

CROSSROADS

At the Intersection of Geopolitics and Geoeconomics

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

North America

- Crude oil futures went negative for the first time in history on April 20th. The price of a barrel of West Texas Intermediate crude oil for the May contract settled at -\$37.63. The combination of dropping demand, due to the coronavirus, with excess supply from the Saudi-Russian price war sent the oil markets into a tailspin. Though oil prices have recovered some, volatility in the oil markets remain very high.
- US President Donald Trump has deferred the re-opening of the US economy to state governors. The guidelines outlined by the White House Coronavirus Taskforce call for the nation to be reopened in three phases, but the group did not suggest specific reopening dates. Several states, including Alabama, Georgia, Alaska, among others, began phase one of re-opening the last week of April. Other states, such as California and Washington, have extended their stay-at-home orders through the end of May. Though most states anticipate re-openings of businesses, restaurants, etc., social distancing measures will most certainly stay in effect throughout the summer, and possibly into the fall. The foundations of the economy have experienced a structural damage, something that is not reflected in the equity markets yet.
- The US as well members of the EU, Australia and other countries are investigating China and its responsibilities regarding the spread of the virus. Demands for reparations are rising. Another version of a trade war with China may be the result of those demands. The Trump administration has temporarily halted funds to the World Health Organization (WHO). President Trump has accused the organization of covering up the crisis in the early stages and mismanaging its spread. The US is the largest funder of the WHO, giving \$500 million annually which is about 10 percent of the group's budget. Thousands of organizations, healthcare companies, and medical experts are urging the President to reverse his decision.
- The total US spending fighting the Covid-19 will reach \$4 trillion by the end of Q2 this year. That will

put the deficit at around 18% of GDP and the debt at more than 105% of the GDP. Inflationary forces may erupt in about 16-20 months while the debt burden for all nations around the globe will have negative effects.

- Unemployment continues to soar in the US as millions more people file for unemployment week after week. As of last week, the grand total of Americans who had filed unemployment claims was 30 million. The April jobs report, announced by the Labor Department on Friday, is expected to show the highest unemployment rate on record – around 16%.

Europe

- Some European countries, including but not limited to Denmark, Spain, Austria and Germany, have begun cautiously reopening their economies. However, strict social distancing rules will be kept in place including the prohibition of major gatherings until August 31st. European Union (EU) leaders have called on countries to reopen only if they meet certain conditions including large-scale testing, a sustained decline in cases, and a confirmation of health-system capacity to treat both coronavirus patients and others.
- The European Commission is expected to announce a €500 billion stimulus package on May 6th. The plan includes loans, unemployment support, credit lines for health costs, and more. However, a large rescue fund for the hard-hit countries of Spain, Italy, and Greece has yet to be agreed upon as leaders struggle to resolve long-running political tensions between the Northern and Southern European countries. The eurozone has struggled to coordinate a fiscal response to the pandemic.
- The European Central Bank (ECB) expanded its loan program to banks at record-low rates, lending as low as -1%. This move was made to reinforce the banking system's access to funds and avoid the drying up of credit. The ECB has warned that the eurozone economy could shrink by as much as 12% this year due to the Covid-19 pandemic.
- Spain, France, Germany, and Italy have issued a joint proposal to unlock the European Union's

asylum impasse. In a letter to the European Commission, the four countries explain that a “binding mechanism” to distribute asylum applicants should be included in the New Pact on Migration and Asylum. The letter also calls for other European countries to offer “other measures of solidarity” in order to create a continent-wide solution to the migration problem.

Asia and the Pacific

- Unsurprisingly, US intelligence has revealed that China underreported the number of Covid-19 cases and deaths in the country and purposefully concealed the extent of the outbreak. US President Donald Trump stands by his claim that China is responsible for the Covid-19 outbreak and did not take the proper precautions to prevent its spread to the rest of the globe. Chinese officials have answered President Trump’s comments by spinning a story that the US was the source of the virus.
- For the first time in decades, China’s economy contracted in the first quarter. At the beginning of April, China reported a 6.8% drop in GDP for Q1 of 2020. Many are viewing this report as a foreshadowing of the economic hardship to come for the rest of the world as many countries still struggle to contain the coronavirus. On May 22nd, China will hold the annual meeting of the National People’s Congress. Over 5,000 delegates will convene to discuss the budget which is expected to include a stimulus package to counter the economy effects of the pandemic.
- In South Korea’s parliamentary elections held in mid-April, President Moon Jae-in’s Democratic Party won in a landslide. Despite the election being held during a pandemic, the country saw its highest voter turnout in 28 years.
- Hong Kong’s pro-democracy protests have started gaining traction once again. A week ago, 300 people gathered at a shopping mall to hold a singing protest, despite a ban on public gatherings of more than four people. Hong Kong riot police split up the crowd, which was the first sizeable protest since the government-imposed restrictions on gatherings in response to Covid-19. Tensions between protestors and Beijing have escalated over the last few weeks after 15 pro-democracy activists were arrested.
- Several countries are calling for debt relief on the massive infrastructure projects the Chinese government has financed as part of the Belt and Road Initiative. Chinese officials have said they are considering suspending interest payments on loans among other measures but warned against any

expectation of China forgiving the debts outright. Many countries participating in China’s Belt and Road Initiative were already in precarious debt situations before the Covid-19 pandemic emerged.

Middle East

- After weeks of an all-out price war, Russia and Saudi Arabia reached an agreement to cut oil production. The official deal announced by OPEC+ includes a production cut of 9.7 million barrels per day in May and June, as well as additional, smaller cuts in the months to follow. Other oil producing countries are following suit and cutting production levels. However, the cuts are not enough to make up for the nearly 30% drop in global demand as a result of Covid-19.
- Protesters have once again taken the streets in Lebanon, continuing the movement against the country’s political elite which erupted in October of last year. The country is experiencing its worst financial crisis since its civil war which began in 1975. The economic crisis, which has resulted in a currency collapse and soaring food prices, has only been exacerbated by the Covid-19 pandemic.
- Rebel-leader in Libya, General Khalifa Haftar, has agreed to a pause in fighting for the Muslim holy month of Ramadan. Fighting between Haftar’s army and the UN-backed Libyan government has escalated in recent weeks as the rebels launch offensive after offensive, even in the midst of a global pandemic. Haftar has refused international calls for a temporary cease-fire to allow Libyan authorities to respond to the coronavirus outbreak.
- Israeli Prime Minister Benjamin Netanyahu will present his national unity government to the Knesset this week. Netanyahu’s party, Likud, and the Blue and White party headed by Benny Gantz, reached a coalition deal a few weeks ago after 17 months of political stalemate. On the other hand, Israel’s Black Flag protest has gathered momentum. A week ago, around 2000 people gathered at Rabin Square in Tel Aviv to demonstrate against the unity deal and stand in support of greater democracy.

Latin America and the Caribbean

- Brazilian President Jair Bolsonaro has received another wave of backlash after firing his health minister, Luiz Henrique Mandetta. Bolsonaro has called for swift economic reopening while Mandetta encouraged strict lockdown measures to fight the coronavirus. In an additional leadership shake-up, Justice Minister Sergio Moro resigned and has accused President Bolsonaro of interfering in federal

investigations. Bolsonaro's sons are currently under investigation for ties to the local mafia and a defamatory disinformation scheme.

- Fourteen Latin American and Caribbean countries are requesting assistance totaling \$4.48 billion from the International Monetary Fund (IMF) in order to combat the coronavirus outbreaks in their countries. The region, which was already falling under economic distress before the pandemic, is bracing for its worst recession in 50 years.
- Argentina has postponed payments on \$10 billion of dollar-denominated debt governed by local law until 2021, raising concerns about the country's approach to debt restructuring. The country is currently in negotiations with the IMF over \$83 billion in debt issued under foreign law. Creditors are becoming increasingly concerned that Argentina will default on their debt while others have hope in the fact that President Alberto Fernandez has given strict instructions to the economy minister to not default.
- Gangs and rebel groups in El Salvador, Brazil, and Colombia have imposed curfews and called cease-fires in response to Covid-19. Capitalizing on the cease-fires, the Colombian government is expanding eligibility for sentence reductions and economic assistance for those who leave illegal armed groups. However, the nearly 200 active criminal groups in Mexico continue violent clashes.
- Last month, the Venezuelan government paid Iran \$500 million worth in gold bars in exchange for the Middle Eastern country's assistance with operations at Venezuelan oil refineries. This gold transaction leaves the crisis-stricken country with only \$6.3 billion left in hard-currency assets, the lowest amount in 30 years.

Sub-Saharan Africa

- Ghana's President, Nana Akufo-Addo, said the country's robust coronavirus testing and tracing programs have been successful in controlling Ghana's outbreak. South Africa are taking dramatic steps in tracking the virus as well. It is one of the first countries to implement door-to-door screening nationwide. On the other hand, most other African countries are falling way behind on testing due to lack of knowledge of the virus and lack of healthcare resources.
- A new wave of desert locusts, which began ravaging Eastern Africa two months ago, are putting millions of Ethiopians, Kenyans, and Somalians in need of emergency food assistance. The United Nations claims this second wave is 20-times worse than the first and it comes at a very inconvenient time.

Coronavirus crackdowns have slowed efforts to fight the locust infestation, leaving what little farmland is left completely vulnerable.

- Mozambique's military killed 129 insurgents in the month of April in retaliation for an attack conducted by rebel militias in which 52 civilians were murdered. The militias are suspected to have ties with Islamic State. The Cabo Delgado region of Mozambique has been oppressed by violence for the last three years.
- Global greenhouse gases are expected to fall 8% this year. This drop comes in tandem with a global energy demand decrease of at least 6%. The United Nations warns that this level of reduction must occur every year in order to limit global warming to 1.5 degrees Celsius above pre-industrial levels. The decline in greenhouse gases has certainly been aided by the coronavirus outbreak which has restricted travel and required most of the world to stay at home.
- Finance ministers from the Group of 20 (G-20) have agreed to suspend debt repayments for the world's poorest countries through the end of the year. The decision will free up, collectively, close to \$20 billion which will be better put to use to improve healthcare sectors and support the coronavirus recovery.

Suggested Reading

[COVID-19 Could Bring Down the Trading System](#)

Chad P. Bown, *Foreign Affairs*

[The \\$10 Trillion Response: How Are Countries Responding to the Economic Crisis?](#)

Jonathan Masters, *Council on Foreign Relations*

[Brazil's business leaders fret over Bolsonaro](#)

Andres Schipani and Bryan Harris, *Financial Times*

[As World Comes to Halt Amid Pandemic, So Do Migrants](#)

Kirk Semple, *The New York Times*