

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

- Over the last month, tensions between the US and China have escalated to new highs. At the beginning of July, the two countries held dueling naval exercises in the South China Sea. Shortly after the exercises, US Secretary of State Mike Pompeo declared that most of China's claims in the South China Sea are unlawful, a clear jab at Beijing. In addition, US President Donald Trump signed an executive order officially ending Hong Kong's preferential trading status in response to the new national security law for the city. Furthermore, the US blacklisted more Chinese companies over Uighur human rights abuses. Amid the deteriorating relations with China, the US ordered China to close its consulate office in Houston which was considered an "unprecedented escalation" by Chinese officials. While these are just a few of the major events which have occurred over the last month, tensions continue to build over a range of issues which also include the pandemic, the expulsion of journalists in both countries, and Chinese hacking.
- Microsoft has announced that it is negotiating to buy the US part of Chinese-owned social media app TikTok. The app has become wildly popular in the US which has prompted concerns over data and tech security. Fearful that TikTok could share user data with Beijing or tailor content to serve Chinese interests, President Trump previously threatened to ban the app in the US. However, President Trump has reportedly given Microsoft and TikTok's parent company, ByteDance, 45 days to solidify an agreement. The purchase could place Microsoft in a better position in the technology sector and further poke at Beijing.
- President Trump has sent hundreds of federal law enforcement agents to several cities, including Kansas City, Chicago, and Albuquerque. The President along with the Justice Department say the decision was made to confront a wave of crime and violence and bolster violent crime task forces. The move has sparked renewed backlash amid the already heightened scrutiny on federal law

enforcement interventions. This skepticism has most recently been prompted by the deployment of Department of Homeland Security agents to Portland where the agents clashed with protesters in the name of protecting federal property from vandalism.

- The US and Russia launched a new phase of arms control talks in Vienna last month. The talks will cover a range of topics including military doctrines, transparency, and security in space. In less than a year, the New START agreement – the last remaining nuclear arms-control deal between the US and Russia – will expire. China was also invited to participate in negotiations, but refused the invitation. The US and Russia together possess about 90 percent of the world's nuclear weapons, therefore making an arms control agreement between them critical to the stability of the nuclear world order.
- Relations between India and the US are reaching new heights. A few weeks ago, the two countries conducted a cooperative naval exercise in the Indian Ocean, showing apparent strength against Chinese presence in the Pacific. Furthermore, India and the US are discussing the possibility of a free trade agreement. The two countries have been negotiating a limited trade deal since last year. The strengthened relationship between the US and India comes at a time when both are at odds with China.

Europe

- After a marathon summit, European Union (EU) leaders finally agreed on a massive coronavirus recovery package. EU members will jointly borrow 750 billion euros for an economic recovery fund. The fund will be disbursed in the form of grants and loans. At the summit, member-countries also agreed on a 1+ trillion euro seven-year budget. The negotiations exposed divisions within the bloc as Austria, Denmark, the Netherlands, and Sweden (a.k.a. as the frugal four) pushed for cuts while some of the other countries, including Spain and Italy, opposed them.
- In the second quarter of 2020, the eurozone's gross domestic product (GDP) dropped a record-setting 12.1 percent. Spain saw the greatest decline, falling 18.5 percent and wiping out seven years of growth.

While all eurozone countries are experiencing some level of a Covid-19-related shock to their economies, the effect has been disproportional. The most vulnerable countries, such as Spain and Italy, have been hardest hit while others, such as Germany and France, are returning to normal much quicker.

- A ceasefire between Ukrainian government forces and pro-Russian separatists in eastern Ukraine has gone into effect. The ceasefire agreement is supported by Russian President Vladimir Putin and Ukrainian President Volodymyr Zelensky, marking the latest progress in a series of failed peace efforts. Since 2014 when Moscow annexed and took over Ukraine's Crimea peninsula and supported the rebellion in the eastern part of Ukraine, more than 13,000 people have died.
- In July, France, the United Kingdom, and Germany joined Australia and Canada in suspending their respective extradition treaties with Hong Kong. The action was made in response to China's imposition of a new national security law on the city and the postponement of Hong Kong's legislative elections.
- The United Kingdom (UK) has barred Huawei, the Chinese telecommunication giant suspected of being a front of the Chinese communist party, from the country's 5G network. The UK has been pressured by the US to ban Huawei, claiming it will allow the Chinese government to spy on them. The move heightens tensions between the UK and China which have intensified since the new national security law was implemented by China in Hong Kong. Such recent actions taken by the UK and US are evidence that a mounting Western front against Chinese influence is emerging.
- The famous sixth century Hagia Sophia has been reverted back to a mosque. The world-renowned piece of architecture was originally a Byzantine cathedral, then an Ottoman mosque, and was converted into a museum in 1934, making it a symbol of secularism in modern-day Turkey. Many view the transition of the Hagia Sophia as a major political move by President Erdogan because it brings him closer to fulfilling his pledge of making more room for Islam and, in turn, winning over more Muslim voters in the midst of a very weak economy and a hubristic agenda to take over land and claim sea rights that do not belong to Turkey.

Asia and the Pacific

- Hong Kong's chief executive, Carrie Lam, used her emergency powers to postpone the September 6th legislative elections until next year. Just a day before the announcement was made, 12 opposition

candidates were barred from running in the election on grounds for opposing the new national security law. The decision has sparked international outrage and raises further concerns that the rights and freedoms of Hong Kong citizens are eroding.

- Monsoon rains have flooded Bangladesh, Bhutan, India, Myanmar, and Nepal over the last few weeks. So far, more than 200 hundred people have died, and millions have been displaced. Officials warn that the floods will continue.
- In response to the US' closure of the Chinese consulate in Houston, Texas, China has closed the US consulate in its Chengdu province. Chinese officials called the shutdown a "legitimate and necessary response". The behavior between the two global powers sparks fear that diplomatic ties are beyond the point of no return.
- After coming close to finalizing an agreement to drawdown troops from the India-China border, talks between Indian and Chinese military officials have stalled. The decades-long border dispute reached new highs last month when 20 Indian soldiers were killed in a clash with the Chinese military.
- Singapore's ruling party, the People's Action Party, unsurprisingly won July's election. The party has won the majority in every election since 1959, but public dissatisfaction is slowly rising. The opposition was able to grab 10 of the 93 parliament seats as a number of Singaporeans worry that the country's leaders may be ill-equipped to shepherd Singapore through a global crisis.

Middle East

- China and Iran have been negotiating an economic and security agreement which would significantly increase China's investment in Iran. In exchange for Chinese investment, Iran will provide China with a stable and discounted supply of Iranian oil for the next 25 years. A trade and military agreement between Iran and China would undoubtedly seek to undermine the US and strengthen China's influence in the Middle East. Considering the crippling economic sanctions the US has placed on Iran, a China-Iran agreement would create a new and dangerous flashpoint in the relationship between the US and China.
- Yesterday, there was a massive explosion at a warehouse in Lebanon's capital city of Beirut. At least 100 people have been killed and more than 2,500 are wounded. The direct cause of the explosion is still being investigated. The country has been experiencing considerable unrest over the last several months as the country fell into financial

crisis. Just last week, Lebanon's Foreign Minister resigned and, on his way out, warned the country "is slipping into a failed state."

- The Afghan government and the Taliban agreed to a 3-day ceasefire which took effect on July 31st for the Muslim festival of Eid al-Adha. As a goodwill gesture, Afghan President Ashraf Ghani ordered the release of 500 Taliban prisoners and is considering adding to that number. A Taliban spokesperson announced the group has completed the release of 1,000 prisoners, fulfilling an obligation that was part of a February deal with the US. President Ghani has called on the Taliban to enter peace talks as soon as possible.
- The Southern Transitional Council (STC), Yemen's separatist party, has abandoned its claim to self-rule, paving the way towards peace and the implementation of the Riyadh Agreement. The Riyadh Agreement is a deal which aims to unite Yemeni forces with the opposing Houthi rebels. Saudi Arabia had recently unveiled a framework for expediting this agreement, which put pressure on the STC to make their declaration. Yemen's government has accepted the STC's declaration and has begun carrying out the Saudi plan. It is the hope that reunification of Yemeni forces can bring an end to the country's 5-year war.
- Israel has accused Lebanon's Hezbollah of launching a raid across the countries' shared border, prompting Israeli forces to open fire. The Iran-backed Hezbollah has denied Israel's claims and Lebanon's Prime Minister has accused Israel of violating a UN resolution with "dangerous military escalation." Israel is also dealing with attacks to its North and South after Palestinians launched a rocket into Israel near the Gaza Strip and four people allegedly tried to plant explosives near the Syrian border.
- Russia and Turkey have agreed to push for a Libya ceasefire. Turkey demands that rebel commander Khalifa Haftar withdraw his troops from critical positions for a deal to be made. However, Haftar shows no signs of stepping down. Turkey supports the UN-recognized Government of National Accord in Libya (GNA) while Russia backs Haftar. Adding to the mix, Egyptian President Abdel Fattah al-Sisi has threatened to intervene militarily on Haftar's behalf if the GNA presses an attack on the key coastal city of Sirte and the US is claiming that Russia has posted military hardware and possibly mercenaries outside of Sirte in preparation for a GNA attack.

- While meeting with Iraqi Prime Minister Mustafa al-Kadhimi, Iranian Supreme Leader Ali Khamenei said Iran would "definitely strike back" in response to the US' killing of Iranian commander Qasem Soleimani in January.

Latin America and the Caribbean

- Latin America has quickly become the region hardest hit by the Covid-19 pandemic. The number of official cases in the region has reached the grim milestone of 5 million. Brazil and Mexico have reported the most deaths, falling right behind US Covid-19 related death numbers. Latin America's widespread poverty, dependence on commodity prices, and reliance on informal labor has heightened the economic consequences associated with the pandemic. According to analysts from Reuters, Mexico's GDP is expected to contract nearly 18 percent in the second quarter. This would be the steepest drop in Mexico's GDP since early 1993.
- Brazil's President Jair Bolsonaro has tested positive for Covid-19 at least three times now. Ironically, the President has continued to downplay the effects of the virus, calling it a "little flu". Bolsonaro has consistently opposed lockdowns and flouted social distancing measures even as Brazil holds the second-highest number of Covid-19 cases and deaths in the world.
- Ecuador has reached an agreement with its bondholders to restructure \$17.4 billion in sovereign debt. The agreement reached also allows Ecuador to hold off on payments and other obligations as the country struggles amid the pandemic. Ecuadorian President Lenin Moreno says the deal will allow the country to focus on social protection and economic recovery.
- Argentina has finally reached a deal with its biggest creditors to restructure \$65 billion of its foreign bonds after the country's ninth debt default in May. The proposal will also grant Argentina significant debt relief. Bondholders still need to vote on the agreement, but a veto scenario is unlikely. Recently Argentina also announced it would be seeking new funding from the International Monetary Fund.
- Bolivia's presidential election has been postponed for a third time. The Supreme Electoral Tribunal made the decision to delay the election because of the uncontrolled spread of the Covid-19 virus in Bolivia. The election, which was slotted for September 6th, will now be on October 18th. The country has been led by interim President Jeanine Anez since Evo Morales was ousted last year.

Sub-Saharan Africa

- After failing to reach an agreement with neighboring countries, Sudan and Egypt, Ethiopia has confirmed that the water levels of the Grand Ethiopian Renaissance dam are rising. Ethiopia planned to begin filling the dam, taking advantage of the country's rainy season, with or without an agreement. Ethiopian Prime Minister Abiy Ahmed has hailed the "historic" filling of the dam and says it has been conducted without causing harm to anyone. The Ethiopian government has also said that this year's filling was a natural and inevitable part of construction. Leaders from Ethiopia, Egypt, and Sudan have agreed to continue with negotiations very soon.
- The government of Zimbabwe has struggled to quell anti-government protests over the last several months. Recently, Zimbabwe's ruling party threatened to expel the US ambassador to Harare if he continues "mobilizing and funding disturbances, coordinating violence, and training insurgency", as the dictatorial regime explains. Zimbabwean officials have accused Western governments of supporting the opposition movement.
- The Economic Community of West African States (ECOWAS) has announced a plan to solve Mali's political crisis. The plan calls for a swift unity government formation and threatens to sanction those who are opposed to resolving the crisis. The bloc's plan also recommends that 31 members of parliament step down and that new elections be held. Mali has been dealing with its worst political crisis in years and neighbors are afraid the worsening conflict could spiral into civil war.
- After declaring an end to its 10th Ebola outbreak in June, the Democratic Republic of the Congo (DRC) is suffering, yet again, another outbreak. There are now more than 60 cases of the disease in the western part of the country. The World Health Organization is calling for additional funds to combat the disease, though support is difficult to come by as the world reels from the Covid-19 pandemic.

World

- Over the last month the world has seen a resurgence of Covid-19 cases. Worldwide there have been over 18.4 million confirmed cases and more than 692,000 deaths. The United States leads the globe with the highest number of confirmed cases and deaths – 4.8 million and 158,000 respectively. Flare-ups are occurring in many countries that have recently eased their lockdowns and travel restrictions. For example, Spain and Japan's cases are up 6-fold over the

month while Australia's are up 11-fold. Though there have been promising vaccine trial results headlining the news in recent weeks, it is clear the virus is not going away anytime soon.

- Members of the Organization of the Petroleum Exporting Countries (OPEC) and a group of allied countries, including Russia, have agreed to begin increasing oil production after making major cuts in April in response to the pandemic. Oil production will be increased by around 1.6 million barrels per day starting in August. Oil demand took a huge blow early on in the pandemic as countries imposed stay-at-home orders all the while oil supply ran at an all-time high. Though oil prices have seen high volatility over the last few months, demand is starting to recover.

Suggested Reading

[Beware the Guns of August—in Asia: to Keep U.S-Chinese Tensions From Sparking a War](#)

Kevin Rudd, *Foreign Affairs*

[Fears that America is experiencing a serious crime wave are overblown](#)

The Economist

[White House condemns foreign military presence in war-torn Libya](#)

South China Morning Post