

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

- At the beginning of May, both President Donald Trump and top Chinese officials reaffirmed that the phase one trade deal was still on track. Now, the status of the trade deal hangs in the balance as China challenges Hong Kong's autonomy with its new national security bill, Covid-19 accusations rage on, and US Congress passed a human rights bill that will punish Chinese officials for detaining more than one million Muslims in internment camps.
- President Trump has announced he will be withdrawing the US from the World Health Organization. In a speech last Friday afternoon, the President stated, "China has total control over the World Health Organization" and said it is no longer worth it for the US to be a member. President Trump previously accused the organization of mismanaging the coronavirus response and failing to warn the world of the danger it posed. Given that the US was the largest single donor, giving nearly \$400 million last year, the withdrawal will most certainly have an effect on the multilateral organization's ability to fight Covid-19 and coordinate a global response to the pandemic.
- President Trump has signed an executive order targeting social media and tech companies. The order is expected to curb the legal protections, known as Section 230, that shield tech companies from liability for the content posted on their platforms. However, the legality of the order has been criticized and legal experts have said the directive will almost certainly be challenged in court. If legal, the order would open the door for federal officials, and others, to punish social media companies, which would in turn expose tech companies to more lawsuits. President Trump's action comes after Twitter labeled some of his Tweet's with fact checks.
- Protests have flared up across the US after an African American man, George Floyd, was killed by a white Minneapolis police officer. Floyd's death has re-ignited the movement against racial injustice and police brutality. While most of the protests have been peaceful, rioting and looting has broken out in

several US cities. As a result, the National Guard has been deployed. Today marks the 7th day of nationwide unrest since George Floyd's death.

- Though US Covid-19 deaths reached the grim milestone of 100,000 this month, all states and US territories have eased Covid-19 induced restrictions to some degree. Many of the re-openings came just in time for Memorial Day weekend. Hundreds of millions of people are moving around again as stay-at-home orders are being lifted. Even New York City, the city hardest hit by the virus, plans to re-open on June 8th. In other US Covid-19 news, the White House is fast tracking 14 potential vaccines in hopes of meeting the January goal to have a vaccine available for use. Optimism is running high and markets are reflecting it as US markets continue making gains.

Europe

- The European Commission has proposed a stimulus package worth €750 billion (most of which will represent grants rather than loans) to combat the deep recession that has been caused by the coronavirus pandemic. The move might be perceived as a first step towards debt mutualization in the EU, a challenge that will very difficult to overcome. The package would bring relief especially to the hard-hit nations of the South. . Previous to the European Commission's proposal, German Chancellor Angela Merkel and French President Emmanuel Macron presented a joint position on an EU recovery fund worth €500 billion. German Chancellor Angela Merkel has already said that negotiations will not be easy. The proposal will be discussed at the next European Union summit on June 19th. Commission President Ursula von der Leyen has a hard road ahead of her as she tries to win the backing of the member states.
- Earlier this month a fresh round of Brexit talks stalled, raising concerns of a no-deal Brexit. Great Britain and the European Union are headed to another round of trade talks before the European Union summit on June 18th and 19th. London will have to make up its mind about asking for an extension to the transition agreement by the summit. The sterling pound is close to its lowest point in

nearly three decades thanks to the Brexit rollercoaster, the prospect of negative interest rates and a deep recession.

- French President Emmanuel Macron lost his parliamentary majority this month after 17 environmentalist and feminist ministers created a new political group in the National Assembly called the *Ecologie Démocratie Solidarité* (EDS). The new group's proposals include a temporary wealth tax and universal income payments to every citizen over the age of 18 in order to help the country through the coronavirus crisis. Macron's party, *La République en Marche* (LREM), is now one person short of the absolute majority in parliament. Though the move threatens the LREM's power in the parliament, the dissidents are not establishing a formal political party.

Asia and the Pacific

- China will impose a new national security law on Hong Kong which will severely limit the freedom and autonomy of the region. Under the law, activist groups can be banned, courts can impose lengthy jail sentences on national security grounds, and mainland security agencies can operate in the city. Additional security forces have already been sent to Hong Kong to monitor the streets. The act has drawn international condemnation from countries such as the US, the United Kingdom, Canada, and Australia, among others. President Trump has announced the end of Hong Kong's special trading status due to the fact it can no longer be considered autonomous from mainland China.
- Pro-democracy protests began to gain momentum once again in Hong Kong after the city was re-opened. Since then, hundreds of protesters have been arrested by Chinese authorities who have cited a ban on mass gatherings as their justification for the arrests. The movement has been severely wounded by the mainland's national security law. Pro-democracy activists are now afraid to take to the streets and are forced to think of a new strategy against their oppressors.
- Chinese and Indian soldiers have been clashing on the countries' shared border in the Himalaya region. In early May, Chinese forces moved into territory that has long been considered Indian territory by both nations. Some say the tensions are rising because of a road India has recently built in the Galwan valley near the Line of Actual Control. The road could boost India's ability to mobilize forces rapidly in the case of a conflict. The events of this month have escalated a long-standing border dispute

between India and China who share a border that is 2,100 miles long and poorly demarcated.

- In yet another scene of renewed aggression, China recently threatened to attack Taiwan and "smash separatists" if the nation prevents reunification. While convening at Beijing's Great Hall of the People on the 15th anniversary of the Anti-Secession Law, General Li made it very clear that military action is not out of the question. China has also continued its aggression in the South China Sea this month. Most recently, China sank a Vietnamese fishing vessel. China has been using its naval forces to infringe upon disputed territory and pressure nations, especially Vietnam and the Philippines.
- The US Justice Department has charged twenty-eight North Korean and five Chinese citizens with laundering more than \$2.5 billion to support North Korea's nuclear program. US officials are calling this the largest sanctions violation case brought against North Korea.

Middle East

- Iraq's parliament has approved the government of US-backed Mustafa al-Kadhimi after five months of political deadlock. The country found itself in a political crisis after Prime Minister Abdel Abdul Mahdi resigned amid anti-government protests in November. Al-Kadhimi has promised to organize early elections and form a transitional government to bring the country toward stability.
- After receiving approval from Israel's parliament, Prime Minister Benjamin Netanyahu and Defense Minister Benny Gantz's unity government was sworn in. Israel's top court ruled that Netanyahu is allowed to govern despite his criminal indictment and corruption trial which began last week. In one of his first official moves, Gantz has ordered Israel's Defense Forces to prepare for annexation of the West Bank at once. The annexation plans have sparked international criticism as many consider that such a move is illegal by international law standards.
- Despite having shifted back to an "aggressive stance" towards the Taliban at the beginning of the month, the Afghan government has moved forward with the agreed upon prisoner swap. The two parties are currently under a temporary cease-fire which the Afghan government hopes will be extended following the exchange. A U.S.-Taliban deal calls for the release of five thousand Taliban prisoners and one thousand Afghan soldiers. It is the hope that this confidence-building measure will further advance peace talks. Amid the progress being made between the Taliban and the Afghan government, the

Pentagon is drafting plans to withdraw troops from Afghanistan.

- Libya's pro-government forces have escalated attacks on Khalifa Haftar, taking control of a string of cities in western Libya and continuing the battle for the country's capital, Tripoli. Foreign interference has been a strong factor in the Libyan conflict. Last week, the US claimed that Russian fighter jets were deployed in Libya to support Haftar and his group, the Libyan National Army (LNA). The LNA is also supported by Egypt and the United Arab Emirates while Libya's government forces are supported by Turkey, which recently deployed more troops to Libya, and the United Nations. The US is considering deploying a training unit to Tunisia over concerns of Russia's activity in the region.

Latin America and the Caribbean

- At the end of May, the World Health Organization declared Brazil the new epicenter of the coronavirus pandemic. The country has over 515,000 confirmed cases and nearly 30,000 deaths. Brazilian President Jair Bolsonaro has been criticized for his response to the pandemic which has led to the resignation of two health ministers in less than a month. Several countries, including the US, have suspended travel from Brazil in order to hinder the spread of the virus.
- Following months of negotiations to resolve their debt situation, Argentina defaulted for the ninth time in history after failing to make a payment on three of its bonds. However, the government and its bondholders continue their dialogue, hoping to reach a deal to restructure \$65 billion worth of debt. Negotiations may be extended past the June 2nd deadline in order to give the parties more time to reach an official deal. Earlier in the year, Argentina saw a sharp drop in the value of its currency, landing them in another economic crisis which has been exacerbated by Covid-19.
- Latin America's largest airline, LATAM filed for bankruptcy protection in the US following an extreme downturn in business due to the coronavirus pandemic. The airline is based in Santiago, Chile but has affiliates in Peru, Colombia, Ecuador, and the US. Before filing for bankruptcy, LATAM laid off 1,400 workers in Latin America. This may be just the first in airline bankruptcies.
- Venezuelan officials have been welcoming Iranian tankers carrying gasoline. Two have arrived so far, with three more on their way. Iran claims this circumvents the US sanctions that prohibit oil trading with Venezuela. Iran is one of Venezuelan

President Nicolás Maduro's last allies, alongside Russia and Cuba.

- The Organization for Economic Cooperation (OECD) is urging Brazil to investigate former Justice Minister Sergio Moro's recent claims that President Jair Bolsonaro tried to tamper with police investigations. Moro's accusation comes at a time when Bolsonaro's sons are being investigated for involvement in a defamatory disinformation scheme and having ties to the local mafia. Pressure by the OECD to probe the claim comes just weeks before the bloc meets to discuss Brazil's candidacy to the organization.

Sub-Saharan Africa

- Burundi's election commission has declared the governing party's candidate, Evariste Ndayishimiye, the winner of the country's presidential election with nearly 70% of the vote. The opposition candidate, Agathon Rwaswa, has claimed election fraud and is seeking to overturn the results of the election in court.
- An African Union report found that Ethiopian troops shot down a Kenyan coronavirus aid plane over Somalia, killing all six people on board. According to the Ethiopian government, the plane was shot down due to concerns that it was a suicide attack. Somalia, Kenya, and Ethiopia have all launched investigations into the incident. The attack comes amid strained ties between Kenya and Somalia.
- The Senate Foreign Relations Committee unanimously advanced a piece of legislation to formally institutionalize a counterterrorism partnership with several North African and Sahel countries. Under the Trans-Sahara Counter Terrorism Partnership, the US provides military, law enforcement, and logistical support to partners in the Sahel region and Algeria, Morocco, and Tunisia. The bill, which will have to be approved by the US House of Representatives, comes at a time when the Pentagon is considering a troop drawdown in the region.
- In a survey conducted by the Africa Centers for Disease Control (ACDC), two-thirds of people surveyed from 20 African countries said they would run out of food and water if they had to stay at home for 14 days. The lowest-income households expect to run out of food and money in less than a week if there are restrictions that prevent them from working. The results of the survey highlight the issue of food security that many African countries struggle with. The ACDC also warns that if

measures are not taken to address these everyday needs, there is a high risk of unrest and violence.

Suggested Reading

[The Great Unequalizer](#)

Mohamed A. El-Erian & Michael Spence, *Foreign Affairs*

[The EU is in a muddle over Libya](#)

Financial Times

[Protests sparked by George Floyd's death are still raging](#)

The Economist