. But it has to be from strength, and it has to be from a unity of allies. The one thing we always have the advantage over in both Russia and China is allies. These countries don't do well with allies, we do. So, to be able to pull those countries together in facing off with China, I think is extremely important to showing China that the better course for Xi, is not a full scale aggression or full scale attack on Taiwan or any place else, but dialogue. If we can get back to the table, then I think we can make some progress.

Arvid Streimann (22:06):

Yeah. It's interesting that you mentioned the Alliance network. I have looked in the past that the American alliances and written them down and then you write the same thing down for Russia and China. They're much shorter lists, which I think is your point there. But I think that from what you're saying in your earlier remarks, what really unified that Western Alliance in the case of the Russian invasion of Ukraine, was an actual invasion. Okay. It took the invasion for people to say, well, we actually now need to do something, but when you're talking about maintaining that Alliance against China, I'm not sure that China strikes me as prone to invasion as Russia is. So, how do you think about maintaining that Western Alliance in the, let's call it, the Asian Pacific or the Indo-Pacific I think is the terminology these days, when you have an adversary from America's perspective, that is probably less likely to invade a country and therefore trigger that Alliance strengthening?

Leon Panetta (22:58):

Yeah. I go back to conversations that I had with President Xi, when I was Secretary of Defense. I remember meeting him in Beijing, and normally in those meetings, if you've ever been a part of it, both sides get their talking points out, read through their talking points, say what they're supposed to say, go through the interpreters. It's a long meeting. But it doesn't really accomplish a hell of a lot. With Xi, there were no talking points. He basically sat down and was very frank and direct with me, because we had just made the pivot to the Pacific in our defense policy.

Leon Panetta (23:37):

He raised concerns about that. He said, "What are you doing pivoting to the Pacific?" I told him, I said, "Look, we're a Pacific power, just like you're a Pacific power. We have interest in the Pacific, just like you have interest in the Pacific. Very frankly, there are areas where we could work together. Areas like dealing with North Korea and their problems, areas like dealing with trade, dealing with disaster assistance, dealing with other issues in that area. You're a Pacific power, we're a Pacific power. It would be much better if we were working together to do that." He reacted to that and said, "Basically, you're right. To a large extent, that would be a better path to peace and prosperity, than having a confrontation."

Leon Panetta (24:20):

So, I think that in the end, for Xi, he's much more pragmatic about what steps need to be taken to try to ensure that China has a strong economy, and moves forward in the future, because they're not going to lose focus on that. But I also think that it doesn't require a confrontation of some kind, or crisis, the way Russia did. I think the issue is, can you offer China the opportunity to be able to resolve some of these issues? Whether it's technology, whether it's space, whether it's cyber, whether it's other areas where we have... Areas where frankly, we do need to have that dialogue and figure out where we're going. At the same time, to have that dialogue, you've got to make very clear that China cannot advance their interest in the South China Sea, that they cannot show any kind of aggression towards Taiwan.

Leon Panetta (25:20):

That what happened in the Hong Kong is unacceptable, in terms of what happens in Taiwan. That in terms of their military, because they are developing their military, they're adding a new carrier. I think we've got to make clear that obviously you can develop your military, but let me make the point that the United States and our allies in the Pacific, are going to develop our security and our military as well. So, that he understands the lay of the land. If we can approach it from that angle, I really do think you could have a positive dialogue, but it has to be from strength, not from weakness.

Arvid Streimann (25:57):

Yeah. It's interesting. I appreciate the little vignette of your relationship with President Xi that you shared. Maybe it's hopeful with the relationship, given the soothing words that he said, he wasn't completely ideological when it comes to Chinese power projection. He was open to perhaps some more cooperative measures. You mentioned Taiwan there, and I think a lot of people are looking at what's happening with the Russian invasion of Ukraine, and naturally, and you can understand why, naturally drawing a line to Taiwan and saying, well, look. There's an invasion over there. So, therefore maybe there's going to be an invasion over there. I'm talking about Taiwan, of course. Now, how do you think that what's happening in Ukraine impacts the outlook for Taiwan? Do you think that perhaps it's made it more likely or less likely that there is a more than coercive action that takes place? How do you think the Taiwan is? I think that their military posture is not great for defense at the moment.

Leon Panetta (26:50):

I think that Xi, being the kind of pragmatist that I think he is, looked at what happened with Russia and in the Ukraine, and made a decision that he's not going to walk into that quick sand. He'll tiptoe around the graveyard. But I think he knows that Russia failed as a result of this invasion in Ukraine, and is suffering economically as a consequence. He does not want China to go through that. China's facing enough problems right now between COVID and the ability to develop their supply lines, and the ability to get their economy back in order. That's the last thing Xi wants, is to face a whole host of sanctions that could hurt China. I think he's also gotten the signal that while he obviously is going to continue to

say Taiwan is theirs, et cetera, et cetera, that he knows if in fact he crosses that line, that it is very possible, particularly considering the remarks made by President Biden, that he could face a military confrontation as a result.

Leon Panetta (28:00):

China does not like to do anything stupid. I don't think. So, I think Ukraine really has been helpful in opening up some opportunities for China that we should take advantage of. As long as Xi doesn't try to help Putin in any significant way, either militarily or economically, I think it creates an opportunity to try to reach out, and see whether or not there are not areas that can actually be negotiated, that can help not only China, but help the countries of the Pacific to be able to have a better economic relationship.

Arvid Streimann (28:39):

Yeah. It's interesting that you mentioned maybe President Xi's domestic calculus there. I don't have the military background that you do, but I'm pretty sure that as much as people like to win wars, losing wars is even worse. Okay. So, I think that that's really playing on his decision making. But you mentioned there the South Pacific, which of course stretches into this Indo-Pacific concept, and something that happened earlier this year piqued a lot of interest, I think on both sides of the Pacific. Well, let's just say on three sides of the Pacific, China, America, and Australia, which was the Chinese agreement that was signed with the Solomon Islands. So, I'd be interested in your view on what impacts that potentially has on Australia and also Australians.

Leon Panetta (29:22):

Yeah. It's pretty obvious China's strategy in trying to spread its influence, obviously the whole belt and road initiative, and the ability to go into these countries and develop their ports and develop infrastructure in those countries, and basically use that as a way to spread their influence in these countries. They've been much more aggressive diplomatically. They've been much more aggressive economically. I think that agreement that they worked out there as well, in your part of the world, is part of that strategy, to basically try to expand their influence. I don't see it as something we can't deal with in the West, and with the United States and Australia hopefully working together. What I think needs to be done is to develop a counterbalance to what China is doing. I really do think we need to reestablish the TTP. I think we need to build a strong trade relationship.

Leon Panetta (30:23):

I think we need to show... Because frankly I really believe the United States and the [inaudible 00:30:28] countries and Australia and the others, if we could work together I think we could provide a lot more to these countries that are looking for assistance than what China can provide. Because China's help always comes with a price. You always know that China's going to try to take advantage of these countries. They're going to try to get their people in. They're going to try to conduct spying. That's the way China operates. But that's not the way United States and our allies operate. So, I really do think that it makes sense for us in the Pacific, to try to develop a strategy for how we can work together, to try to make sure that the islands and other areas in the Pacific, know that if they really want to develop their economy, if they really want to develop their security, if they really want to develop their country, that they are much better off working with us than working with China.

Arvid Streimann (31:24):

Yeah. It's interesting. I think that most countries in the region are actually predisposed to that as well. I don't think they want to have to choose, and they certainly don't want to have to be forced to choose as well. But you mentioned the TPP trade agreement. I think that one of the reasons, and there are many and this is just

one of the reasons, for that failure for America to want to reenter that is domestic politics, because obviously there are winners and losers from trade relationships, and maybe there are some people in America who feel as though that they would lose from a trade relationship with the Asia Pacific. The point that I really want to ask you about here is something that I mentioned earlier, which is increasing levels of partisanship and disagreement on the domestic level.

Arvid Streimann (32:03):

We've talked about disagreement on the international level, but the domestic level. That's obviously impacting international relations I think. In many cases, I know in a lot of people, when they talk about China, they say well, China's foreign policy is just an extension of its domestic policy. Maybe you could say the same about a lot of other countries as well. So, I think that this domestic partisanship and this increase that we're seeing right now is really a powerful force for geopolitics. I'm really interested in your view secretary, on where you think that's going to go.

Leon Panetta (32:34):

That's an important issue that can tell us a lot about whether or not the United States can be a world leader or not, because in order to be a world leader, the United States has to show that it can govern its democracy at home, and that we can deal with issues here in this country. In many ways, we want to look at threats to our national security. The biggest threat to our national security is the dysfunction in Washington, and the partisanship and the polarization that often interfere with the ability of this country to be able to come together on the major issues that we have to deal with, that are confronting our country. Now, I really do think that the president, who's over 40 years in government, understands that in a democracy, and every democracy understands this, Australia's going through it as well, is that there are going to be challenges in a free society.

Leon Panetta (33:31):

There're going to be differences. But ultimately a democracy has to be able to govern, and deal with the major issues that we're confronting. That's true for the United States, whether it's inflation, whether it's dealing with mass shootings, whether it's dealing with infrastructure issues, whether it's dealing with security issues, whether it's dealing with issues regarding our budget and the debt. All of that has to be confronted. There are signs that in Washington, even though there continues to be polarization, even though there continues to be a lot of disruption as a result of what happened on January 6th. January 6th, make no mistake about it, it was very concerning because it raised the issue of the fragility of our democracy. That kind of attack could very well have undermined our democracy itself. But I really do sense that...

Leon Panetta (34:31):

I mean, you saw it happen on gun control in this country, which is an issue that nobody's wanted to touch for 30 years. That in the face of these mass shootings, they were able to come together and put a compromise together. You've seen it on infrastructure, that they were able to come together and compromise. You're seeing it on Ukraine, that despite the partisanship, the reality is that both Democrats and Republicans are supportive of the issue of the United States and NATO working together to support Ukraine. So, there are signs that people understand that it is important for the United States to be able to deal with those issues. Now, it's going to require leadership. Let's not kid anybody. I often tell students here at the Panetta Institute that in a democracy we govern either by leadership or by crisis. If leadership is there and willing to take the risk associated with leadership, and make no mistake about it. Whether you're in business or whether you're in the political world, if you're going to lead, you've got to take risks.

Leon Panetta (35:32):

If you're willing to take those risks, then I think we can contain crisis in the future. But if leadership is not there, then we'll govern by crisis. That's when our democracy really weakens itself, because the price you pay is you lose the trust of the American people in our system of governing. So, I remain hopeful that ultimately the right leadership will step forward, and that we will be able to continue this 200 year plus experiment in democracy, that really does depend on those who are willing to do the right thing.

Arvid Streimann (36:08):

It's great to hear you're hopeful around that. I really wanted to just finish this chat that we're having on an even more positive note. Maybe in your perspective, in the past couple of years, what has been the most unappreciated positive event which has occurred over that period? I'm looking through my notes here and you've given the vignette of President Xi of China, who's pragmatic and maybe not entirely idealistic and ideological. You've talked about the unity in the Western Alliance, and when it comes to what's happening in Ukraine. So, I'm interested in, what do you think over the past couple of years, has been a positive development or maybe the most positive development in your mind?

Leon Panetta (36:49):

In our system of governing, our forefathers knew they didn't want power to reside in any one branch of government, whether it was the presidency or the Congress or the courts. So, they developed this remarkable system of checks and balances. But the biggest check on our system is the people, and their ability to vote. I think that in the last election we had, presidential election, we had the largest turnout we've ever had of the American people turning out to vote. Obviously they voted for Biden, they voted for Trump, but they voted. The end result was that Biden won, and that they clearly wanted a different direction than what Trump had provided the country.

Leon Panetta (37:34):

I think that was a hopeful sign. I think ultimately I have to place my trust in the American people, that regardless of the politics, regardless of the loud mouths, regardless of the demagogues who often appear in politics, I think when you look at the country itself, whether it's a red state or whether it's a blue state, there are some common values that are represented. People care about having a good job. They care about raising their family. They care about educating their kids, providing healthcare for themselves and for their family. There are some fundamental values. They believe in the rule of law. I think that ultimately it's those values that show up at election time, and that's what... I view that election as having been a sign that in the end, the American people are willing to be the ultimate check in our democracy.

Arvid Streimann (38:27):

Well, those are great insights. I think that what you're talking about there, I'd say, could probably also apply to around the world. I think voters have also, and citizens I should say, have also expressed some outrage of what's happening in Russia. I think that's also led to some of that unity that you talked about before in the Western Alliance. Well, I think that was a great conversation. Thanks very much for your time. You've been very generous with your time, Secretary Panetta. I really enjoyed it, and I hope our listeners also enjoyed hearing your thoughts. There is a lot going on at the moment, and so to hear your perspective on things is, I think, very valuable,

Leon Panetta (39:00):

Well, thank you, Arvid. I really enjoyed the conversation. These are challenging issues and challenging times, but I still would like to believe that it's a pivotal moment. That means that in many ways, how we deal with these challenges will tell us a lot about the future.

Arvid Streimann (39:19):

I agree with you 100%. Thank you again, secretary.

Leon Panetta (39:22):

Thank you very much. Best of luck to you and to all of your listeners.

Host (39:26):

That was Leon Panetta, former US Secretary of Defense, CIA Director and White House Chief of Staff, speaking with Magellan Head of Macro, Arvid Streimann. We trust you've enjoyed this episode of Magellan, In The Know. Join us in a month's time for the next episode. For more information on upcoming episodes, visit magellangroup.com.au/podcast, where you can also sign up to receive our regular investment insights program. Thanks for listening.

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