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### **QI Panel:**

#### How Badly Could the War Against Iran Hurt the Global South?

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#### **Sarang Shidore**

Hello and welcome to this Quincy Institute webinar on the impact of the Gulf War on the global south. My name is Sarang Shidore. I'm the director of the Global South program here at the Quincy Institute. We are a trans partisan foreign policy think tank based in Washington, DC, promoting ideas that move the United States away from military interventionism and toward more diplomacy and economic engagement in the spirit of realist restraint, the global south program at the Quincy Institute aims to achieve a new bargain between the United States and this meta region stretching from Mexico City to Manila. The program recognizes the global South's instinct for multi alignment and aims to build mutually productive relations in the US national interest.

The recent joint US and Israeli attacks on Iran have had dramatic consequences for the countries of the global south. The immediate impact has come through the interruption of oil and natural gas flows through the Strait of Hormuz, a dramatic spike in energy prices and an even more alarming threat to the world's supply of fertilizers and other goods. The trajectory of both the war and diplomacy surrounding it remain highly uncertain, but these events also raise longer term questions for the global south about geo economic spillovers as a White House continues to continue its move fast and break things, approach to foreign policy.

To take a deep dive into all this today, we have a great panel assembled, and I'm going to start by introducing the panelists and starting with Karthik Sankaran, who is part of Quincy Institute, a senior research fellow in geoeconomics in the global south program, he was originally trained as a historian. He had a long career in finance after that, beginning in 1997 very focused on foreign exchange and fixed income in emerging markets. He then worked for the Eurasia group as Director of Global Strategy. I then have Rachel Ziemba, who is an adjunct senior fellow at the Center for the New American Security She also serves as a strategic advisor at alpha z advisors, and is founder of Ziemba insights, a macroeconomic research firm. She previously served as head of emerging and frontier markets and CO Head of Research at Ruby global economics. Her research focuses on the interlinkages between economics, finance and security issues. Finally, Greg Priddy is senior fellow for the Middle East at the Center for the national interest. He also consults for corporate and financial clients on political risk in the region and global energy markets. Previously, Greg Priddy was director global oil at the Eurasia group, with a heavy emphasis on the Persian Gulf. Greg has also led major projects at Eurasia for clients, including the National Intelligence Council.

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So welcome to all of you and looking forward to this, what will be a very rich discussion today. I'm going to start with you, Greg. There's a lot happening right now. The news is literally changing by the hour or the day. It's not easy to keep track of everything, so I want you to first set the stage for us focusing on the energy part of the story, because energy really is the big enchilada, that everything starts from there, in a way. But let's first try to understand the map here. How much oil does the world consume in total? How much of that is consumed by developing countries or the global South, and how much of the total consumption by the global south is actually coming or used to come through the state of Hormuz.

### **Greg Priddy 4:43**

So I can, I can answer all but one of those. I'll give you a partial answer for the other one. You know, in the data from the IEA, we've got total global consumption for last year is 103 point 8 million barrels. So 1 million barrels a day is approximately. To 1% of the global total the developed world, the OECD is 45 point 6 million barrels a day, and non OECD is 58 point 2 million barrels a day. But if we take if we take China out of non OECD, to get the global South, that is 41 point 5 million barrels a day. So a little bit above 40% is the Global South. Now, as far as how much comes through the Strait of Hormuz, that is about 20 million barrels a day, pre crisis. Now, there are some workarounds that I can get into later, but there's an ability to move about 5 million of that out of the out of the Gulf, through or out of the Arabian Peninsula, through parts in the Red Sea and the Arabian Sea. So the sustained disruption is, I'd say, 15 plus. That's what the world is going to lose over time, assuming that those workarounds keep working.

The Okay, the there's not, I don't have trade data that breaks out global south from the trade flows. It's not part of what the IEA publishes. But I would think that the their share of Hormuz is probably a little bit higher than the the world share probably a little bit higher than 20% because most of the most of the global south economy is Asia, also some Africa, but Asia is really where the center of gravity is. And with more crude coming from Atlantic basin suppliers in recent years, Europe is not getting nearly as much Gulf crude as they used to. So a lot of that is going into Asia, ex China. So probably a bit over 41% for the globe, the global or, sorry, probably a little bit over 20% coming through the Strait for the Global South, yeah.

### **Sarang Shidore 6:55**

So 15 million barrels per day is just about 15% because your total is 103 per year. So this is, this is a substantial loss of supply for the world, and a very substantial loss of supply for Asia, especially the developing Asia part of the equation. Of course, we know that oil is a global commodity, so it's, it's fungible to a degree, to a large degree. But now you know, we are seeing, in the last day or two, new developments in this whole crisis, this war. We saw just an attack on Iran's South Pass facilities. It's a massive field which is shared with Qatar and as a response, the massive Qatari complex, natural gas complex. Ras lafan also got hit and suffered major damage. So now this has raised the fears of an unrestrained energy war that could end up severely damaging the Gulf's energy industrial base, it seems to me. So what sort of worst case and best case scenarios are we looking at, you know, playing this ahead? So we are. We are in

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a crisis now, but if this, this war, goes ahead in a sort of a worst case fashion, that what are we talking about here? What is the time scale of disruption? What is the kind of magnitude of disruption?

### **Greg Priddy 8:19**

So we have kind of two layers of disruption going on here. Just to think about it conceptually, there's the disruption that's a result of the straight not just not being able to ship things out. And then there is another disruption on top of that, which is destruction of infrastructure, which is not going to come on immediately when hostilities cease. So part of the reason that the market hasn't priced this into a greater degree is the assumption, a lot of people still think this is going to be over in a couple of weeks, because the economic impacts are obviously so bad that it can't keep going, which is, you know why we're not much higher price right now on the market. But you know that's, that's the assumption that Hormuz comes back on. That's not assuming infrastructure damage. And the infrastructure damage, a lot of that is items which are long lead time. One example is the pearl Gas to Liquids facility, where they take natural gas and make it into diesel. That's a shell facility in Qatar, the specific component of that that was destroyed.

And these are, these are very accurate missiles, so they can target part specific parts of the facility. But you have to get that for a manufacturer that's going to take three or four years to custom make it for you. And a lot of these, there's also not that many fabrication yards that build these sort of, you know, precision made huge components that are built to custom specs. So this isn't something that you just order out of a catalog. So what we get, we get that from that is, you know, kind of a worst case would be that you've got this conflict dragging on for several months or longer, and. And the you know, also damage to infrastructure, and you would end up with the world the world economy would have to adjust to doing with 15% less. And there is no way that GDP is going to stay flat. It would certainly cut out some discretionary driving and get some efficiency gains through the economy very quickly, but the world economy would have to shrink and that so that would prices would go to a level that would trigger a recession that would do that. But in the worst case scenario, we also we're starting to see all this infrastructure damage, where they're kind of going scorched earth and destroying things that take a long time to fix. You know, just in the last 24 hours, I've also heard about missile attacks on Iraqi facilities.

There's a lot of things where they're just doing lasting damage, and that lasting damage could keep some of that offline, even after the strait reopens, even after some sort of ceasefire agreement. And those longer duration, you know, of course, that would keep the market from refilling inventories back to normal levels, which would keep prices above normal levels. So the worst case is, is quite bad. The best case at this point, of course, is that it gets resolved pretty quickly. You only have a little bit of lasting damage. And in that case, the market would be pricing it about right, but that's a couple of weeks, and I think we're the market is kind of starting to let go of that optimism.

### **Sarang Shidore 11:29**

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Now, yeah, you said something important, that the market is perhaps not pricing it right right now, given that worse case assumptions may be more realistic. So we are still not seeing, even at this moment, the probably the full pricing in of the risk in the oil price. Is that right?

### **Greg Priddy 11:50**

But, yeah, prices would have to go to a level that would bring demand down sharply, and we're nowhere near the price levels that would, that would do that. You know, when we back in 2008 when we were looking at peak oil fears, and the market was we had Asian demand surging at the time, and we didn't have enough supply coming on, and that was the highest crude had ever been to at the time, which was \$147 a barrel. But in, in today's dollars, that's 217 so you can think of like low two hundreds as the price level, where you start running into a wall with demand and preventing it from growing back. But this is, this is shrinking demand, not preventing growing demand, which is a much taller order. So I think it would probably be well above that level. So modeling that is impossible, because we really don't have any previous episode that's been this order of magnitude.

### **Sarang Shidore 12:51**

Yeah, and growing demand is a characteristic, a hallmark, of developing countries of the global South, because they are the ones that are growing faster, typically, than the wealthier countries, and they are guzzling more oil, even if they as they're building alternative energy. Thanks for that, Greg, that sets the stage for us, and we're going to start trying to go a bit deeper and wider into this as much as we can. Rachel, turning to you, energy, obviously, is in the headlines. The oil price is always, every day, on the front page. But there are other commodities here. Aren't there exports, of which come from the region, very vital ones. So what sorts of other commodities are we looking at? And what sort of a hit Do you think Hormuz shutting down or the infrastructure being blown up? Let's say, if that happens, what sort of damage does it? Does it do to that?

### **Rachel Ziemba 13:46**

Yeah, so you're perfect. You're correct. Sarong, the biggest one I'm watching is fertilizer. The Gulf was an important producer of fertilizer. I mean, still is, though it's trying to find pathways to market. Saudi Arabia is the number two producer of phosphates, or neck and neck, and wanting to get larger, Qatar produces a lot of urea, so you have nitrogen based fertilizer precursors. Across the board, you're also seeing a real hit to sulfur availability, sulfur converted into sulfuric acid, is used across the board in both processing those same phosphates I just mentioned, for fertilizer, but also copper and many metal separation and processing. So that could have implications, not only adding to the food security concern from the fertilizer side, but also could lead to shortages and delays in the processing of minerals and some of the African projects and of course, maybe a little less relevant to some of our themes today, but could have real implications. Applications of attempts to scale back up and rebuild military stockpiles, and the like another one I'm watching is helium. Helium used a major input in semiconductor

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manufacturing. We were already seeing rise in the cost of memory chips, as big tech companies were sort of hoarding and buying up as many as they could, probably helps that the US doesn't put tariffs on them.

And so just in this environment where you have a number of sort of global North actors bidding up some of the prices. This could have implications for some of the AI and technology development ambitions in the you know, in the Global South, aluminum is another one. I'm watching the Gulf countries using their cheap, reliable power, we're sort of moving into aluminum, becoming an important buyer, but also swing, a swing provider of aluminum into the global markets, relevant for Asia and the like. So those are only the direct ones, and then there's all of the feed through ripples from the energy dynamics that Greg was just referencing.

### **Sarang Shidore 16:25**

Yeah, there's a that's a massive spread, massive basket of things. Some of these things actually are made in the Gulf, aren't they? Like urea. They actually are manufactured in the Gulf through industries that are adjacent to the oil and gas extraction. Yes, and then shipped out. It's important to understand that it's not just the oil and gas that's coming out of the Gulf, but it's also these very vital goods, essential for the whole world, really, but particularly for the Global South. Fertilizers being one. We're going to come back to the food aspect of this very, very important. But turning to you, Karthik, the Gulf region exports, not just commodities, oil, gas, all of the things Rachel mentioned, but also other kinds of goods beyond commodities. Can you sort of spell out for us what these may be and what sorts of disruptions we are seeing among them?

### **Karthik Sankaran 17:19**

Sure, thanks Karthik. And thanks, Rachel Rick for being here. Just before I get there, one quick point I wanted to make because of something that Greg said, you know about looking at 2008 oil prices in in current dollar terms, we get it something like 215 and I started thinking about that wearing my old hat as kind of an FX fixed income guy back in 2008 and I think one big difference now versus 2008 is back then, the US was the world's largest importer, and you had a weak dollar going into the 2008 crisis. Now, you have obviously had the shale revolution, and the dollar has actually rallied because of the terms of trade effects, the perceived benefit to the United States, at least, versus other countries. So what you have now is a combination of a strong dollar and high oil prices. And I think a strong dollar traditionally tends to be tightened financial conditions make financial conditions more difficult for the global south.

So I would not be, I would start being concerned, you know, close to here, in fact, just because the dollar is behaving differently than how it did in 2008 in terms of the financial spillovers. But that was just an aside, you know, based on my experience. But also going to the question of what else we get from the Gulf that are not commodities. I think, you know, a big one is remittances, right? Because you have a massive pool of foreign labor that is present in the Gulf and sends money back. The latest numbers I've seen around the order of one \$40 billion is still flowing out every year. Now, India is the single largest beneficiary. India. India gets about \$50

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billion which is important. But in the context of the overall Indian economy is and particularly India reserve cover, which is over \$700 billion right now, it's important. It has very significant micro impacts on families, on the recipients of remittances, but I would say that the macro impact is somewhat low, is somewhat lower than it might have been.

There are other places in the global south that seem to be much more potentially vulnerable to interruptions and remittance flows elsewhere in South Asia. Nepal gets, you know, Nepal gets, I think about numbers close to, close to 10% from the Gulf alone. Pakistan is another big one. Gets a lot of remittances from the Gulf, and those come in. You know, Pakistan has 21 billion. Dollars of reserve cover, and that is pretty much what they get from the Gulf every year. So there's a very significant balance of payments effect overall that comes in through multiple channels. It comes in through higher oil import prices, but it also comes in through the remittance channel. So that's one kind of non, non commodity good, the Gulf exports, so to speak. The other one is, it's been an enormous source of global savings. You know, you have these massive sovereign wealth funds that have been pumping money out into, you know, all over the world have been making extravagant promises, quite extravagant in the case of the United States, for instance.

Now, as we go into a situation where you have higher oil prices, but it's combined with potential supply constraints, potential, particularly on supply constraints coming from the Gulf and on massive reconstruction needs. You know, I'd start wondering how much of that, I would not be surprised to see a significant reduction in those flows overall. There may also be a fair amount of geopolitical rethinking about where those investment funds go, you know, so there are some countries that might need to be immediate recipients of assistance. So I can think of Pakistan as one case. For instance, you know, oil importer, large remittances. You get both those you get. You get a significant impact on both of those. What does that mean for a strategic country that recently entered a pact and is the only possessor of nuclear weapons in the entire Muslim world? You know, maybe they have a preferred claim to to assistance under these circumstances. But there are other countries that are also in this in this boat, in the immediate region where you have a combination of of oil prices, the potential impact on tourism revenues, the potential impact on remittances, where there are bad impacts, and potentially have another claim on resources. I can think of Jordan and Egypt in that category, for instance. You know.

So where will this money go? What is the status of the US, GCC relationship? After this? Are we going to see those trillions of promise dollars coming in all of these things? You know, I would be, I would be, I would be wondering about the third thing that the Gulf has provided, I think, and this is particularly true in the context of the Indian subcontinent is, it's an offshore financial hub. It's connectivity. It's connectivity. I know a number of people, you know, we have this kind of Indian finance chat, and a number of people are going to Dubai because the jobs are good, the pay is great, and you're a four hour flight from your family, as opposed to, you know, or even less, so I'd wonder about the about the future of debt, because the larger, I think there are larger geopolitical questions that arise over some policies that we have seen, you know, unfurled over the last three or four years, not just in administration. I mean, I've joked that some an acronym is not a substitute for a policy. I'm thinking of the Indian Middle East corridor. For instance. I've

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been, you know, I've had questions about that, but, you know, not sure how far it would go. But I would think you have to ask even more about those kinds of things. Paxil, like, you know, IMEC, those investment flows from this large reservoir of savings in the Gulf, I think the savings are going to shrink. They may be spent elsewhere, and they will have to be spent at home.

### **Sarang Shidore 23:33**

Yeah, the IMEC thing anyway, was a bit of a tall order in my view, to start with and now this might actually formally kill it, depending on where this, where this war goes. So important, important point connecting the South Asian region with Middle East. You said something interesting, Kartik, I want to get some more on it. You started by saying we are in a strong dollar regime. Of course, the talk has been all year last year of how the dollar is weakening that President Trump desires a weaker dollar. So what you're saying really the dollar has weakened. What about eight or 10% since President Trump took office, if I recall correctly, but it's still a lot stronger than 2008.

### **Karthik Sankaran 24:18**

Oh, absolutely. We were close to 116 Euro dollar, which is the one, which is the one I watch, you know, the way, you know, the way I've been thinking about this is, you get a lot of talk about, you know, oh, this is the dollar is proving itself a safe haven, and so on. And I think it makes sense to kind of disaggregate the different kinds of shocks that the global economy has gone through over the course of the last 15 months. So, you know, what you saw was the expectation that when Trump took office, you would get a strong dollar, which lasted for, you know, basically from from the election until early until early on. Mid February, where I think, you know the key, you know, everyone talks about how the tariffs' Liberation Day weekend, the dollar, I would place the dollar weakening a bit earlier, and that starts in last February and early March, when you have banned speaking to Munich telling the Europeans are on their own. The Germans rely decide that they're going to lift the debt, break spend a trillion dollars.

And so you start seeing a reaction in a in in the form of dollar weakness, starting in early March, when that German fiscal expansion happens. So the shock in a that is one kind of shock, which I would refer to as the shock come that comes from the US pulling back on providing global public goods, and the rest of the world has to step in, which then means fiscal expansion elsewhere. And that's one of the things that happened. I think what you're seeing now is a very different shock. This shock looks a lot more like the shock we saw in February 2022 when you already had the US, the shale revolution had already happened. You'd have this massive expansion in us, in shale production, and compared to other developed countries, in particular, whether, whether, whether the EU or or, and especially East Asia, you know, you think about Japan, think about South Korea, had this very negative terms of trade shock, a massive increase in the cost of imports that affected those parts of the world that did not affect the United States anywhere near as much.

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And so I think that's why you've seen the strengthening in the dollar, you know, from the point of view of someone who's to do ethics strategy. Now, there's a misconception you see occasionally, and I've seen it come from the administration, that this means it's good for America. It's not good for America, because the dollar might be strong, but America has maybe, you know, 800,000 people working in the oil patch. It has three, 20 million people buying gasoline. You know the numbers.

### **Sarang Shidore 27:02**

The gas price effect on the US certainly is one of the big issues here politically. Viewers, I want to ask you to drop your questions if you haven't already on the chat, because we're going to take audience questions very soon. So if you have thoughts or questions, please drop them on the on the chat, on Zoom. But Karthik, just staying with you just for another minute more, you sort of already covered this partially. But step back a little bit and think of the global south stretching from Latin America through Africa, South Asia, Southeast Asia, even the Middle East. And which, which of these regions are you most concerned about? It sounds like, certainly, South Asia is one of them, any other?

### **Karthik Sankaran 27:43**

Absolutely, you know, South Asia, I'd say, I say South Asia is the big one, because it gets hit by everything economics and geopolitics, and particularly the weaker sovereign South Asia. I would put parts of East Africa in the same bucket, because they're subject to many of the same geopolitical pressures, and are also oil importers some of this is also true in Southeast Asia. I think of the of the Philippines, the Philippines and Thailand. For in Thailand, for instance, there's also a broader shock to the whole Asian development model. Basically import oil, combine it with relatively cheap unit, unit labor costs and high state capacity, high logistics capacity. That's been the process of insertion of Asia and the global economy, and now you have questions being raised about that. On the flip side to that, I would argue, you know, and you're seeing this in the market already, is, is South America in particular, which is a commodity ex, which is largely a commodity exporting region, with Chile being the exception. Chile has suffered a little bit. But you know, markets in Colombia, in Brazil, in in Argentina, to some degree, are all reacting the same way the you know, seeing them as within the emerging markets universe or global south universe, as relatively better off than other portions of the global south under these circumstances. The question here is, what the impact of higher fertilizer prices is on the big ag exporters, in particular Argentina, Argentina and Brazil, though, the social impacts of high so high social of high fertilizer prices will be felt predominantly in places with lots of small holder agriculture, which, again, is a huge issue for South Asia.

### **Sarang Shidore 29:27**

I have a question here from the from the viewers, from Wilfred mabena, who I think, I think Greg, you might want to take that on, or anyone else can add thoughts as well. But what alternative routes are there from the Gulf for vessels to move products. I'm thinking not just

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vessels here, but also pipelines and such. Are there ways in which this oil can start, oil and gas, perhaps even can start moving out of the Gulf, not through the seaborne route, or maybe there's alternative route on water. But using pipelines or other other other forms of transport.

### **Greg Priddy 30:04**

Greg, so there are, there are a handful of them. Saudi Arabia has a pipeline, the East West pipeline, that goes across from their main oil producing region in the east over to the port of Yanbu and refining complex over there. That's that's over near Jeddah on the Red Sea, that they've supposedly upgraded the capacity on that to 7 million barrels a day. However, the tanker loading facility there is capped at five at most. I've heard a few people put it slightly lower than that. So they are diverting there, and they are starting to load a decent number of tankers there, and that is having a meaningful offsetting impact. The other one is the Emiratis have a pipeline that goes to Fujira, which is outside the strait, but close by the strait on the Arabian Gulf. I'm not sure how viable Fujira is going to be, though, because they can shift some volume there. But ships are also getting attacked at the port of Versailles, so it's near enough that Iran can throw things at it, drones and such, and they have been. But putting both of those together, you've got 5 million barrels a day, let's say total. Iraq used to have a pipeline called the strategic pipeline that linked the Basra area up to the pipeline to Jhan from the north, but that was destroyed during the US invasion, and it's not something that could be made functional anytime soon.

### **Sarang Shidore 31:36**

Yeah. That's the answer is quite limited. So, Rachel, I want want you to, if you could for us take a deeper dive. Karthik painted us a set of regions here that all have challenges in some form or the other. But it seems to me, next to developing Asia is Africa that's on the radar of the hits from all this. So can you take a little bit of a deeper dive in Africa and tell us what this could do to Africa's future?

### **Rachel Ziemba 32:07**

Yeah, so, I mean, I think Karthik highlighted that, you know, a theme that I've been pointing to, which is that I really, really don't see many winners, but I do see some places that are more resilient. The financial flows quite an issue. And I'm particularly watching what happens to especially some of the Emirati investments across Africa, which have been quite extensive, both in driving the build out of renewables. Some of the other Gulf countries have done this as well, but also AI heavy investment in critical minerals and the like. Some of that will persist. A trend, I think in Africa, common to some of the big Latin American producers is that you have some divides between the energy producers and the energy consumers. So just as like with a country like Brazil, you have the big hit, you have a financial hit, and you have a fertilizer hit, but they're selling their oil for a higher price than they were a few months, you know, a few few weeks ago.

And the like, I think you see a bit of a story, of a mixed story, in places like Nigeria and Angola, right, where the revenues coming in are higher. But in contrast to Latin America, some of the

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political challenges that domestic cost of fuel are also going up are a concern. We've seen, for example, in the Kenyan government bring in both Naira, some Naira flexibility, and hiking domestic fuel prices to bring them up to global levels some years ago. That had a lot of political cost to it, even though it was very much the right economic thing to do. So I do look at some of those energy producer populist nations as at least benefiting a bit on the revenue side, which may provide a little more space to offset others. Some of the large importing nations, especially those who were importing both fuel and fertilizer, some of the East African countries, for example, are ones that I'm, you know, concerned, concerned about. Some of the mining countries have been benefiting from some of the gold revenues.

So again, places like South Africa for which this is definitely not a good outcome, at least have a little more flexibility in that way. Now, one thing when I was preparing for this conversation, I was I've been thinking about, is, what are there? Are there new sources of resilience we can point to, not to sort of think about just good news, but one piece of relatively better news, in a way for me, has been that 2025 was a year where there was a lot of solar power installed across Africa. This is partly a function, just that economically, that. Cost of these installations are coming down very dramatically. Even battery storage systems have been coming down in cost. And in a way, some of these countries, like some in South Asia, that were being priced out of additional LNG purchases, you know, we have seen this move to more local power, so it's not a full on silver lining, but it is some element where it could be, could be worse.

Now in the short term, I this is an environment where we have this dollar story, we have these sort of dynamics, and this in the spreads and challenges for some long term financing. But in general, I think across Africa, we have seen a number of countries go through complex debt restructuring. We have seen, you know, a little more policy space. So I, you know, I don't think you never want to go into a crisis like this, but I do think this is a dynamic. We'll be watching across emerging and frontier markets to see whether they can use some of the tools in the toolkit. And so it's the larger economies with more developed toolkits that probably have more flexibility to manage this.

### **Sarang Shidore 36:14**

Yeah, you mentioned Nigeria, a very important economy, one of the largest, largest country in Africa in terms of population, Nigeria is an interesting case, lots of crude but very low refining capacities. They have a Dangote refinery now built and online, but I don't think it's nearly mostly exports. Yeah, mostly exports. So that's another part. So this sort of thing where, well, oil prices are high and they're going to benefit oil exporters, doesn't necessarily work quite that way, because these, some of these countries, like Nigeria, exporting crude, but importing refined products. Is that right?

### **Rachel Ziemba 36:50**

That is right. I mean, Nigeria, both via the Dangote refinery and other measures, has gotten a little less bad. But when I look back, you know Greg referent and Kartik both mentioned 2008 as

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the corollary. One of the things when I marked sort of more resilient or less resilient oil producers and just EMS more generally, the countries that exported crude and imported products don't score so well. And to Greg's point earlier in your conversation about markets mispricing, this arguably, which is something I agree with, especially at the global benchmark level. It's really been at the product level, jet fuel in particular, but also diesel and other oil products, where we've seen some of the real pain points. These were products that were already in short supply. And to your point about Dan gotte, the question is, how much does it benefit the federal budget to provide offsets, versus how much is this a private company ability in this way? So it's a good thing for those in the Atlantic basin that Dan gotte has been at least partly ramped up.

But the other issue is that they have really struggled to ramp up all the way even on that refining side. And that, I think, illustrates an interesting point, which is, where are the refineries across the world? We have definitely seen more refinery opening, shall we say, across the global South, more in Asia and the Middle East. The Middle East ones, of course, they're trapped right now, but this is where I'm really watching whether the places that have a lot of refinery capacity are they, for example, banning export, you know, sort of exports of refined products to keep them at home. We've seen China do that same thing with with fertilizer. And that can have some downstream effects throughout the throughout the global south. So I think on net, this is an environment where it definitely makes the short term the short term environment generally more more difficult. There's also just a general risk where some long term projects, you know, face, you know face, some chill and from an energy or from an oil and gas perspective, I think the the mixed messaging, maybe from the White House, has also complicated things, because an energy producer can't look and say, Okay, well, maybe I feel confident that the price is going to be 80 or \$90 a barrel, or maybe even 70 or 80 down the line. Is this going to be a shorter term? You know, risk. Now, to Greg's point, the kind of damage we're seeing, the kind of lingering effects suggest to me, this is definitely not a you know ceasefire comes tomorrow and it ramps back up in a couple of months. The scenarios are probably more serious, but there's a lot of you. Medium term, you know, sort of planning and and I think it's going to be, it's a very challenging time to be doing economic forecasting, so I'll definitely be watching for how entities like, you know, the multilateral institutions grapple with this as we head into the spring meetings next month.

### **Sarang Shidore 40:18**

Yeah, indeed. I mean, the IAEA has announced some releases, but I don't think they're going to really be enough to stem this and stem this crisis. And better than with no releases. Yeah, we have to take all the good, good news we can get here. But, but Karthik, I want to, I want to come back to you on on your, your points, on India, Pakistan has have come up quite a bit in what you were telling us. Indeed, across all of our panelists today, South Asia is the largest component of the Global South. In terms of population, we are talking about 1.8 billion people living in South Asia, 1.5 billion in Africa. These are the two big components of the Global South, also, of course, Southeast Asia, Latin America and the Middle East. But just staying with South South Asia for a moment, you laid out some of the challenges to India, Pakistan, also Bangladesh. Are

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there any ways in which these countries can take measures to mitigate this challenge to spread out the pain, to ensure that this is not a spike of a shock that can really hit stability hard in some of these countries.

### **Karthik Sankaran 41:30**

I think, I think they can. And the key issue here is going to be, is going to be fiscal space, right? I mean, how much, how much room you have to cushion, to cushion the broader economy. And there are two, you know, as with this, you know, as with this LPG story, for instance, right, like petroleum, petroleum gas, cooking cooking gas in India, you have, you can have supply shocks that raise the price dramatically. And the question is, what is the capacity of the government to provide a subsidy or some other measure to to offset that? And there, you know, in in a number of respects, India looks somewhat, somewhat, somewhat, somewhat better off because it has a, you know, that, as I mentioned, you know, you have very you have you have ample you have ample reserve cover. You have a government that taxes and spends and taxes and spends reasonably well. The question, you know, the question is, so you can, you can offset.

The question is, for how long you can do that, and exactly what you are subsidizing? Are you subsidizing the things that are the greatest essentials, such as cooking gas, or are you casting out a broad net for for of subsidies, for things that might not be as crucial? And one of the points that I've seen, you know that I've seen made more generally is that the more that the developed world resorts to cushioning price spikes through subsidies, the less you Get demand reduction in the developed world, which means shortages will show up in the form of absolute scarcity in the developing world, because you're not allowing prices to do the rationing if you step in as you know, as they said in I believe it's the UK that amounts a cap. So the more the countries with more fiscal space cushion the impact on their populations, you don't get an equal reduction of global demand everywhere you get it in the places that are the least able to afford it, in a sense, or potentially The with potentially the biggest with potentially the biggest consequences. You know, in many instances, one good thing was, like 10 years ago in the shale shock happened. You had many countries in South Asia and Southeast Asia use the opportunity of lower oil prices to cut back on fiscal subsidies for for for petroleum. Maybe you could reimpose that for for a short time, but again, I would be careful about, think about how to target those subsidies so that they affect the most needy versus the loudest and most influential.

### **Sarang Shidore 44:35**

Yeah, yeah. I think the distributional effects of this crisis is a whole topic, and we could do an entire hour on it, because, of course, the pain is not going to be felt by all. Equally, it never does in our world. And South Asia certainly is a case where that is a serious risk. Greg, I want you to, if you could, for us, look at the Middle East. Because, of course, the Middle East is. In the Gulf, as well as other countries there not all, but many are seen. Typically, we see them as flush with cash, oil rich, they have a lot of resources, deep pockets, and they can weather almost anything. Is that really true? I mean, if we get this crisis going to really bad levels, or even when

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it is kind of now, but extends for months. Are we going to see some Middle Eastern countries, including some oil rich countries, suffering consequences, being vulnerable?

### **Greg Priddy 45:34**

So I think there's going to be a very wide range of outcomes there. You know, at the high end financially, you've got Qatar and the Emirates, which are having a loss of revenue, but have enormous assets and can fall back on that and won't have too many problems. Even if it's dragged on for a year or two, they would get through it without too much of a problem. Saudi Arabia has the benefit of having that pipeline that's allowing them to sell some of their volume out through the Red Sea, and, of course, at higher prices. So that's going to mitigate it, a lot of a lot for them. The Emirates bypass is a little bit iffy, or just get due to where it's located. But you know, thinking about the ones that stand out as obvious problems, Iraq, Iraq is getting a tax on their infrastructure, apparently.

But also, you know, they just have almost no reserves they need to pay state sector salaries. That's that's going to be, they're going to be unable to do the basic functions of a state very, very quickly, without additional cash, and really nothing else to, you know, nothing to fall back on the other one that comes to mind, and I was just reading about this last night, is Egypt. You know, Egypt has, it's an important country regionally, but it's always been very much on the edge financially and getting bailed out by some of its richer neighbors. And Egypt's import bill for LNG, because they have a gas deficit, and buy LNG to plug, that is going to go from about 500 million a month to 1.5 billion a month. So Egypt is literally losing, you know, a billion dollars a month on losing that cutter, on Kelley, LNG coming out, and LNG prices going up, and that's going to be a catastrophe, unless somebody bails them out.

### **Sarang Shidore 47:26**

Yeah, yeah. The Middle East is not necessarily apart from the war. Obviously, the effects of the war the Middle East is not necessarily economically resilient across the board. Here, they could be very vulnerable parts of them, it's clear beyond Iran. Now let's get to a space beyond the global South, but that impacts the global south quite significantly. It one is Russia. Greg, staying with you. We have had a lifting of sanctions on Russian oil by the US administration. I think there's been a 30 day waiver granted. Do you expect to see this waiver extended? A and B? The relevance to the global south is, of course, that many developing countries, India, key one, have been buying lots of Russian oil. India has been reducing it, but now it's back on the market, looking for more than other countries have expressed interest as well in getting that Russian oil. So are we going to see more Russian economic ties? If this again, this war lasts for a long time. The effects last for a long time with some of these developing countries.

### **Greg Priddy 48:36**

Well, I think you know, the climb this was obviously a huge climb down for the US, because this isn't something we wanted to do. And they're kind of, they're justifying it based on, well, this was

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just selling off Russian cargoes that were already out there in the water, because I've had some that's backed up in that manner. But if this drags on another month, and they get to the point where they have the policy question of renewing or not renewing it, it's going to be hard not to renew it, and it would be extremely hard, because you'd be adding another couple million barrels a day to a 15 million barrel a day disruption volume. Now the market and the administration are assuming that that's not going to be the case, but if this worst case scenario drags on, yeah, I think they would probably end up having to waive that because it would make the economic damage a lot worse than something which is already a catastrophe.

### **Sarang Shidore 49:26**

Rachel?

### **Rachel Ziemba 49:30**

If I may I come in, I think that decision point might come even earlier. I mean, I agree with Greg's point, but we've already seen a first waiver for what was loaded on the vessels. Was in March 5, and then another one as of March 12. And that one did broaden it, so maybe we won't see it immediately. The first one was India specific, and the second one was sort of open, open season, maybe to everybody but the countries that have formal bands. But we might. I mean, I think the lesson that Russia is probably taking away from this is a an environment of, well, why not load some more on tankers then, then tanker costs might, you know, might go up. And if anything, it's been notable how relatively expensive Urals has become, with a little bit of a times, a bit of a premium to Brent in the last, in the last couple of weeks, which I think both reflects what type of blend of oil it is, but also reflects a little bit this, this scramble that's going on. So, you know, it's hard to determine in that manner, but it's and I wouldn't be surprised to see links on on the fertilizer side, though, Russia is prioritizing its own farmers first, so that may limit additional capacity on the fertilizer side. Thanks for letting me jump in.

### **Sarang Shidore 50:56**

Yeah, no, no, that's great. That is a fantastic comment there. I think the Chinese also restricting some fertilizer exports was I read phosphates and others that that can, that can clear the pitch here for those who are growing food. But Rachel, just staying with you there, you said something very interesting earlier about how this can, this can trigger better, faster transition to green energy. Is that sort of generally true that, yeah, the crisis is terrible. We all, we all see the terrible effects of it. But in general, every country, or almost every country, is going to say, You know what, we're going to go big on green. Let's do it, and we're going to get a faster transition to this sort of low GHG emissions kind of a world?

### **Rachel Ziemba 51:44**

Yeah, well, I think it's too early to say if it'll be faster. I do think there will still be a commitment on on economic grounds, rather than necessarily green grounds. I mean, I guess it maybe doesn't

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matter exactly why countries are doing it. One of the things, of course, for some time, is, you know, this choice of, what are the replacements, sort of on the power side, right? And I do see, especially in the short term, a bit of a barbell approach of both more coal on the one hand, for countries that can shift, and that was a trend already happening, and maybe more more deployment of renewables historically, at times when oil prices spike, it's not actually a great time immediately thereafter to install renewables, just because the cost of installation go up, just the financing costs and the like. Now that may be somewhat offset here by just the relative the relative costs of the Chinese led the Chinese led infrastructure.

My sense is that one will will double. You know that there will generally be a focus on trying to install more power that can be more locally controlled. So as I say, whether that's coal, whether that's renewables, there's some question mark in different countries of how much the electrification shift can happen on the transport side, in terms of in those dynamics. So I think it'll be a mixed story. And then I would particularly be watching as well whether some of the big sovereign supporters of that deployment, again on commercial grounds, like the Emirati, led efforts to invest in renewable energy across across North Africa and Africa more generally, Whether those continue to the same extent, or what resources are deployed at home, as I think Karthik mentioned, in a way, my sense is that some of that will continue, but we might see a little bit of a stall, and, you know, in the near term, as as the as they're assessing.

### **Sarang Shidore 53:59**

Yeah, I mean, indeed, even apart from Mr. Saudis, have plans to for green hydrogen. Very big plans, yes, and, and I think we can safely say that most of this transition to renewables is happening on commercial grounds. I mean, we are seeing costs drop dramatically over the years, certainly South Asia and Southeast Asia the adoption of EVs and solar. Yes, electricity is cost competitive in many, many geographies. So, so, so, perhaps some, perhaps some positive news there, although not not, you know, not smooth. Well, let me get to to China a little bit here, because China, of course, big player in the global South, everywhere, really, and Iran has reportedly said that, well, we'll sell you oil to those who are buying from it, but please pay us in Chinese yuan and at. Finally, the Pakistanis have taken a shipment and actually paid in Chinese us.

So I want to direct this question to Karthik and Greg, maybe, maybe starting with Karthik and then Greg, you could add, add your thoughts, as well as to whether this sort of thing is episodic, just a one off, very low volume type of transaction that you see. Is it going to be kind of a new way Iran relates, as long as it exports, exports energy out and what does it do to this big topic of de dollarization that we are seeing? A lot of global south countries have have an interest in having the world move away from a total dominance of dollar, the dollar into into sort of a more multipolar arrangement. Yeah.

### **Karthik Sankaran 55:47**

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I mean, I think on the I mean, in some ways, Iran was already receiving payments in non dollar currencies just because of the sanctions. So, you know, I don't, I think that that ship had already sailed, so to speak. So I don't the headline that got people's attention was that Iran might allow oil to transit the Strait of Hormuz if it was paid for it in not in renminbi. And that's where I raised my eyebrows, because clearly it's already happening for for Iran. But the idea that the UAE and Saudi Arabia and Qatar, all of which are basically on dollar pegs, and have, you know, a few trillion dollars in dollar largely in dollar reserves, that they would take the chance of redenominating when they're still dependent on the US as a highly imperfect and incredibly unpredictable security provider. One needs to qualify this at this point, but still, I could not see them going that far. So I think this does not you know. It may be the case that the renminbi gains more traction as a settlement currency for a broad range of things. The argument I've made at great length is that the remember, is ready, is ready to be a trade currency. It's not ready to be a capital markets currency, not quite yet. And you can only go so far by being a so, by being a, solely a trade currency. From the point of view of de dollarization.

### **Sarang Shidore 57:16**

Greg?

### **Greg Priddy 51:19**

I completely agree, I don't think this is something that's going to drive de dollarization. And in the most important case, they have an offset. The Saudis have an offsetting factor, which is the fact that they're still selling a little bit more than half of normal exports, you know, in dollars. So that gives them an additional incentive not to do it.

### **Rachel Ziemba 57:38**

And they're still borrowing in dollars.

### **Sarang Shidore 57:44**

Well, it looks like the situation in terms of the global financial map will stay with us for a while to come. In terms of the dollar, dollar dominance, as indeed many, many folks have also argued, I wanted to get a sense of stepping, sort of macro back, and imagine that this conflict continues for a few more months, at least, the disruptions continue. I think that's kind of already on the cards. Are we looking at a global recession? Just a sort of a short answer from each of you, what's what's your sense? The more likely than not, or less likely?

### **Karthik Sankaran 58:24**

At, if this at, you know, at 100 I think Dubai was at like 150 yesterday. If that spreads out everywhere, I think that's a major I think it's a major income shock, especially in the fastest growing part of the world, what has historically been the fastest part of the world, which is, which

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is Asia? Yeah. I, you know, I've seen there are lots of things that flow from having oil up here for a long time, and they're all bad.

### **Rachel Ziemba 58:56**

Yeah, I try not to get caught up in the what exactly is a global recession or things like that, but, but none of this, none of this is good, particularly since it's not only this sort of sharp oil shock, but the waves of food and other potential, potential issues, we could see some notable output losses. And to the point, I think we've all talked about that distribution within and between countries leads to some dangerous, dangerous outcomes. So output loss is sure, especially because this is at a level where you'd have demand, where you'd have demand destruction.

### **Sarang Shidore 59:41**

And Greg, you get the last word.

### **Greg Priddy 59:43**

So I agree with my colleagues here, but I would point out, just to be a little bit dissonant at the end, that the market does not the market, you know, even at the prices we're at right now, is pricing in the assumption that this is over in a couple of weeks, which is shocking to me, that. We haven't begun to price in reality into this yet.

### **Sarang Shidore 1:00:04**

Well, on that note, that we perhaps are still not completely pricing in in the markets, but also perhaps geo strategically, fully foreseeing what could happen the dangers and the risks, and certainly the political leaders in all the countries involved, have to understand that very well in order to take the steps needed to bring this war to an end faster and sooner, so that the world can get along, get on with back to what it what it wants to do, which is live in peace and grow and prosper. So thank you to all of you. It's been a very rich discussion. We could do another hour easily on some of these points raised, but perhaps another time. And thank you to our viewers, please keep watching for our webinars on our website, Quincy institute.org, and Until next time, thank you, thank you.

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