

CROSSROADS

At the Intersection of Geopolitics and Geoeconomics

October 25, 2022 | Volume 5, Issue 10 | Rachel Poole Mustor



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

- This month, **the US rolled out a series of export controls targeting China's semiconductor industry**, making it harder for China to both obtain and manufacture advanced computing chips. Beijing has responded by saying the “malicious” export controls violate international economic and trade rules. The move comes as Washington ramps up efforts to promote US innovation and competitiveness and quash China's ability to develop new technologies. A recent report from Bloomberg suggests the Biden administration is considering expanding the recent export controls to include China's quantum computing and artificial intelligence (AI) technologies as well. Chinese tech stocks have been hit hard by the news.
- **The Biden administration unveiled its first official National Security Strategy, identifying China as “America's most consequential geopolitical challenge”**. The report calls out both China and Russia as “powers that layer authoritarian governance with a revisionist foreign policy”, and describes them as critical, but very different challenges. As evidenced by President Biden's foreign policy moves during his time as president, the strategy stresses the importance of rebuilding alliances to counter authoritarian governance and effectively compete over the coming decade.
- **Mexican Economy Minister Tatiana Clouthier resigned from her position amid the ongoing energy dispute between Mexico and the US**. Clouthier reportedly notified Mexican President Andres Manuel Lopez Obrador just days after the US requested settlement talks with Mexico on July 20th that she intended to quit, saying that she was put in the difficult position to defend policies that Mexican officials privately admit were likely in violation of the US-Mexico-Canada trade agreement (USMCA). Back in July, the US, supported by Canada, launched trade talks after accusing Mexico of favoring state-owned energy companies over American competitors. Negotiations to resolve the dispute are ongoing.
- **The US House of Representatives committee investigating the Jan. 6th attack on the**

Capitol has voted to subpoena former President Donald Trump. During what could have been the group's final public hearing, the committee laid out how Trump was at the center of a calculated and multipart effort to overturn the 2020 election, arguing that he sought to join the mob that marched on the Capitol with full knowledge that his supporters were armed and threatening violence. It is unlikely that Trump will appear for a formal deposition given his condemnation of the inquiry. The subpoena comes just weeks before the midterm elections in which Republicans are favored to win the House majority. If this is indeed the outcome, House Republicans will likely disband the committee in January.

Europe

- **After just 44 days in office, British Prime Minister Liz Truss resigned**, making her the shortest-serving parliamentary leader in the United Kingdom's (UK) history. Her decision to step down comes amidst pressure from her Conservative Party after her economic plan to revive growth led to a meltdown in the UK's financial markets. Markets have calmed since the country's finance minister reversed Truss's budgetary plans, and UK bond and currency markets rallied following Truss' resignation. **Former finance minister Rishi Sunak officially became the new prime minister of the UK today after Conservative Party lawmakers overwhelmingly supported him to succeed Truss as party leader**.
- Russia has taken several steps over the last month to escalate its war in Ukraine. **Moscow has intensified its strikes against civilian and military targets in Ukraine's eastern region and Kyiv despite frontline losses**. On October 5th, the Kremlin announced it would annex the four Ukrainian regions of Donetsk, Luhansk, Kherson, and Zaporizhzhia, marking the largest forceful takeover of European territory since World War II. On October 19th, the Kremlin also declared martial law in these four regions which authorizes the creation of civil defense forces, the imposition of curfews, and the forcible resettlement of residents. Though reports

claim that Russian forces are retreating in several parts of these territories, **Russian President Vladimir Putin's annexation announcement is viewed by outsiders as his attempt to legitimize his actions** to the Russian people.

- All eyes have been on Germany's energy policy as its industry has been severely hampered by its dependence on Russian oil and natural gas. **Germany has reversed its policy on nuclear energy**, halting the phase-out of nuclear energy and instead keeping the country's three nuclear plants operational until at least April 15th, 2023. **Germany has also dropped its opposition to a European Union (EU) proposal to cap gas prices** to ease increasing energy costs stemming from the Ukraine war. Initially, Germany feared that price caps would divert gas to countries offering higher prices, but it has since agreed with EU leaders to move forward with its cap proposal.
- **Giorgia Meloni has been inaugurated as Italy's first woman prime minister and its first far-right leader since World War II.** The right-wing coalition led by the Brothers of Italy party swept the country's parliamentary elections, earning 44% of the votes. The Brothers of Italy party itself, headed by Meloni, garnered more than a quarter of the votes. Unlike some of her anti-EU coalition allies, Meloni is a supporter of Ukraine in its war with Russia and she has indicated her government will work with the EU.
- **Despite its inflation rate soaring to higher than 83%, Turkey's central bank has slashed interest rates for the third month in a row.** Following Turkish President Recep Tayyip Erdogan's unorthodox economic view that high borrowing costs cause high inflation, the Central Bank of the Republic of Turkey cut the benchmark rate by 1.5% to 10.5%, and signaled it would take similar steps at the November meeting to bring the rate down to single digits. The central bank's actions threaten to trigger a currency crisis that would bring even more instability to the country's dire economic situation. The Turkish lira has lost 28% of its value against the US dollar since the beginning of the year, but Erdogan continues to operate on the false belief that the lira will appreciate if interest rates go down to single digits.

Asia, Eurasia & the Pacific

- Beijing held its 20th National Congress of the Chinese Communist Party last week. **At the Congress, President Xi Jinping was granted a precedent-breaking third five-year term** as the leader of the Chinese Communist Party (CCP), and 6

of his allies were announced as the party's top leadership body, the seven-member Standing Committee. President Xi's speech and other rhetoric from the congress suggests little to no deviation from Beijing's controversial zero-Covid policy or its aggressive wolf-warrior diplomacy. In fact, **President Xi's speech reaffirmed its position on "reunification" with Taiwan and its unwillingness to take the use of force off the table.** Shortly following the speech, US Secretary of State Antony Blinken warned that China is planning to annex Taiwan sooner than previously thought, and the Chief of US Naval Operations Admiral Mike Gilday said the move could come before the end of this year.

- **North Korea has continued to provoke South Korea this month by launching short-range ballistic missiles and artillery shots into maritime "buffer zones"** established under a 2018 inter-Korean military tension reduction accord. Shortly before the incident, more than 10 North Korean warplanes flew close to the inter-Korean border prompting the South Korean Air Force to bring its F-35A stealth fighters and other assets to the scene. South Korea's Joint Chiefs of Staff said, "Such continued provocations by North Korea are acts that undermine peace and stability not only on the Korean Peninsula, but also in the international community." Earlier this month, **North Korea fired a ballistic missile over Japan for the first time in 5 years**, prompting a joint military drill between the US and Japan in which fighter jets flew over the Sea of Japan. The US has pledged to work more closely with both South Korea and Japan as North Korea continues its aggression.
- **The Paris Club - a group of officials from major creditor countries who convene to coordinate on solutions to payment difficulties from debtor countries - has invited China and India to talks on Sri Lanka's debt restructuring.** China and India are two of Sri Lanka's largest bilateral creditors, making them critical actors in Sri Lanka's attempts to renegotiate its \$12 billion of debt held by overseas bondholders after it defaulted on its debt earlier this year. As reported over the last few months, political and social unrest has heightened in Sri Lanka as it endures its worst economic crisis in more than 70 years.
- **India's main opposition Congress Party – a.k.a. the "Grand Old Party" – has elected Mallikarjun Kharge, a party veteran and former federal minister, as its leader.** For the first time in more than 20 years, the new party leader is from outside

of the Nehru-Gandhi family. The party is turning a new page after years of a leadership vacuum following Rahul Gandhi's resignation as president in 2019 which was prompted by an overwhelming defeat in India's general elections. The Congress Party, which ruled India for nearly 6 decades, has struggled to mount a successful campaign against Prime Minister Narendra Modi's Bharatiya Janata Party (BJP) which has gained ground in part due to the absence of an effective opposition. An indication of the party's resurgence may be seen in the coming months as several states hold local elections.

Middle East & North Africa

- The protests in Iran that erupted following the death of Mahsa Amini who died in police custody after being arrested for improperly wearing her hijab, have continued for the last 5 weeks, erupting into anti-government protests across the country. **Demonstrators are calling out President Ebrahim Raisi's regime and Supreme Leader Ayatollah Ali Khamenei for human rights abuses regarding its treatment of women and its crackdown on protesters.** According to human rights groups, nearly 250 demonstrators have been killed in the unrest and more than 12,570 people have been arrested. The turmoil has stalled negotiations between the US and Iran over a renewed nuclear deal.
- In a major diplomatic breakthrough, **Israel and Lebanon have announced a deal on a maritime border dispute.** The agreement resolves a decades-long disagreement over an eastern stretch of the Mediterranean Sea and averts the immediate threat of conflict between Israel security forces and Hezbollah militants in Lebanon. The US-brokered deal facilitates energy exploration for companies to extract natural gas from the disputed region and allocates drilling rights of contested gas fields between the two countries. The announcement is also good news for Europe as it seeks to diversify its energy supply, though the energy supplies could be years away from being usable.
- **Saudi Arabia is defending the OPEC+ decision to cut oil production** by two million barrels per day, arguing the controversial move was solely due to "economic considerations". Following the oil bloc's announcement, **US President Joe Biden is re-evaluating the US' relationship with Saudi Arabia as Washington views the move as a signal of support for Russia, OPEC's ally.** Oil prices surged on the news. Over the last several months, US officials have pressed Saudi Arabia to produce

more oil to compensate for the global shortage and price increase caused by Russia's invasion of Ukraine.

- **Iraq's parliament has elected Kurdish politician Abdul Latif Rashid as the country's new president, breaking months of political deadlock and paving the way for the formation of a new government.** Shia politician Mohammed Shia al-Sudani was named prime minister-designate. In Iraq's power-sharing system, the presidency is reserved for Kurdish groups, the premiership is assumed by Shia blocs, and the speaker of parliament is a Sunni. The country has already made three failed attempts this year to elect a new head of state, leading to months of unrest and political uncertainty. Rashid's election raises concerns of escalating tensions between the Kurdistan Democratic Party (KDP) and the Patriotic Union of Kurdistan (PUK) which fought a civil war in the 1990s. **Ahead of parliament's vote, at least 9 rockets targeted the parliament building, indicating that Iraq's political woes are far from over.**

Latin America & the Caribbean

- **Venezuela's opposition parties are considering ending their "interim government" and dropping Juan Guaidó's claim to be the country's legitimate leader.** The end of the opposition's interim government would bring an end to what the Financial Times describes as "one of the world's most bizarre diplomatic experiments", where more than 50 nations established formal diplomatic relations with Guaidó's government to try to force a regime change after Nicolas Maduro allegedly rigged his re-election in 2018. **Such an announcement could also create the opportunity for the US to ease oil sanctions on the Maduro government** so that it can open up alternative energy supplies for its western allies boycotting Russian oil.
- **Brazil will be heading to a run-off election on October 30th.** In its first round of presidential elections earlier this month, former president and leftist Luiz Inácio Lula da Silva got 48% of the vote while incumbent and right-wing Jair Bolsonaro won 43%. Polls indicate that Lula holds a slight lead over Bolsonaro in what has been a hotly contested election mired by political violence. However, should Lula win the election, **Bolsonaro has signaled he will not accept defeat.**
- **Argentine President Alberto Fernandez has reshuffled his cabinet, replacing three of his**

ministers. Fernandez has appointed three women to take leadership of the labor, social development, and women's ministries as the country struggles amid a deep economic crisis. Just three months ago, the government reshuffled the economic ministries in an attempt to contain the economic crisis. Argentina's inflation rate has topped 70% and it owes more than \$40 billion to the International Monetary Fund (IMF). The country toppled into an economic crisis in 2018 and has struggled to recover, spending the last four years in a recession.

Sub-Saharan Africa

- **A fresh round of peace talks between Ethiopia's federal government and the rebels from the Tigray region began yesterday** in South Africa following a surge of fighting in recent weeks. The Africa Union is facilitating negotiations and pressing for a more solid ceasefire agreement between the two sides after a 5-month long ceasefire deal was shattered in August. As many as half a million people have died since the start of the conflict nearly two years ago.
- **On September 30th, Burkina Faso saw its second coup of the year** as Captain Ibrahim Traoré took over leadership of the West African nation. Captain Traoré claims the previous government spent too much time negotiating with jihadists and not fighting, using a near identical justification as Lieutenant-Colonel Paul-Henri Sandaogo Damiba who staged a coup in January of this year. The coup will likely further isolate Burkina Faso from its democratic neighbors and deepen the military's struggle to challenge jihadists as military in-fighting plagues its ability to successfully manage military operations. The region fears that Burkina Faso is going down a similar path to that of Mali which has been shunned by its neighbors and is fighting to promote economic and political stability.
- **Major flooding in Nigeria has killed at least 600 people and destroyed crops, exacerbating fears of food insecurity.** In neighboring Chad, floods affected more than 1 million people, prompting the government to declare a state of emergency. According to the UN World Food Programme, above-average rainfall and devastating flooding – attributed to climate change – have affected 5 million people this year in 19 countries across West and Central Africa. **West Africa was already facing its worst food crisis in 10 years, but the war in Ukraine and now devastating flooding, are deepening the crisis.**

Suggested Reading

[A Strategic Moment for the U.S.-Brazil Relationship](#)

Ryan Berg and Amb. P. Michael McKinley (ret), *Americas Quarterly*

[China wants to change, or break, a world order set by others](#)

The Economist

[Fixing the Food Trade](#)

Ngozi Okonjo-Iweala, *Project Syndicate*

[The Age of Inflation](#)

Kenneth S. Rogoff, *Foreign Affairs*