

# CROSSROADS

*At the Intersection of Geopolitics and Geoeconomics*

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Here is a summary of the most important events that unfolded this month, and which may affect economic, financial and geopolitical issues in the months ahead:

## North America

- The United States (US) Congress passed the largest economic relief package in US history in response to the coronavirus pandemic. The deal includes \$300 billion allocated for cash payments to individuals, over \$350 billion in loans for small businesses, and over \$150 billion for hospitals and other public services, among other efforts. The announcement of the relief package gave a boost to US markets after several weeks of decline, though the economy has yet to face all of the consequences from the pandemic.
- The number of Covid-19 cases in the US has surpassed those in every other country, making the US the epicenter of the coronavirus pandemic. The number of cases is rapidly increasing, especially in major cities such as New York City which has nearly half of the nationally reported cases. The US government has banned gatherings of more than 10 people, per recommendations by the Center for Disease Control (CDC), and a growing number of states are instituting “stay at home, stay safe” mandates. Amid nationwide business closures, a record-breaking 3.28 million workers have applied for unemployment benefits.
- On March 11<sup>th</sup> the Dow Jones Industrial Average entered a bear market for the first time in 11 years, falling from the all-time high of 29,551.42 reached on February 12<sup>th</sup> to under 19,000 in a matter of weeks. The fall into bear territory occurred right after the World Health Organization declared the Covid-19 outbreak a pandemic. Many companies have lost anywhere from 20-65% of their value since the beginning of the year due to the coronavirus crisis and what some call irrational market behavior. US stocks are expected to report the biggest quarterly drop since the 2008 global financial crisis.
- Oil prices have plunged since the start of March after OPEC has failed to strike a deal with its allies regarding oil production cuts. Saudi Arabia and Russia are the primary players at odds and have sparked an all-out price war. The price war could not come at a worse time as global markets have spiraled in reaction to the coronavirus pandemic and

demand for oil has fallen as businesses close and citizens are forced to stay at home. To put things into perspective, the price of a barrel of West Texas Intermediate crude oil has fallen to \$20 from \$63 since the start of the year, which is over a 65% drop.

- The US Federal Reserve is making aggressive efforts to combat the coronavirus. The central bank has unveiled a series of market intervention measures including purchasing unlimited amounts of government debt, and introducing new lending facilities to prevent a solvency crisis.
- Former Vice President Joe Biden is expected to win the race for Democratic nominee. He has surged past Vermont Senator Bernie Sanders in the Democratic polls after a slow start on the campaign trail. In the most recent national polls, Biden leads President Donald Trump despite a slight increase in the President’s approval ratings as the White House confronts the Covid-19 outbreak.
- The US conducted retaliatory strikes against five sites in Iraq controlled by the Iran-backed Kata’ib Hezbollah militant group. Hezbollah was responsible for an attack which killed two Americans and a British soldier. Iraq’s military condemned the US strikes, further highlighting the tension between the US and Iraqi governments. This is the first attack the US has made on an Iranian proxy since the US killed Iranian General Qassem Soleimani in January, an event that radically escalated tensions between the US, Iran, and Iraq.

## Europe

- The European Central Bank (ECB) has announced an \$800 billion bond-buying program in order to support the euro during the coronavirus pandemic. The ECB has also expanded the pool of assets it can buy and has gotten rid of its policy of owning no more than 33% of eurozone member’s debt causing bonds in Italy, Greece, and Portugal to rally. So far, the ECB’s President, Christine Lagarde, has had a much more modest approach compared to her US counterpart, Jerome Powell.
- Italy, Spain, France, the United Kingdom, and Belgium have employed nationwide lockdowns in response to the coronavirus pandemic. All non-

essential businesses are closed but pharmacies, grocery stores, banks, and post offices are allowed to remain open. Citizens face steep fines if they leave their homes without the proper paperwork explaining the reason for their outing. Other European countries have imposed severe restrictions on travel, public gatherings, and have many businesses but have stopped short of nationwide lockdowns. As of March 31<sup>st</sup>, the cumulative number of coronavirus cases in Europe was over 415,000.

- The European Union (EU) has taken emergency steps to seal the Greek border after Turkey refused to stop migrant flow into Europe. Previously, Turkey and the EU had an agreement in which Turkey prevented migrants from entering the EU in exchange for financial support. After an escalation of violence in Syria, causing millions of Syrians to flee their country, Turkey has abandoned this agreement.
- Trade negotiations between the United Kingdom (UK) and EU have been postponed due to the coronavirus outbreak. Postponement aside, little progress seems to have been made so far. After the first round of trade talks, negotiators from both sides reported there was serious divergence on issues like the degree of the UK's compliance with EU rules, the enforcement of a future trade deal, and the role of the European Court of Justice, among other things.
- Russia's parliament passed a constitutional reform which allows President Vladimir Putin to run for two more presidential terms, giving him the chance to extend his twenty-year reign to 2036. Putin says this move will "guarantee" the stable development of Russia.
- Kosovo's government collapsed after a group of the ruling coalition sided with the opposition in a no-confidence vote, a vote that was encouraged by the US after Prime Minister Albin Kurti opposed a US peace deal in the region. France and Germany have condemned the US' efforts to bring down Kosovo's government in the midst of a global pandemic.

### Asia and the Pacific

- Last week, India began a 21-day national lockdown. The lockdown affects India's entire population of 1.3 billion people, making this lockdown the largest in the world. This step has caused India's largest mass movement of people in history as many citizens leave cities to return to home to rural villages. The lockdown has also broken up India's longest-standing protest against a controversial

citizenship act which had been holding strong for the last few months.

- As tensions between the US and China escalate, China expelled journalists working for three major US newspapers: The New York Times, The Wall Street Journal, and The Washington Post. China's move comes a few weeks after US President Trump limited the number of Chinese citizens who can work in the US for five state-run Chinese news organizations. The two countries have engaged in tit-for-tat jabs after blaming each other for the coronavirus outbreak.
- The Chinese economy has suffered a dramatic breakdown in January and February according to recently reported data. According to data released by Chinese authorities, industrial production plunged 13.5% due to the widespread shutdown of manufacturing operations, retail sales fell 20.5%, and fixed asset investment dropped 24.5%. These are the first declines on record for the respective sectors, all of which are important drivers of the Chinese economy. The economic figures released in mid-March have caused analysts to downgrade their outlook for the Chinese economy. Many are predicting a historic contraction in the first quarter.
- North Korea has been conducting various military exercises over the last month including launching three projectiles into the Sea of Japan. Most recently, the country test-fired a rocket system, heeding all calls for denuclearization and refusing further dialogue with any of its neighbors.
- The International Olympic Committee has postponed the Tokyo 2020 Olympics due to concerns around the coronavirus pandemic. The games have been rescheduled for next summer. The announcement follows the cancellation/postponement of many other major sporting events including the NCAA March Madness tournament, Wimbledon, and the Kentucky Derby among many others.
- Former Prime Minister of Malaysia, Mahathir Mohamad, resigned at the end of February, sending the country into a political crisis. Muhyiddin Yassin, the minister of home affairs under Mahathir, was sworn in as Prime Minister days after. After Mahathir's resignation, Muhyiddin pulled his party out of the ruling coalition which resulting in the collapse of the government.

### Middle East

- Russia and Turkey reached a ceasefire deal for Syria's northwestern Idlib province at the beginning of March, following several previous attempts at

establishing de-escalation zones in the region. The new agreement provides for a jointly patrolled security corridor between the cities of Aleppo and Latakia. The agreement brings relief to the region after several weeks of intense fighting between Turkish-backed rebels and Russian-backed Syrian government forces.

- After much back and forth over agreement details, Afghanistan's government and the Taliban have agreed to swap prisoners. Yesterday, members of the Taliban arrived in Kabul to begin the prisoner exchange process, which will likely kickstart talks between Afghanistan and the Taliban and hopefully end the country's 18-year war.
- After both claiming victory in Afghanistan's presidential election, President Ashraf Ghani and his political rival Abdullah Abdullah, held dual inauguration ceremonies. Official results recognize Ghani as the winner, but Abdullah is claiming election fraud. The political turmoil could jeopardize the peace progress made with the Taliban and the stability of Afghanistan.
- Despite calls for a ceasefire due to the coronavirus, violence continues daily in Libya. While a spokesperson for General Haftar's militias welcomed a humanitarian ceasefire, the militias have not stopped their attacks. The UN-supported Libyan government has called the spokesperson's announcement a "fake ceasefire declaration".
- Hundreds of Israelis protested in Jerusalem, mounting a protest convoy on the main highway, after Prime Minister Benjamin Netanyahu closed the courts and authorized the government's use of citizen's cell phone data to track the coronavirus. The protesters are calling these antidemocratic measures and fear Netanyahu is moving the country towards a dictatorship.

### Latin America and the Caribbean

- US lawmakers have indicted Venezuelan President Nicolas Maduro and several other government officials on narcoterrorism and drug trafficking charges. The US is offering up a \$15 million reward for Maduro's capture. The indictment is an escalation in the White House's efforts to unseat Maduro's leftist regime and support opposition leader Juan Guaidó.
- Amid the coronavirus outbreak and Colombia's national shutdown, the left-wing National Liberation Army (ELN) rebel group in Colombia has called a unilateral ceasefire for a month starting April 1st. In addition to the humanitarian ceasefire declaration,

the group said it was also open to reviving suspended peace negotiations with the government.

- Brazilian President Jair Bolsonaro's has sparked controversy over his response to the coronavirus pandemic. After being advised by health officials to self-isolate after several of his associates tested positive for Covid-19, the President decided to attend a rally in his honor instead. China, Brazil's largest trading partner, is demanding an official apology from Bolsonaro after he blamed the "Chinese dictatorship" for the outbreak. On a positive note, Brazilian soccer clubs have donated their stadiums to be used as field hospitals amid the pandemic.

### Sub-Saharan Africa

- Three Nigerian states, home to nearly 30 million people, have begun a lockdown enforced by the country's military. The lockdown includes Africa's most populous city, Lagos. Many other African nations are following suit, imposing restrictions ranging from curfews to total shutdowns.
- In a joint statement, African finance ministers are calling for a debt waiver of \$44 billion so that they can better combat the coronavirus. The statement said a debt waiver would provide "immediate fiscal space and liquidity" to the governments in their efforts to respond to the pandemic. In addition, they said their countries are in need of \$100 billion in emergency stimulus funds to support their under-equipped healthcare systems.
- Sudan's Prime Minister, Abdalla Hamdok, survived an apparent assassination attempt after a bomb exploded near his motorcade. Prime Minister Hamdok was appointed to lead Sudan's transitional government which will eventually lead to an election and full civilian rule. The leader faces resistance from Sudan's military, many Islamists, and other allies of the former Prime Minister Omar al-Bashir.
- Boko Haram militants killed over 100 people in an ambush in Chad on Chadian and Nigerian troops a week ago. The attack is the extremist group's deadliest attack ever on Chad's military. The attacks are the latest in a series of offenses launched by Boko Haram in the region. The United Nations estimates that over 36,000 people have been killed and nearly 2 million have been displaced since the group began its insurgency in 2009.
- Zambia is seeking advisors for the reorganization of the country's \$11.2 billion of foreign debt. The rising debt-service costs and falling metal prices are hurting Zambia's economy. The country's foreign exchange reserves have fallen to an all-time low as

Zambia's currency is the world's worst performer after Brazil. Zambia has sought assistance from the International Monetary Fund (IMF) since 2014. In order to move forward with an IMF program, Zambia will have to demonstrate debt sustainability. Finance Minister Bwalya Ng'andu hopes an advisor can help the country do just that.

- Moody's Investors Service cut its assessment of South Africa to "junk" due to unreliable electric supply, weak business confidence and investment, and labor market rigidities that constrain the economy. The demote to sub-investment grade caused South Africa's currency, the Rand, to weaken to a record low.

### Suggested Reading

[The coronavirus could devastate poor countries](#)

*The Economist*

[The Multilateral System Still Cannot Get Its Act Together on COVID-19](#)

Stewart M. Patrick - *Council on Foreign relations*

[Stocks Suffer Worst Quarter Since 2008](#)

Akane Otani, Anna Isaac, Joanne Chiu - *The Wall Street Journal*