

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:

North America

- The US and Mexico have reached an agreement to revise key portions of the North Atlantic Free Trade Agreement (NAFTA). The new agreement will be renamed the United States-Mexico trade agreement rather than NAFTA.
- This preliminary agreement currently excludes Canada, so it cannot count as a “revision” of NAFTA. It is unlikely that a bilateral agreement between the US and Mexico would replace NAFTA; many North American industries and American jobs depend on supply chains across the continent. Republican lawmakers have vehemently opposed any such arrangement, and Congress would likely need to withdraw from NAFTA before signing any agreement that could supersede it.
- Looking forward, remarks by US Federal Reserve officials at the 2018 Economic Policy Symposium were in line with market expectations that the Fed intends to raise interest rates twice this year, the biggest annual tightening in over 10 years. An expanding group of domestic and international issues, which include over-extension of credit and emerging market currency issues, could impact the Fed’s decisions later in the year.
- Despite progress this summer, talks between the US and North Korea have slowed to an almost halt this month, as a letter delivered to Secretary Mike Pompeo said that Kim Jong Un’s government felt that progress could not continue as the US was still not able to meet North Korean expectations. Failure to resume talks could result in the North Koreans resuming nuclear testing and a continuation of economic isolation towards North Korea.

Europe

- The British Government told companies trading within the EU that they could face border delays and higher credit card payments if no deal is reached. The UK Chancellor for the Exchequer Phillip Hammond announced that a no-deal scenario could result in an £80 bn hit to GDP, not to mention the potential it has to completely destabilize the EU single market.
- Italy’s populist government remains at odd with the EU, as it plans to meet budget pledges equaling over €100 bn or roughly 5% of GDP. Italy’s deputy Prime Minister said Italy may exceed the EU’s deficit limit in order to increase investment in the economy. Italian 10-year yields reached three month highs of 3.19% on Tuesday.
 - In a statement to French Ambassadors, French President Emmanuel Macron stated he would put forward new proposals for the EU to enhance defense cooperation and called for Europe to build a “strategic partnership” with Russia, suggesting it could no longer rely on the US. This is a distinct break from the past and is likely a response to the US President’s attitude towards its European allies. Macron’s statement followed a similar call for increase European defense cooperation made by the German Foreign Minister.
 - Greek Prime Minister Alexis Tsipras addressed the nation from the Island of Ithaca last week to proclaim a better economic future for Greece after it exited the IMF bailout program. This proclamation was somewhat unwarranted, however, as Greece remains in debt to its former creditors and must maintain a primary surplus of 3.5% of GDP by 2022 and 2.2% by 2060. Since 2015, Greece has taken out 61.9 bn of an available 86 bn available under the European Stability Mechanism’s (ESM) financial assistance program.

Asia-Pacific

- As trade tensions with the US continue, there is rising concern in Chinese camps that the tariffs levied by the US are part of a larger geopolitical and geoeconomic strategy aimed at containing China. If this is true, then the stakes have been raised for the Chinese, as concessions become all the more significant and unlikely.
- Official data for July showed a slowdown in Chinese investment, factory production and retail sales. The Shanghai Composite is down about 23% from its recent peak in January. The Chinese Yuan has lost nearly 9% of its value versus the US dollar since April.
- India’s central bank has set a 180-day timeline to restructure an estimated 3.6 tn rupees (\$52 bn) of

stressed loans. This decision is part of a broader effort of the central bank to clean up banks suffering from the world's second-worst bad-loan ratio after Italy. India represents a trend of emerging market economies struggling with bad debt and currency issues.

- Last week, Australian Prime Minister Malcolm Turnbull was defeated by Scott Morrison in a leadership election and has since announced that this Friday he will resign from Parliament. Turnbull's resignation will trigger a by-election in his district. Turnbull's defeat and resignation marks an unstable trend in Australian politics over the past two decades, with regular turnover in prime ministers. The Australian dollar got a small boost towards the end of last week with the news of the new PM.

Middle East

- The Turkish lira has shed nearly 20% of its value this year. President Donald Trump doubled existing tariff rates on Turkish aluminum to 20% and on Turkish steel to 50% earlier this month. Turkey's 10-year bond yield has slipped five basis points to 21.95%.
- Egypt has achieved its highest economic growth rate in 10 years. In the 2017-2018 fiscal year, the growth rate reached 5.3% compared to 4.2% in 2016-2017. The government reportedly aims to hit 7% economic growth by 2022. By adopting the IMF's structural reforms, the Egyptian economy is likely to maintain an increased rate of growth and lower its unemployment.
- Iran has asked the UN's International Court of Justice to suspend the US-led sanctions regime, as they argue that the sanctions would further cripple the Iranian economy and send the fragile nation into a crisis. The US has attacked the Iranian charges as meritless and will soon defend the sanctions in front of the court.

South America

- In a recent statement, Venezuelan President Nicolas Maduro has promised an economic miracle, abolishing the state-controlled exchange rate for the bolivar. The new currency, the sovereign bolivar, has replaced the bolivar which traded on the black-market at 6m bolivars to the dollar. Maduro promised to cut the deficit to zero by raising value-added tax and increasing the price of gasoline to international levels. The potential benefits of the decision to raise gasoline prices will likely be outweighed by a pledge to continue subsidizing

food ration cards for more than half of the population.

- In Brazil, former President Luiz Inacio Lula da Silva's support rose in three different polls last week. The former president has a corruption conviction which should, in theory, prevent him from running. Fearing a return of Lula's Worker's Party, investors responded negatively to the result of these polls, selling off quickly and causing the Brazilian real to drop by 4.7 percent.
- Mired in an ongoing currency crisis, Argentina has asked the IMF to release \$3 bn of previously agreed to \$50 bn standby financing in September. Argentina's Treasury Minister Nicolas Dujovne told reporters on Monday that the country's GDP is expected to shrink by 1% in 2018 but grow by at least 1.5% in 2019. The government plans to maintain its fiscal deficit target of 2.7% of GDP for 2018 and expects a current account deficit of 3% of GDP in 2019.

Sub-Saharan Africa

- Investors appeared spooked by South African President Cyril Ramphosa's statement that the ANC would propose an amendment to the constitution clarifying when land could be expropriated without compensation.
- President Trump's tweet about "illegal farm seizures," was met with frustration in South Africa. Africa has thus far been a low priority for President Trump.
- Leaders from across the African continent will gather in Beijing next week for the Forum on China Africa Cooperation. China surpassed the US as Africa's largest trading partner nearly 10 years ago; bilateral trade reached \$170 bn last year.
- Despite China's generous contributions to economic development across Africa, concerns over Chinese investment are present, and many infrastructure projects spearheaded by the Chinese have contributed to rising debt problems for African economies.

Suggested Readings

[Real and Imagined Restraints on Euro Area Monetary Policy](#)

Patrick Honohan

[The Truth About the Liberal Order: Why It Didn't Make the Modern World](#)

Graham Allison

[The way forward on immigration to the West](#)

The Economist