CROSSROADS

At the Intersection of Geopolitics and Geoeconomics

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Here are some critical issues to watch around the globe over the coming month:

Global Impact: Trump's Rhetoric Threatens the Rules-Based Order

- US President Trump has created global concerns over his imposition of tariffs on China, the EU, Canada, Japan, and Mexico over the past few months.
- The Trump administration has flirted with withdrawing from the WTO after threats by the aforementioned countries to challenge the US through the dispute settlement mechanism in the WTO.
- A US withdrawal from the WTO, however unlikely, could prove very disruptive to the US export sector and global supply chains, affecting all major industries.
- The China-EU summit on July 16th illustrated that WTO reform is necessary and that there is a possibility of further opening up of Chinese markets to European investment.

US-Russia: To Helsinki and Beyond?

- Last week, US President Trump met with President Vladimir Putin in Helsinki. In addition to rejecting the US intelligence community's assessment that Russia interfered in the 2016 US election, President Trump had a two-hour meeting with Putin on which the US State Department is yet to be briefed.
- President Trump's remarks came just days after Special Counsel Robert Mueller indicted twelve Russian intelligence officers in the hacking of the Democratic National Committee and the Clinton campaign.
- US Lawmakers are moving to sanction the Nord Stream 2 gas pipeline to thwart Russia's energy presence in Europe.
- The US position over the Nord Stream pipeline could further damage relations with the EU, though analysts are right to question Europe's energy dependence on Russia.
- Implemented sanctions could affect major energy companies, including Royal Dutch Shell, OMV, Engie, and Uniper and Wintershall.

Heading Towards a Softer Brexit

- The UK Government announced on July 24th that it plans to keep EU laws in place during its transition out of the EU beginning March 2019. The implementation period will last until 2020.
- Prime Minister Theresa May announced that she would take control of the Brexit talks from this point forward. The pound rose after the news, with traders seeing it as an indicator of a softer Brexit. This announcement comes after Foreign Minister Boris Johnson and Brexit Secretary David Davis resigned earlier this month.
- The Brexit hardliners in Theresa May's party have been critical of the Chequers Agreement signed earlier this month, which stressed that the UK would "maintain a common rulebook for all goods," and that the borders between the UK and EU would be treated as a "combined customs territory." The agreement also suggested the UK would still take into consideration EU laws, but that it would end the free movement of people.
- Though this does not represent a final deal, the implications of the government's position on Brexit are important: Theresa May is clearly working towards a soft Brexit whereby the UK maintains a very similar relationship to the EU that is already in place.

Turkey's Economic Woes Worsened by Erdoğan's Politics

- President Erdoğan sacrificed the former deputy prime minister and ex-Merrill Lynch chief economist in favor of his son-in-law for Finance and Treasury Minister to manage the country's waning economy.
- Erdoğan has granted himself the right to hire the central bank governor, deputies, and monetary policy committee members for a four-year term.
- Utilizing this power, Erdoğan has forgone interest rate hikes in search of short-term gain to the economy, which could spur higher inflation and moreover will fail to

stop the plummeting of the Lira and the losses in the Turkish stock market.

The EU and Japan Finalize Free Trade Agreement

- The EU-Japan agreement covers 600 million people, nearly a third of the global economy.
- The deal removes EU tariffs of 10% on Japanese cars and 3% on most car parts.
- It would also scrap Japanese duties of some 30% or more on EU cheese and 15% on wines, and secure access to large public offers in Japan.
- Japan has largely relied upon Great Britain as its pathway into the EU. If Brexit is fully implemented, Britain will have to forge a separate agreement with Japan. Some trade previously conducted between Britain and Japan may be diverted to the EU.
- The timing of the agreement sends a strong message to the rest of the world that free trade agreements are still in the international economy's best interest.

Trade War Could Spark Chinese Currency and Debt Crisis

- China is beginning to feel the effects of the trade war. The renminbi has now fallen by more than 8% over the past three months, 1% of which was over the last week.
- A sliding currency could help China's huge export industry cope with new US tariffs, as it makes Chinese products cheaper for buyers who pay in dollars and could offset some of the impact of tariffs.
- The overall state of the Chinese economy is bleak; the Shanghai Composite declined 7% in a month, while corporate bond defaults are skyrocketing and junk bond yields continue to rise.
- Analysts from Bloomberg argue that as China's economic growth has been driven by debt, the debt will ultimately drag the economy into recession. Even if the Chinese government controls everything, re-issuing the renminbi will no longer keep the economy afloat given China's position in the global economy.
- The trade war seems to be the great catalyst for many of China's economic woes.

G-20 Summit

- Finance ministers and central bankers from the world's top 20 economies met in Buenos Aires last weekend.
- Attendees, including IMF Chief Cristine Legarde and South African Reserve Bank Deputy Governor Daniel Mminele, stressed the importance of central bank independence.
- The final statement stressed the disruptive nature of protectionist measures and the risks of continued escalation, particularly to emerging markets.
- There appeared to be no improvement in the current trade relationship between the EU and the US.
- The US President has shown little respect for multilateralism and thus, the extent to which this conference will influence his overall opinion of global trade is limited.

An Historic Peace Agreement Between Ethiopia and Eritrea

- Ethiopia has fully accepted a peace agreement initiated in 2000 to end one of the last border wars in Sub-Saharan Africa. Ethiopia had never fully accepted the terms of the peace deal in 2000, disputing that Badme was a part of Eritrea. The dispute left the countries in a fragile state of "no war, no peace," until now.
- The geopolitical implications of this are significant, with Eritrea and Ethiopia often taking different sides in regional disputes.
- This agreement indicates a desire for change from the Ethiopian government and could lead to much-needed economic and political reform in one of Africa's largest economies.

Suggested Readings

How Trump is Repelling Foreign Investment
Adam S. Posen

How to rescue the WTO
The Economist

The US Needs a Russia Strategy Now More than Ever
Michael McFaul

A Path Forward for NAFTA
C. Fred Bergsten and Monica de Bolle