

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:

Europe: Responding to Russia

The use of a nerve agent, known as Novichok, in an attempt to murder former KGB agent Sergei Skripal in Salisbury, England, resulted in Prime Minister Theresa May [accusing](#) the Russian government of committing “an indiscriminate and reckless act against the United Kingdom” by using “an illegal chemical weapon that we know Russia possesses.” The Prime Minister said this amounts to an “unlawful use of force by the Russian state against the United Kingdom.” Russia denied that allegation but provided no credible alternative. Despite the evidence, the response from the UK and its allies has been relatively tame. The UK government has so far expelled 23 [Russian diplomats](#) (who were unidentified intelligence officers), and the US, the EU, Canada, and Ukraine have also ordered the expulsion of several diplomats in a show of unity with the UK. The UK could use a variety of economic tools, including sanctions.

However, a more aggressive measure would see Prime Minister May target Russian money in London. The coming weeks may see the Prime Minister expand the list of Russian businesses and people that British businesses are banned from doing business with. The prime minister could also start freezing assets of Russians in London who have ties to the Kremlin. She will have to weigh the geopolitical and geoeconomic risks of such a response, as it could have serious implications for British businesses, including major oil companies.

The U.S.: Rexit and Other Shakeups

Rex Tillerson, formerly Secretary of State, was relieved of his position and replaced by former CIA Director, Mike Pompeo. Though Tillerson had [no significant](#) accomplishments during his tenure as Secretary, he was relatively moderate in comparison to the president, particularly over the Iran nuclear agreement. Towards the end of his tenure, Tillerson was unaware of major

developments, including the president’s desire to meet with North Korean leader Kim Jong-un. Tillerson’s departure could see a tougher stance on Iran and the potential unravelling of global trade. His nominated replacement, Mike Pompeo, a former Congressman and most recently CIA Director, is seen as a Trump loyalist. Pompeo is known for his tough stance on Iran, labeling it a “pernicious empire that is expanding its power and influence across the Middle East.” More surprisingly, National Security Advisor H.R. McMaster was last week replaced by John Bolton. [Bolton](#) has been an advocate for direct confrontation with Iran and North Korea, and his appointment could see a more aggressive U.S. foreign policy. McMaster was one of the more experienced members of the Trump Administration.

Challenges to Global Trade

On March 22, President Trump announced tariffs of \$60bn on Chinese trade, potentially leading to a trade dispute between the world’s largest economies. Stock markets immediately took a hit, but partially recovered as of yesterday, with signs that the U.S. and China were willing to negotiate over tariffs. A *Wall Street Journal* [report stated](#) that the U.S. had asked China to reduce tariffs on U.S. autos and allow greater access for U.S. firms in the Chinese financial sector. These points of negotiation could limit a trade war for the moment; however, according to a Bank of America Merrill Lynch survey, 30% of [fund managers](#) see a trade war as the main market risk. The threat of an unraveling of global trading structures paired with a [flattening yield curve](#), a widening gap between the Libor rate and the swap rate, and the relatively high valuation of the American stock market are all causes for some concern.

China: Government Reorganization and the Possibility of Reform

During the recent 16 day session of the National People's Congress (NPC), the Chinese legislature allowed Xi Jinping to cement his rule in China for years to come, as they voted to abolish term limits. The NPC also approved a [government reorganization](#) intended to merge ministries and agencies into more efficient bureaucracies to deal with environmental issues, resources, and finance. There is clear skepticism, however, about whether Xi Jinping will use his power to engage in genuine economic reform. The government will aim for the same [6.5 percent](#) growth rate that it did last year, despite recommendations from the IMF to abandon a precise growth rate completely. Yi Gang, the newly appointed governor of China's central bank, the People's Bank of China (PBOC), will oversee ongoing reform efforts. Mr. Yi has [said recently](#) that implementing prudent monetary policy, pushing financial reform, and opening up to foreign investment are his most important tasks. These comments are encouraging and suggest that China intends to reduce its fiscal deficit while also moving forward in reducing restrictions to foreign investment. For many China watchers, however, these are minor reforms to the current economic system rather than a genuine effort for change.

The Middle East and North Africa: Turkey Asserts Itself

Turkey [took control](#) of the Afrin region of Northern Syria after a two week offensive against Kurdish militants which ended on March 17. Turkish President Recep Tayyip Erdogan has accused Western powers of backing Kurdish forces against Turkey. After reports that over 289 civilians were killed and more than 200,000 were displaced, the US and Germany have condemned Turkey for causing more problems in Syria. The Afrin victory is not the end, however, as Turkish officials have said that they intend to bring the war against Kurdish militants to northeastern Syria and Iraq, which is a stronghold of the Kurdish Workers' Party (PKK). As stated in [previous editions](#) of *Crossroads*, Turkey's aggression could draw major powers into a much broader conflict. At least 2,000 American troops are stationed in

northeast Syria. Equally as worrying is what will become of Afrin. Concerns that Erdogan may try to settle Syrian refugees currently living in Turkey or to absorb future refugees from the ongoing civil war in Syria should not be underestimated.

Also worth watching: the Egyptian elections, which started on March 26. While there is [no viable alternative](#) to incumbent President Abdel-Fattah al-Sisi, the current President's strong grip on the country needs to be supplemented with institutional reforms that would enhance stability.

Africa: Continent-Wide Trade Talks

Forty-four African nations signed the Continental Free Trade Area ([CFTA](#)) agreement in Kigali on March 21. The CFTA is supposed to create more intra-regional trade in continent, as currently only 18 percent of African trade is within Africa. Though many of the details of the agreement are still being worked out, countries are supposed to eliminate tariffs on 90 percent of products. Worryingly, this leaves room for tariffs and duties to remain unchanged on major imports, which are heavily concentrated in a small range of goods. More importantly, tariffs are not the biggest inhibitor of trade in Sub-Saharan Africa; non-tariff barriers including standards and licenses pose much greater problems for free trade. Customs and port handling is a major impediment to trade, and though the CFTA seeks to reduce such barriers, it is unlikely that it will enhance trade quickly. Moreover, several important countries, including Nigeria (the biggest economy on the continent), did not sign the agreement at all. The [negotiating teams](#) from each signatory will meet in Addis Ababa, Ethiopia, in May to iron out the rest of the agreement before final implementation.

Important reads:

[Bertelsmann study: Developing world faces more conflict, more repression](#)

DW News

[Democracy's faint pulse in the Middle East](#)

Gideon Rachman

[Trade Deal Eases Way for U.S., South Korea to Collaborate on North Korea](#)

Kwanwoo Jun