

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 government has reopened after a partial government shutdown that lasted 35 days. The Trump Administration has publicly stated that they would prefer to avoid another government shutdown, but the administration has refused to rule anything out. It remains to be seen how this piece of political theater will play out, but if President Trump moves forward with emergency plans to build the wall along the southern border the consequences could be far-ranging and long felt. Markets for now have dismissed the effects but another shutdown may increase volatility and risks for equities.
- The latest episode in the Mueller investigation saw the arrest of a political strategist and advisor to the president--Roger Stone. Stone was charged with obstruction of justice, witness tampering and making false statements. The submission of the Mueller report may be accompanied by significant higher political and financial risks where portfolio hedging might be necessary.
- The US is entering a new round of talks on January 30th and 31st to resolve the trade issues with China by the end of the 90-day truce that began on January 1st. The move comes after China has taken its case to the WTO to challenge the US tariffs on Chinese goods. All of this is happening as the US has levied charges against the Chinese technology giant Huawei. The US has said that Huawei had misled the United States government about its business in Iran, obstructed a criminal investigation and stolen American industrial secrets. As a result, Meng Wanzhou, the chief financial officer at Huawei, was arrested in Canada and is being held within Canada, but the US has said it plans to request her transfer. Expectations are that a deal will be cut and that should advance market expectations and returns.

Europe

- The renaming of the Republic of Macedonia has gone into effect this month. With the signing of the Prespa agreement, the Republic of Macedonia will henceforth be referred to as the Republic of North Macedonia. The change in name has removed a major hurdle in admission into NATO and the EU, as it garners Greek support for their ascension. However, receiving ratification from all 29 member

states will take some time, and negotiation on admission into the EU will likely take much longer. Greece will enter into an election period in the next few months at a time when the EU stakes are high and risks are elevated.

- UK Prime Minister Theresa May has received the approval of Parliament to begin renegotiations of Brexit; however, her efforts were rejected by the EU. To receive approval, the European Union has said the UK will need to adjust its redlines. The EU did express interest in pushing back the March 29th deadline. PM May has pledged to bring back the vote on the deal in the near future but she has not set a specific date. If no deal has been reached by February 13, MPs will be given another opportunity to debate Brexit the following day. The sterling still looks relatively cheap and particular UK equities start becoming attractive.
- The May European Parliamentary elections are taking shape. Like most major elections over the last several years, the EU wide elections are a fight between the establishment and populist insurgents. The contest may end in a decisive surge for anti-EU parties or unexpected gains for pro-European parties. However, this election is will be only the latest fight in the war between far-right populists and pro-European forces. The European markets do not look very attractive at this stage, as the European Commission's gauge has fallen to 106.2 from 107.4. This drop marks the lowest level seen since November 2016.
- The European Commission announced it is very close to launching a special purpose vehicle that will allow European companies to bypass US sanctions on Iran. However, the EU has yet to find a country willing to risk the ire of the US to host the vehicle. The Trump Administration has said that it considers such efforts a direct threat to its strategy of total pressure on Iran. It is not outside of the realm of possibility that the Trump administration may seek to place tariffs on its European allies, as it has done in the past.

Asia-Pacific

- US and Taliban officials have reached a draft peace framework after almost a week of talks in Qatar. If the US and Taliban come to an agreement, this would be a major step for the removal of US troops

from Afghanistan. An overly quick withdrawal of the US from Afghanistan could erode the authority and legitimacy of the Afghan government, raising the risk that the Taliban could recapture control of the country and return to power the same forces the US went to dislodge. Elevated risks amplify geopolitical uncertainties.

- The US Director of National Intelligence, Dan Coats, stated he believes North Korea is unlikely to give up its nuclear weapons. This comes on the heels of calls by the North Korean government for further Korean integration and the preparation for a second summit with the US. It is not likely that any major achievements will be made at the summit, as negotiations are not generally conducted by heads of state.

Middle East

- Turkey has begun to clash with Russia and the US over security in the Idlib province of Syria. Turkey and Russia stand on opposite sides of the Syrian Civil War, with Ankara backing some rebel forces. However, the rise of a new extremist group, evolving out of the Nusra Front, has threatened stability within the area. The extremists say that a ceasefire agreement signed between Turkey and Russia is strengthening the Assad regime. Thus, the extremists have begun to attack Turkish-backed rebels within the demilitarized zone. Turkey's inability to keep the peace within the region may have an effect on ongoing negotiations of troop withdrawals by the US, as they could largely be replaced by Turkish forces.
- Turkey and the internationally recognized Greek Cypriot government in Cyprus have overlapping claims of jurisdiction for offshore oil and gas research in the eastern Mediterranean. Turkey announced this month that it will begin drilling for resources around Cyprus. The Greek Cypriot government has stated that all resources found will be shared between all Cypriots. If Turkey continues to drill for oil or natural gas within the region, that will further strain the relationship between these powers and will increase geopolitical tensions in the Mediterranean.
- A United Nations investigation team arrived in Turkey this month to begin an inquiry into the killing of Washington Post reporter Jamal Khashoggi three months ago inside the Saudi Consulate in Istanbul. The Commission will present its findings to the UN Human Rights Council in June. The Saudi government is attempting to move past Khashoggi's murder and has announced a \$427 billion 10-year industrial plan. The plan would see

Saudi Arabia attempt to push beyond the ongoing investigation and encourage investors that Saudi Arabia is still a viable place for business. Regardless, the success of the Saudi Arabian economy over the coming year could be heavily influenced by the findings of the Commission.

Latin America

- The United States and much of the Western world have recognized Juan Guaidó as interim president of Venezuela. In response, Nicolás Maduro said his government was breaking relations with the United States and gave diplomatic personnel 72 hours to leave the country. The US followed by saying they did not respect Maduro's authority to reject diplomatic personnel. The outcome may rest on the shoulders of the Venezuelan armed forces: If the military chooses to support Guaidó then Maduro's days are likely numbered. However, should the military choose to continue backing Maduro this may serve to exasperate the conflict between Maduro's government and the US. Oil prices could be affected.
- Brazilian President Jair Bolsonaro was officially sworn in earlier this month. Markets reacted with optimism to the changes Bolsonaro might bring to Brazil. However, no formal proposal has been made about the nation's pension disaster, and time is of the essence for Bolsonaro. Brazil's debt profile is unsustainable and, unless it is addressed through pension and tax reform, the market optimism surrounding Brazil may not be long-lasting. It is for these reasons that we suggest some caution when approaching Brazilian markets. He is facing his first test as president with the Brumadinho dam disaster that has left over 65 individuals dead and over 300 missing. The Brazilian Department of Justice has issued warrants for the arrest of several individuals responsible for maintaining the dam.
- The Central Bank of Argentina is striving to maintain currency stability while fighting record levels of inflation, which reached nearly 48% last year, without also prolonging a recession that could endanger President Mauricio Macri's chances of re-election in October. The crisis of confidence triggered by the failure last year of the government's "gradualist" economic policy, leading to a 50% devaluation of the peso, prevents interest rates from being lowered too quickly.

Sub-Saharan Africa

- Demonstrations in Sudan, demanding the immediate and unconditional step-down of Al Bashir and his regime from power, have persisted throughout the

month of January. Civil uprisings in Sudan have twice toppled dictatorships, first in 1964 and again in 1985. Perhaps the third time will prove a charm; if the government does not reverse its increase in the price of bread and aggressively attack inflation, which sits at 65%, the protests may continue to grow in strength.

- Violent protests have shaken Zimbabwe since January 14, when a national strike was called to protest rapid increases in petrol prices. For the past few months, there have been shortages in many basic goods in the country and large queues in front of petrol stations. The protests stem from more than just high fuel prices, as the volatility within the Zimbabwean economy has persisted for years.
- In the Democratic Republic of Congo, opposition candidate Martin Fayulu has asked for a recount - after his surprise loss in the recent presidential election. Polling before the election had put Fayulu in first place, but Felix Tshisekedi officially “won” the vote. Many international organizations dispute the official results. It’s a shame and a tragedy for a country that has lost close to 5 million due to the civil war, another 5 million have been displaced or fled their homes and 13 million need humanitarian aid. People in Africa deserve better.

Suggested Reading

[Slowbalisation](#)

The Economist

[A Future That Works](#)

Oren Cass and James K. Galbraith

[Shutdown knocked billions from US economy](#)

Sam Fleming