

CROSSROADS

At the Intersection of Geopolitics and Geoeconomics

September 3, 2019 | Volume 2, Issue 8 | Rachel Poole



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

North America

- At the start of the month, the United States (US) announced sanctions on Iran's foreign minister, Mohammad Javad Zarif, escalating tensions between the two countries. Another point of tension this month was the US' failed attempt to block the release of Iranian tanker that had been seized by British authorities. Despite the circumstances, US President Donald Trump is open to meeting with Iranian President Hassan Rouhani, but Rouhani will only participate in talks if the US lifts sanctions against Iran.
- Trade war tensions escalated at the beginning of August as US President Donald Trump announced new tariffs on an additional \$300 billion worth of Chinese goods in retaliation of Chinese tariffs on US products announced just a couple of days earlier. Following that escalation, China allowed their currency to weaken, and stopped making new purchases of American farm goods. The trade escalation rattled world markets and sparked fear of a currency war. The most recent round of US tariffs on Chinese goods took effect September 1st. The US-China trade war has become a dangerous threat to the stability of global markets.
- After huge protests led to the resignation of Ricardo Rosselló, Pedro R. Pierlusi, Rosselló's handpicked successor, was sworn in as Puerto Rico's new governor. Just days later, Pierlusi stepped down after the Supreme Court ruled his governorship unconstitutional due to the fact he had not been confirmed by both chambers of the legislature. Puerto Rico's Justice Secretary Wanda Vázquez Garced has been sworn in as the island's new governor.
- The yield curve between two-year and ten-year Treasury yields inverted this month for the first time since 2007, indicating growing unease in the fixed income market and sending signals of economic stagnation. This is arguably a more powerful indicator of economic slowdown than the curve that compares three-month yields against ten-year yields, which had already inverted.
- The Congressional Budget Office (CBO) announced their latest deficit projections. They have raised their estimate of the projected federal budget deficit to

\$960 billion for the 2019 fiscal year. For the 2020 fiscal year, the CBO projects the deficit will reach \$1 trillion, implying that the US debt will increase by over \$12 trillion in the next decade!

Europe

- The Italian government collapsed a few weeks ago when Prime Minister Giuseppe Conte announced his resignation in the face of a confidence vote initiated by Deputy Prime Minister Matteo Salvini. Salvini has pushed for new elections as his right-wing League party has gained in popularity, and he desires to become Prime Minister. However, just last week Italian President Sergio Mattarella, approved the return of Giuseppe Conte as prime minister to lead a new coalition government with the center-left Democrats and antiestablishment Five Star Movement (Salvini's former coalition partner), sidelining Salvini and his party. Italy now faces the challenge of creating a new government between the Democrats and Five Star which have opposed each other in the past.
- Leaders of the G7 nations met in Biarritz, France and discussed current global challenges. Among the topics discussed were the de-escalation of tensions between the US and Iran, the US-China trade war, and an initiative to fight fires in the Amazon.
- The Queen of England approved Prime Minister Boris Johnson's request to suspend parliament. Johnson's move is part of his strategy to prevent members of parliament's efforts to stop a no-deal Brexit. He has insisted that the UK will leave the European Union on October 31st with or without a deal. In response to the parliament suspension and heightened no-deal Brexit fears, the sterling pound has dropped against the euro.
- According to government data, German industrial production saw its largest annual decline in nine years. The escalating trade war between the US and China has taken its toll on German exports as factory output has become increasingly reliant on exports to Asia. The decline has brought further uncertainty to German markets and has sparked fears of a recession.

Asia

- Both Japan and South Korea have removed each other from their preferential trade lists, escalating the trade dispute between them. This conflict could have major repercussions for the global tech industry, as Japan is a major producer of important chemicals in tech products and South Korean companies produce more than half of the world's semiconductors and ninety percent of smartphone screens. The trade dispute also has implications for security cooperation in the Pacific between Japan, South Korea, and the US.
- Clashes between protesters and police in Hong Kong have intensified. Protests have been raging for over two months now as Hong Kong citizens are demanding greater democracy. This past month, Hong Kong's international airport was shut down for multiple days by demonstrations. China's mainland government in Beijing has become increasingly heated on the issue. Most recently, Chinese military forces held exercises near Hong Kong and sent troops to its garrison in Hong Kong.
- North Korea has rejected talks with South Korea after South Korean President Moon Jae-in announced he would pursue unification of the peninsula. To heighten tensions even more, North Korea fired more missiles in addition to two they fired after the US and South Korea continued joint military exercises off the peninsula.
- The Indian government issued a presidential order that revoked the special status of the disputed Kashmir region, weakening the Muslim-majority state's independence and heightening tensions with Pakistan. Pakistan's foreign minister condemned the move, stating that it violates a UN resolution on the Kashmir conflict. Thousands of Indian troops now occupy the region and Kashmir citizens have been cut off from internet access and communication with the rest of the world. This territory has been disputed between Pakistan and India for decades.

Middle East

- Tensions have heightened between neighbors Israel and Lebanon. Israeli drones reportedly attacked a Palestinian base in Lebanon last week and allegedly crashed into a Hezbollah dominated neighborhood in Beirut. Both the Lebanese government and Lebanese group Hezbollah have called these attacks acts of aggression and violations of sovereignty.
- Syria rejected the Turkey-US plan to enforce a safe zone in Syria. The safe zone would allow Turkey to keep Syrian Kurdish forces from its border and

facilitate the return of refugees. Syria's foreign ministry has called on the international community to condemn the political intrusion.

- Air strikes backed by the United Arab Emirates (UAE) on the Yemeni city of Aden have widened the rift between the UAE-backed separatists and Yemeni government forces backed by Saudi Arabia. The US plans to begin direct talks with the Houthis insurgency in Yemen to end the civil war and resulting humanitarian crisis.
- The interior ministry of the militant group Hamas, which controls the Gaza strip, has declared Gaza under a state of emergency. The declaration comes after three police officers were killed in explosions. No one has claimed responsibility for the attacks.
- President of Turkey Recep Tayyip Erdogan has said Turkey will continue its defense cooperation with Russia. Turkey has received its second shipment of the S-400 missile defense system and has agreed to take joint steps with Russia to normalize the situation in Syria. The US has warned Turkey that its purchases of Russia's weapons system could subject it to US sanctions, furthering the divide between Turkey and the West.

Latin America

- The Argentine economy was devastated this month. The Argentine peso fell over 30 percent against the dollar after President Mauricio Macri lost in the presidential primaries. Following his defeat, Macri has raised the country's minimum wage and froze fuel prices. The country is also facing major debt challenges as they look to restructure \$100 billion in debt. In another attempt to curb the country's economic crisis, the government has imposed capital controls to prevent capital flight.
- A surge of wildfires across the Amazon rainforest in Brazil has sparked global outrage. Environmentalists are blaming Brazil's President Jair Bolsonaro for the increase in wildfires because of his recent rollback of forest protections. Bolsonaro has rejected the \$20 million aid package offered by the G7 nations to fight the fires. Bolsonaro views the move as imperialistic and fails to recognize the fires as an international issue.
- Demonstrations have taken place in the capital of Honduras calling for the expulsion of Honduran President Juan Orlando Hernandez after US prosecutors have accused him of accepting \$1.5 million in drug trafficking money to support his election campaign.

- Talks between Nicolás Maduro's regime and the Venezuelan opposition last month in Barbados were not successful in bringing the two parties closer to a political resolution. US efforts to negotiate an exit deal with the Maduro regime have since stalled as well.
- Alejandro Giammattei won Guatemala's presidential election this August. He has vowed to renegotiate the recent immigration deal with the US that was signed by former President Jimmy Morales. The deal would require Guatemala to take in thousands of regional asylum seekers and has been unpopular with Guatemalan citizens.

Sub-Saharan Africa

- Sudan's military and opposition have signed a transition deal. The deal marks the end of months of negotiations and protests between the military and leaders of pro-democracy protests. Economist Abdalla Hamdok has been nominated by the opposition party as Sudan's new Prime Minister and General Abdel Fattah al-Burhan, the chair of military council, has been sworn in as head of the sovereign council.
- Kenya has exported its first crude oil shipment since it began production in 2018. Kenya's President Uhuru Kenyatta says the oil exports begin a new era of prosperity for Kenya. The country hopes to start commercial-scale production by 2024.
- The Democratic Republic of the Congo (DRC) has announced a new government. Prime Minister Ilunga Ilukamba unveiled a new cabinet of sixty-five ministers, many of whom are allies of former President Joseph Kabila who stepped down at the end of last year. The new cabinet sparks speculations that Kabila's regime still holds power.
- New Ebola treatments give hope to stopping the massive outbreak in the DRC. Two of the drugs that have been tried over the last couple of months are showing good results. The Ebola outbreak has claimed over 2,000 lives so far and has spread into neighboring countries. The World Health Organization has called the situation one of the world's "most complex humanitarian crises" but these new drug discoveries spark hope.

Suggested Reading

[What is the US yield curve and why has it spooked investors?](#)

Joe Rennison, Robin Wigglesworth and Tommy Stubbington
Financial Times

[How Parliament can stop Boris Johnson's no-deal Brexit](#)

The Economist

[Why the Japan-South Korea Dispute Just Got Worse](#)

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