

CROSSROADS

At the Intersection of Geopolitics and Geoeconomics

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Here the biggest issues to watch around the globe over the coming month:

The Russia investigation

The investigation into Russian interference in the 2016 U.S. election is heating up, with Special Counsel Robert Mueller issuing 13 indictments against Russian people and 3 indictments on Russian businesses on February 16. The charges focus primarily on the propaganda efforts of the Internet Research Agency [that intended to communicate derogatory information about Democratic candidate Hillary Clinton as well as several candidates in the Primary Election](#). On Tuesday, Mueller indicted London-based attorney Alex van der Zwaan for making false statements to the FBI about his communication with Richard Gates, deputy to Paul Manafort who was Trump's campaign manager. The Russia investigation could seriously harm relations between the U.S. and Russia – an already delicate relationship. It is almost indisputable that Russia intervened in the U.S. election. The only question that remains, and that Mueller's investigation seeks to identify over the coming weeks, is the extent to which this was a state-led effort to undermine U.S. democracy.

Latin America

The lights went out in Venezuela's capital, Caracas, last week. [For many, the lights going out represents the end of democracy and prosperity in the country](#). President Maduro's party has been in talks with the opposition for 16 months, to no avail. The opposition have forced him repeatedly to restore democratic institutions. Maduro has since banned the opposition. In response, the U.S. has established a working group with Canada and Mexico to study whether banning oil exports could put enough pressure on Venezuela to restore democratic governance. [Oil sanctions would likely worsen the humanitarian crisis in Venezuela but are unlikely to have an impact on Maduro's rule](#).

China: Xi Jinping strengthens his grip

Xi Jinping became the first Chinese leader to be referred to as "Lingxiu" since Mao Zedong. "Lingxiu" means leader, but is more symbolic than other words for leader, and implies that Xi now represents the core of the leadership. The title makes clear that Xi Jinping has a stronghold over the Chinese government and is not going anywhere soon. The Chinese government has lots to concern itself, however, as shadow banking and a growing housing bubble continue. [Property prices in Chinese cities have quadrupled since the turn of the millennium – a growth rate that far outpaces the U.S. housing bubble](#). Yet so far, the government has not allowed prices to fall by restricting funding to developers and making it harder to buy when real estate markets overheat. Officials have recently started discussing a long-term mechanism to calm the housing markets to prevent a speculative bubble bursting. This includes three main approaches: 1) improving the rental market in China; 2) introducing a property tax; and 3) better balancing supply and demand by expanding the availability of land (a positive measure) and imposing limits on large cities (a negative measure). Capital controls, paired with rising incomes and an expanding professional workforce, place upward pressures on the Chinese housing market. If the bubble bursts, the world will feel the shock. Even the Lingxiu, powerful as he is, might feel the shock.

Europe

German Chancellor Angela Merkel awaits the result of a vote on a coalition agreement with the Christian Social Union and the Social Democratic Party (SDP). Merkel has been unable to form a government since the election in September of last year. SDP members began voting [on the coalition agreement](#) via postal ballot on February 20, with results expected on March 4. If voters do not accept this coalition,

Merkel must form a minority government or risk another election. This is a crucial vote to monitor because another election in Germany could cause political instability in Germany and Europe. Brexit remains a major issue for Europe, and Germany has attempted to show leadership in the process. The German Chancellor met with UK Prime Minister Theresa May in Germany to talk Brexit, [but the meeting illustrated the limited progress Brexit talks have made](#). Merkel is one of Europe's most important political leaders; a minority German government or another election could change the European outlook entirely.

The Middle East

Tensions are increasing in the Middle East for a number of reasons. Israel's Binyamin Netanyahu is once again fighting corruption accusations – [this time from the police who were recommending bribery, fraud, and breach of trust charges against the Prime Minister](#). The recommendations have been handed over to Israel's Attorney General. [The accusations came just two days before Israel got into a brief air battle with Iran over Syria](#). The brief tussle began after an Iranian drone was shot down in Israeli airspace, which was then followed by an Israeli strike at the Iranian base from where the drone came. A direct regional conflict amongst Israel, Iran, and Syria would most certainly be devastating and would drag the U.S. into a much broader conflict in the Middle East. A more serious tussle could put the U.S. and Russia on opposite sides which, given the tensions already reported at the beginning of this briefing, could be disastrous. Other powers at play include Iran and Saudi Arabia, who have used conflicts in Syria and Yemen as battle grounds for their own rivalries. Added to these tensions is Turkey's aggression in the border town of Afrin. [Syrian pro-government fighters entered Afrin to help Kurdish forces fight Turkish forces](#). Turkish forces entered in late January to push out Kurdish YPG fighters that they believe are associated with Kurdish PKK guerillas fighters. The entry of Syrian forces could create a direct clash between Turkey and Syria that would almost certainly result in negotiations between Ankara and Damascus. [Also worth monitoring is Egypt's military offensive in North Sinai](#) to

respond to recent attacks by Wilayat Sinai, an affiliate of the Islamic State.

Sub-Saharan Africa

So far, February has seen the resignations of South African President Jacob Zuma and Ethiopian Prime Minister Hailemariam Desalegn. Zuma's resignation came as little surprise; even a strongman like him could not survive a disastrously mismanaged economy, countless scandals, and numerous corruption charges. His resignation came just one day before a vote of no confidence was scheduled. [Zuma now faces the reinstatement of 783 counts of corruption and possibly an inquiry into state capture, a probe that could reveal foreign business ties to cabinet appointments](#). It will be important to follow how the South African government responds to Zuma's departure. Cyril Ramaphosa, the new leader, has an enormous economic and political mess to deal with. Ramaphosa will likely need to clean up the government before he can even tackle a dysfunctional economy and poorly educated labor force. With that said, the Rand strengthened to its highest in 3 years within two months of Ramaphosa becoming leader of the African National Congress (ANC) – an indication that the outside world sees Ramaphosa as a potentially productive leader. Ethiopia is set for an even more worrying response to its political turmoil, [as it entered a state of emergency just one day after the Prime Minister resigned](#). The state of emergency is supposed to prevent chaos associated with anti-government protests. Ethiopia is not a politically stable country to begin with, so monitoring these developments is important. [Also to watch in Africa, the Democratic Republic of the Congo slides into political chaos and potentially renewed conflict](#).

Important reads:

[Will the Liberal Order Survive?](#)

Joseph S. Nye Jr.

[Putin's Syrian Gambit](#)

The Economist

[Latin America should not rely on China: U.S. Secretary of State Tillerson](#)

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