

# 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

- **The United States and China engaged in two days of high-level military talks in Washington**, marking the latest step in the resumed military-to-military ties agreed upon by Presidents Joe Biden and Xi Jinping after a hiatus triggered by Nancy Pelosi's visit to Taiwan in August 2022. Recognizing the importance of communication to prevent miscalculations escalating into conflict, Pentagon officials emphasized the need for ongoing dialogue. **China expressed its commitment to cultivating healthy military relations with the US, urging a reduction in military deployment and provocative actions in the South China Sea, adherence to the one-China principle, and cessation of arms support to Taiwan.** US officials, however, cautioned that building functional dialogue may require time despite the restoration of some military communications.
- **House and Senate leaders have agreed on a short-term spending deal to prevent a government shutdown**, extending funding until March and pushing deadlines for various departments to March 1st and March 8th. The short-term bill requires passage in both chambers by January 19th to avert a partial government shutdown. **While some hard-right Republicans oppose the spending deal, moderate Democrats express a willingness to support the Republican Speaker Johnson's speakership amid internal tensions in the House Republicans.** Congressional Democrats have lauded the spending agreement announced over the weekend.
- **US Secretary of State Antony Blinken, concluding his regional tour in the Middle East, emphasized that providing a pathway to a Palestinian state is crucial for stabilizing the broader region and isolating Iran and its proxies.** Blinken, navigating tensions between Israel and Arab states, sought a resolution to the Gaza conflict, with concerns about its potential spread to Lebanon, Iraq, and Red Sea shipping lanes. **Following warnings from Egypt and Jordan, Blinken presented a tentative agreement to Israel, involving support from Muslim-majority**

**neighbors for Gaza's rehabilitation and continued economic integration**, contingent on Israel's commitment to eventually allow the establishment of an independent Palestinian state.

- **Mexico announced on Wednesday that it had reached unspecified "important" agreements with the United States during talks focused on addressing the record-high migration**, a key concern in the upcoming US elections. Mexican Foreign Minister Alicia Barcena advocated for the easing of any remaining restrictions on cross-border trade. The Biden administration seeks collaboration with Mexican President Andres Manuel Lopez Obrador to address the surge in migrants attempting to enter the US from Mexico, a critical issue in Biden's re-election bid. While Lopez Obrador celebrated important agreements from the talks, no details were disclosed. **In response to migratory pressures, he urged US lawmakers to invest in helping the poor in Latin America and the Caribbean rather than resorting to barriers and walls.**

## Europe

- **The war between Ukraine and Russia is still ongoing, with no clear route to a cessation of hostilities as the war approaches its second anniversary.** In the past month, the country has suffered more missile attacks against civilian infrastructure from Russia, including the nation's capital, Kyiv. Ukrainian forces have made a few high-profile achievements, such as successfully attacking a Russian warship at port in Crimea and a spy plane over the Azov Sea, but have also lost territory in the country's east, losing its grip on some of its wins from counteroffensives earlier in the war. **The country also has to worry about lagging Western support, as policymakers in the US argue about the merits of supporting Ukraine, a debate which has been augmented by a Pentagon report that says nearly 40,000 weapons sent as military aid were not properly tracked.** Ukrainian representatives attending Davos, the annual meeting place in Switzerland for the World Economic Forum, are currently trying to bring Ukraine back

into the spotlight amid other conflicts around the world becoming more salient in global discussions.

- **The Turkish parliament's foreign affairs commission has approved Sweden's NATO membership bid**, overcoming 19 months of delays during which Ankara sought security-related concessions. All NATO members, including Turkey, are required to endorse new memberships. Turkish President Erdogan initially objected to Sweden and Finland's requests last year, citing concerns over their alleged support for individuals Turkey accuses of terrorism. While Turkey ratified Finland's bid earlier, it delayed Sweden's approval until the latter addressed concerns related to the Kurdistan Workers' Party (PKK). In response, Sweden criminalized membership in terrorist organizations. Additionally, Sweden relaxed arms-export policies affecting Turkey. **Turkey is seen as the primary obstacle to Sweden's NATO membership, with Erdogan linking approval to the US selling F-16 fighter jets to Turkey.**
- **European Union (EU) leaders and officials celebrated a breakthrough in talks on new migration rules, focusing on the core political elements of the Pact on Asylum and Migration.** The pact, proposed in September 2020, aims to address challenges arising from past migrant arrivals. The agreement determines which EU countries handle asylum applications, outlines procedures, and mandates support for nations facing difficulties in migrant crises. **Critics argue that the reforms may compromise asylum-seekers' rights and lead to questionable deals with countries people leave to reach Europe.** In recent years, the EU explored outsourcing migration challenges by providing incentives to countries people leave or transit through to reach Europe. While this new deal is not final, a comprehensive agreement on all 10 parts of the reform pact is required by February for it to enter force before the June 6-9th elections.
- **Romania and Bulgaria are set to join Europe's Schengen border-free zone by air and sea by March**, following Austria's agreement to their entry in stages. Currently comprising 27 countries allowing free movement, the Schengen area will now include the two Balkan states, with discussions continuing next year on opening land borders. **Austria, initially opposed to expansion due to concerns about illegal immigration, proposed the concept of "Air Schengen" as a precursor to easing land border restrictions.** Vienna is willing to relax air travel rules for Romania and Bulgaria if

Brussels takes measures to strengthen the EU's external borders.

### Asia, Eurasia & the Pacific

- **Taiwan's ruling Democratic Progressive Party (DPP) secured a historic third consecutive presidential victory** as voters dismissed China's warnings of increased conflict risk. Lai Ching-te, the current vice president, emerged as the winning candidate. Post-election, China swiftly reiterated its claim that Taiwan is part of China. The election campaign revolved around the island's complex relationship with mainland China. **The result reflects the electorate's support for the DPP's stance, considering Taiwan a de facto sovereign nation, urging strengthened defenses against China's threats, and fostering ties with democratic nations.** The outcome also marks a rejection of Xi Jinping's assertive tactics towards Taiwan, emphasizing the island's eventual "reunification" with the mainland as a historical inevitability. China's Taiwan Affairs Office downplayed the result, stating it "does not represent the mainstream view on the island."
- **Myanmar's military and an alliance of armed ethnic minority groups have announced a China-mediated ceasefire, following months of conflict that posed a significant threat to the junta since its seizure of power in 2021.** The fighting, which began in October when the alliance launched an offensive against the junta, has resulted in hundreds of deaths and displaced over half a million people. The alliance, controlling key towns and border hubs in Myanmar's northern Shan state crucial for trade with China, engaged in talks mediated by China in Kunming, Yunnan province. **China's strained relationship with the junta, particularly over its failure to address online scam operations targeting Chinese citizens, added complexity to the situation.** After an artillery shell reportedly caused casualties across Myanmar's border with China, Beijing expressed strong dissatisfaction and vowed necessary measures to protect its citizens.
- **The leaders of the Philippines and Indonesia met in Manila to discuss various issues, including developments in the South China Sea and efforts to strengthen ties among Southeast Asian nations.** China's claims in the South China Sea, which overlap with those of Brunei, Indonesia, Malaysia, the Philippines, and Vietnam, were among the topics. While specific details were not provided, the leaders focused on building cooperation within the Association of Southeast Asian Nations (ASEAN).

**The two nations signed an energy ties pact to enhance collaboration during critical supply constraints, and agreements were made to reinforce defense ties and existing border cooperation pacts.** Despite long-standing efforts, progress on establishing a framework for the code of conduct in the South China Sea has been slow due to disagreements between the parties involved.

- **North Korea fired over 200 artillery rounds near a disputed maritime border with South Korea,** leading to heightened tension and prompting the South to conduct live-fire drills in response. North Korea justified the firing drills as a "natural response" to perceived military actions by South Korea, referring to them as "military gangsters." The exchange led to evacuations on South Korean islands, with residents seeking shelter. Despite the firings by North Korea, there were no reported damages in the South. China, North Korea's main political ally, called for restraint and urged both sides to resume dialogue. **The situation has escalated in recent days, with North Korea warning of a potential spiral towards war due to perceived provocative moves by the US and South Korean militaries.**

#### Middle East & North Africa

- **Israeli Prime Minister Benjamin Netanyahu stated that "nobody will stop us" from destroying Hamas as the conflict in Gaza reached its 100-day mark.** Netanyahu's comments suggest a refusal to comply with the International Court of Justice, where Israel faces accusations of genocide and potential orders to cease its offensive. Despite strong domestic support for the war in Israel, there is increasing international pressure for a ceasefire as the death toll from Israeli bombardment in Gaza rises. According to figures from the Hamas-run Ministry of Health, at least 23,843 people have been killed, and over 60,000 wounded since the start of the latest fighting. **United Nations Secretary-General Antonio Guterres marked the 100 days since the conflict began by calling for an immediate humanitarian ceasefire and the unconditional release of hostages in Gaza.** Guterres also warned of the potential spillover of the conflict into neighboring Lebanon.
- **Houthi militants targeted a US-owned ship with a ballistic missile near Yemen's port of Aden, following US and British strikes on Houthi sites.** The ship, Gibraltar Eagle, carrying steel products, sustained damage but had no injuries reported. The Houthis, aligned with Iran, had initially claimed to

target only Israeli or Israel-bound ships. Houthi attacks on ships since November have raised concerns globally. **As a result, container vessels are altering routes. For example, QatarEnergy, a major LNG exporter, is also avoiding the Red Sea, adding to fears that the conflict could inflate energy prices.** The conflict has prompted ships to opt for the longer route around Africa's Cape of Good Hope, adding about nine days to the trip from Qatar to northwest Europe.

- **The Gulf Cooperation Council (GCC) and South Korea are set to strengthen their economic ties through a new free trade agreement,** which both parties consider a "historic step" towards Gulf economic integration. The agreement, reached after five negotiating rounds, reflects a mutual desire to enhance the strategic partnership and promote economic cooperation. **The deal is expected to boost bilateral commerce, facilitate trade in goods and services, and support economic diversification plans in both the Gulf countries and South Korea.** Additionally, the pact aligns with the directives of GCC country leaders to strengthen relations with other nations, international blocs, and achieve common commercial and investment interests.

#### Latin America & the Caribbean

- **Argentina and the International Monetary Fund (IMF) have finalized details of an agreement on the country's \$44 billion loan program,** unlocking a larger-than-expected \$4.7 billion. The agreement focuses on strengthening policies to restore macroeconomic stability and bring the existing program back on track. Argentina, grappling with soaring inflation and negative net foreign currency reserves, sought to revamp its IMF deal after the previous government missed economic targets linked to the program. The new agreement will undergo approval by the IMF's executive board in the coming weeks. While Argentine Economy Minister Luis Caputo emphasized it as not a new deal, he noted the IMF's openness to a new debt program and additional funding. **President Javier Milei, a self-proclaimed libertarian, also faces challenges in an unfriendly Congress with his reform bill and legal hurdles for an economy deregulation decree.**
- **Ecuador is grappling with a surge of violence, leading President Daniel Noboa to launch a military crackdown on gangs.** Criminal groups took over 100 prison staff hostage, and armed men disrupted a live television broadcast. The security

crisis poses challenges for Noboa, who took office in November with a pledge to address rising violence linked to drug trafficking gangs. The situation has worsened since the COVID-19 pandemic, which deteriorated both security and the economy.

Incidents of violence occurred in multiple prisons, and police officers were kidnapped across the country. **Noboa declared a 60-day state of emergency, implementing military patrols and a national nighttime curfew.** While some question the president's measures, Noboa plans to hold a security-focused plebiscite later this year, addressing issues like extradition and asset seizure from suspected criminals.

- **A top US defense official is set to visit Guyana in a show of support for their defense and security partnership amid escalating tensions with neighboring Venezuela over the disputed Essequibo region.** The region, which is rich in oil reserves, is primarily recognized as part of Guyana, but Venezuela has recently revived its claim to the territory and adjacent offshore areas. In an effort to avoid the use of force, Guyana and Venezuela agreed last month to ease their long-running feud. The United Kingdom also dispatched a navy patrol vessel to Guyana in December, which drew criticism from the Venezuelan government. Western diplomats have urged Brazil's President, Luiz Inacio Lula da Silva, to mediate in the dispute given his friendly relations with President Maduro.

### Sub-Saharan Africa

- **President Felix Tshisekedi of the Democratic Republic of Congo (DRC) has won re-election with over 70 percent of the vote, according to the country's election commission.** The preliminary results, announced in Kinshasa, have sparked demands for a rerun from the opposition and civil society groups due to significant logistical issues that cast doubt on the validity of the outcome. Businessman Moise Katumbi came in second with 18 percent of the vote, followed by Martin Fayulu with 5 percent, and Nobel Peace Prize winner Denis Mukwege with less than 1 percent. The election had a turnout of over 40 percent, with 18 million people casting their vote. The logistical problems included delayed or nonexistent opening of polling stations, insufficient materials, and illegible voter cards. The US has congratulated Tshisekedi on his re-election to a second term.
- **Somalia is prepared to go to war with Ethiopia over the recognition of Somaliland as an independent territory and Ethiopia's**

**construction of a port there.** The signing of a memorandum of understanding allowing Ethiopia to develop a naval base in Somaliland has raised tensions, as Somalia claims Somaliland as part of its territory. The historical conflict and deep-rooted tensions between the two countries, along with Ethiopia's past military involvement in Somalia, add to the volatile situation. The lack of international recognition for Somaliland hampers its economic prospects, while Ethiopia's prime minister, Abiy Ahmed, sees access to the sea as crucial for its landlocked status, saying "In 2030 we are projected to have a population of 150 million," Abiy said. "150 million people can't live in a geographic prison."

- **Ethiopia has become the third African country in three years to default on an international government bond** as it failed to make a \$33 million payment. The default was announced after facing financial strain from the COVID-19 pandemic and a two-year civil war. The country had until Tuesday to make the payment due to a grace period, but it now joins Zambia and Ghana in a full-scale debt restructuring under the G20-developed Common Framework. Ethiopia had requested debt relief earlier in 2021 and reached a debt service suspension deal with its government creditors in November. However, negotiations with private sector creditors holding its bond broke down, leading to a credit rating downgrade by S&P Global.
- **The US has reached a preliminary agreement with African nations to extend their preferential trade access for another decade, pending approval from Congress.** The South African government has been working towards renewing the deal, allowing over 30 African countries to continue exporting goods to the US market without duties. The current access provided by the African Growth & Opportunities Act (AGOA) is set to expire in September 2025. In November, South Africa hosted a three-day annual forum on AGOA, and in the following month, trade officials from the US and Africa agreed that the current agreement requires modernization and stronger implementation.

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