

# CROSSROADS

*At the Intersection of Geopolitics and Geoeconomics*

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

## North America

- US support for Ukraine continues to ramp up as Russia's invasion of the country continues. **During a visit to Kyiv, US Secretary of State Antony Blinken pledged \$2 billion in long-term aid to Ukraine and 18 other countries** – including Albania, Bulgaria, Greece, Poland, Romania, and others - that are at risk of a Russian invasion. In a separate announcement, the Department of Defense promised an additional \$675 million in security aid for Ukraine. The latest aid brings total US aid to Ukraine to \$13.5 billion.
- **The US hosted the first in-person meeting of the Indo-Pacific Economic Framework (IPEF) in Los Angeles this month.** Ministers from 14 countries were in attendance to discuss the US-led initiative which is aimed at competing with China in the region. At the two-day conference, a new digital skills training initiative – the IPEF Upskilling Initiative – was announced, but because the IPEF is not a formal trade agreement, tariffs and market access were not topics of discussion. The Upskilling Initiative has support from 14 American companies - including Amazon, Apple, Google, and Microsoft - to provide education and training opportunities for women and girls over the next 10 years.
- **Secretary of State Antony Blinken visited Mexico last week to continue the U.S.-Mexico High-Level Economic Dialogue** which was relaunched last year by US President Joe Biden and Mexican President Andrés Manuel López Obrador. Officials addressed economic cooperation, migration challenges, and arms/drug trafficking. The US-Mexico relationship has been strained in recent months as President Obrador snubbed President Biden by refusing to participate in the Summit of the Americas, and as Washington challenged the Mexican government's support for state-owned companies which limits the ability for US firms to enter the Mexican market and which may be in violation of the USMCA trade agreement.
- **Rail workers and companies reached a tentative labor agreement** shortly following a White House intervention. The deal averts a nationwide rail strike that was set to go into effect last Thursday night.

President Biden was personally called into negotiations on Wednesday night to discuss a deal and express the economic catastrophe that would result from a rail system shut down. The deal gives union members an immediate 14% raise with back pay dating to 2020 and raises totaling 24% during a 5-year contract (2020-2024). Once the deal is ratified, union members will also be given an average of \$11,000 per person in bonuses. The crisis shook up stock markets this week as investors and businesses feared a strike would threaten the wider US economy. 30% of US freight is moved by rail.

## Europe

- Russian President Vladimir Putin confirmed that the stoppage of gas flows through the Nord Stream 1 pipeline (which has been shuttered since last September) was not due to “maintenance,” but that the pipeline was in fact being used as a political weapon against Europe. **The Kremlin stated gas would only begin flowing through the pipeline once European nations dropped their sanctions on Russia.** Putin's statements have sent the European Union (EU) into overdrive as it attempts to prevent an all-out energy crisis this winter. European Commission President Ursula von der Leyen has proposed a new set of energy market reforms to reduce energy prices. Meanwhile, Germany has taken control of Russian-owned refineries located in the country, and it has nationalized its largest natural gas importer, Uniper, in a \$29 billion takeover.
- Last week, Ukraine's military announced it has recaptured 3,000 square kilometers of Russian-held territories in the Kharkiv region following a weekend blitz. **Since the beginning of September, Ukraine has reclaimed more than 8,000 square kilometers** total, perhaps marking a turning point in the war. As Ukraine attempts to keep up the momentum, Russian President Vladimir Putin announced a new mobilization of troops yesterday, calling up 300,000 reservists to join the fight against Ukraine. Putin also said Russia “will use all the means at its disposal” to defend its territorial integrity, supposedly hinting at his willingness to use nuclear weapons.

- **Italy will be holding snap elections on September 25<sup>th</sup>** following the collapse of Mario Draghi's unity government two months ago. Giorgia Meloni's far-right Brothers of Italy party, with support from League and Forza Italy, is leading in the polls and heading for a majority coalition in both houses of parliament. Enrico Letta is the center-left Democratic Party candidate running against Meloni. Meloni says she has no time for Putin and is pro-NATO and pro-Ukraine, unlike some of her right-wing allies, but some other Western leaders are concerned a far-right government in Italy could create cracks in European unity and weaken the Western front against Russia and China.
- **Ulf Kristersson has been given a mandate to form Sweden's next government** after winning the majority vote in the general election earlier this month. Kristersson's party, the Moderates, along with their right-wing bloc allies - the Sweden Democrats, Christian Democrats, and Liberals - won 176 seats in parliament, narrowly beating the center-left's 173 seats. Kristersson is widely expected to form a minority government. The election has been seen as a watershed moment for Swedish politics because of the influence the anti-immigration, far-right Sweden Democrats have gained.
- **The United Kingdom's Queen Elizabeth II died on September 8<sup>th</sup> at 96 years old.** Having been coronated in 1953, her 70-year reign was the longest of any monarch in British history, and the longest recorded for any female head of state. Her son Charles III succeeds her. The Queen's death comes two days after Liz Truss became the UK's new prime minister. As much of the UK has gone into mourning, the nation faces its worst bout of inflation in 40 years, potential fuel shortages due to the conflict in Ukraine, and a trade battle with Northern Ireland over Brexit.

### Asia, Eurasia & the Pacific

- **Chinese President Xi Jinping met with Russian President Vladimir Putin at a regional security summit** in Uzbekistan this month in a clear display of their support for one another. Putin applauded Xi for his "balanced" position on the war in Ukraine and affirmed Moscow's support for Beijing's policy towards Taiwan, accusing the US of stirring up tensions over the island.
- At the end of August, China announced new Covid-19 lockdowns for nearly 4 million people. **Tens of millions of people are now under weeks-long lockdown mandates in China** even though the number of active cases is reported to be less than

3,500. Residents across China are reporting food shortages and the inability to get proper medical care. The economic hardship of the lockdowns is intensifying as residents can't work and industry is shut down. For the first time in 30 years, the economic growth outlook for China this year is slower than the growth of all other emerging Asian economies.

- **Uncharacteristic monsoon rains in Pakistan caused catastrophic flooding that resulted in the deaths of more than one thousand people and the displacement of more than 3 million.** Pakistani Climate Change Minister Sherry Rehman called it a "climate catastrophe" and explained the country is currently experiencing its eighth rainy period when it usually sees only four. Preliminary estimates put the cost of damages at \$4 billion. Pakistani officials have appealed for international aid as the disaster has come amidst an ongoing economic crisis.
- **A deadly border clash erupted between Armenia and Azerbaijan this month.** The long-running conflict between the two countries over the disputed Nagorno-Karabakh region was reignited after both sides blamed each other for the flare-up. It is the deadliest bout of violence between the sides in two years. The US and Russia (a long-time ally of Armenia) have called for an end to the violence while Turkey has unsurprisingly aligned itself with Azerbaijan, accusing Armenia of violating an existing peace settlement. A fragile Russian-brokered ceasefire is currently holding but further peace talks are needed.
- **Fighting between Kyrgyzstan and Tajikistan broke out last week,** killing at least 94 people and injuring more than 100 others. There is a long-standing border dispute between the two nations and tensions over roads, land, and water resources frequently escalate into violence. A third of their shared 1,000 km border is disputed. Amid international pressure, the two sides signed a ceasefire agreement on Friday.

### Middle East & North Africa

- On Monday, **people took to the streets of Tehran to protest the death of a woman who had been taken into police custody for violating Iran's strict, conservative dress code.** Twenty-two-year-old Mahsa Amini died in custody last week after the morality police arrested her for not covering her hair with a hijab, which is mandatory for Iranian women. The police deny mistreatment and claim she died of a heart attack. Protesters are demanding an investigation into Amini's death and are calling for

the dismantling of the morality police. Since Monday, protests have spread to dozens of cities in Iran, and authorities have deployed security forces and cut off cellular and internet services in an attempt to control the demonstrations.

- **Protests in Iraq turned deadly last month as the country's political crisis escalated.** Demonstrators stormed government buildings in Baghdad and traded gunfire with security forces to protest Shiite cleric Muqtada al-Sadr's resignation from politics. At least 30 were people were killed and hundreds were wounded in the clashes. Since elections took place last October, a government has not been formed primarily due to hostility between rival Sadr-loyal parties and rival Shiite parties that are backed by Iran.
- **For the first time since 2008, Israel's prime minister and Turkey's president met to enhance cooperation between the two countries.** Israeli Prime Minister Yair Lapid and Turkish President Recep Tayyip Erdoğan met on the sidelines of the UN General Assembly (UNGA) session on Tuesday to reportedly discuss economic and energy cooperation. Since Israel's discovery of natural gas sites off of its coast, relations with Turkey have begun to thaw. A month ago, the two countries announced the restoration of diplomatic ties and the exchange of ambassadors.

### Latin America & the Caribbean

- **After a three-year break, Colombia and Venezuela have agreed to resume diplomatic relations** as Colombia's new leftist president, Gustavo Petro, establishes his government. Relations between the two countries fell apart after several years of tension between a leftist Venezuela and successive conservative presidents in Colombia. Colombia's last president, Ivan Duque, did not recognize Nicolas Maduro as Venezuela's president, but Petro, considered Colombia's first leftist leader, is changing the country's foreign policy strategy. In addition to exchanging ambassadors, the countries will begin fully reopening their shared border.
- **Ecuador has reached a deal with China to restructure \$4.4 billion of outstanding debt.** Under former president Rafael Correa's administration, Ecuador took on about \$18 billion in loans from China. Since Correa left office, the Chinese financing has come under increased scrutiny by economists who are concerned with the high interest rates and opaque terms. President Guillermo Lasso, the current president of Ecuador, has been seeking a deal with China for several months and is

also in advanced trade talks with Beijing on a free trade agreement. President Lasso says the deal will save Ecuador \$1 billion between 2022 and 2025.

- **An assassination attempt was made against Argentina's Vice President Cristina Fernández.** Fernando Andrés Sabag Montiel pulled the trigger of his handgun inches away from her face, but the gun failed to fire, and the vice president's supporters quickly subdued the man. Three suspects, including the gunman, have been arrested in relation to the incident. The day following the attack, thousands of Argentinians marched for an end to political violence.
- **Voters rejected a new draft constitution in Chile** this month, leading to a new round of negotiations between President Gabriel Boric and Congress. The process to overhaul the current constitution that dates back to the dictatorship of General Augusto Pinochet began in 2019 following nationwide protests. The next draft of the new constitution is expected to be less progressive than President Boric's proposal.

### Sub-Saharan Africa

- **Fighting resumed in the Tigray region of Ethiopia** causing a ceasefire agreement that had held for the last 5 months to fall apart. Both sides – the Ethiopian government and the Tigrayan rebels – blame each other for the latest clash. In recent news, Eritrean troops have launched a fresh offensive against Tigrayan rebels, escalating the civil war. The civil war has killed thousands of people and sent 2.4 million into severe food insecurity as many civilians are cut off from humanitarian aid.
- **The UN warns the threshold for famine has already been reached in parts of Somalia as a historic drought ravishes the country.** While UN officials stopped short of declaring a famine, nearly half the country's population faces severe hunger due not only the drought, but also to the fact that food deliveries are being impeded by conflict, mass displacement, and the ever-growing threat from the militant group Al Shabab. Somalia is also heavily dependent on crop exports from Russia and Ukraine which is further exacerbating the humanitarian crisis.
- **Zambia has been awarded a \$1.3 billion support package from the International Monetary Fund (IMF)** as a result of its participation in a G-20 framework for pandemic debt restructuring. The 38-month extended credit facility from the IMF is based on Zambia's "homegrown economic reform plan that aims to restore macroeconomic stability and

foster higher, more resilient, and more inclusive growth.” The program also frees up \$185 million in other financial support from development partners. Zambia became the continent’s first pandemic-era sovereign defaulter in 2020. The IMF loan is a sign of progress for the G-20’s Common Framework after the program has been slow to take off.

## World

- According to a recent United Nations (UN) report, **the global Human Development Index (HDI) value has declined two years in a row** for the first time since the index was created in 1990. The HDI measures life expectancies, education levels, and standards of living for 191 countries: 90% of the countries studied saw their scores drop in 2020 or 2021. The UN report attributes the declines to climate change, the Covid-19 pandemic, and economic uncertainty.

## Suggested Reading

### [Putin’s Gamble](#)

Thomas Graham, *Council on Foreign Relations*

### [The Dangerous Decade](#)

Richard Haass, *Foreign Affairs*

### [Transforming the Economics and Governance of Water](#)

Mariana Mazzucato, Ngozi Okonjo-Iweala, et. al.,  
*Project Syndicate*