

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. **Starting this month, at the end of each section we have inserted a few lines on market implications based upon the reported developments.**

North America

- **US President Joe Biden and his predecessor Donald Trump both secured their respective parties' presidential nomination earlier this month, leading to a rematch of the 2020 presidential election.** With Donald Trump facing 91 felony charges regarding allegations that he plotted to stay in power after his 2020 defeat, President Biden's campaign is focused on appealing to voters over Trump's behavior, much like in 2020. The challenges that the president faces include his own age, as well as criticism from his party's left wing over his handling of the Israel-Hamas war.
- **US intelligence agencies released a report that said the country faces an "increasingly fragile world order"**, fraught with geopolitical tensions and regional conflicts. The report highlighted countries like China, Russia, Iran, and others as challengers to a rules-based international order. The report also mentioned the risks of the Israel-Hamas war expanding in the Middle East. The agencies also warned of the possibility that China may attempt to influence US elections in 2024 to destabilize the country.
- **President Biden's proposal for a \$7.3 trillion budget for the next fiscal year includes raising taxes on the wealthy and large corporations, lowering the deficit, and decreasing the costs of prescriptions, childcare, and housing.** The proposal would lower the deficit by \$3 trillion over the next 10 years and raise taxes by \$4.9 trillion. Defense spending would increase from \$886 billion to \$895 billion. The proposal is, as of now, largely symbolic, as the president has still yet to come to agreement with Congress on the budget for the current fiscal year (beginning October 1st).
- **In a 352-65 vote, the US House of Representatives passed a bill that would force the owner of popular social media app TikTok, Chinese company ByteDance, to divest itself from the app or have it banned** from US app stores and web hosting services. Supporters of the bill, which include both Republicans and Democrats, say that Chinese ownership of the app is a national security

threat, as ByteDance could share data from American users with the Chinese government. While President Biden supported the bill, his predecessor Donald Trump was the loudest voice on the right opposing the bill, which he said could benefit Facebook. For the bill to go into effect, it still needs to pass through the Senate where its fate is so far unclear.

- *Market Implications: The pre-election cycle could infuse volatility into the market starting this summer, while disputed results could be a major negative force. Budget implications represent a force for elevated rates while the long-term picture of the debt structure could undermine medium-term prospects for the markets. Those forces along with an elevated equity market are determinants of a correction within the next few months.*

Europe

- **As the war in Ukraine continues, Ukrainian forces are finding it more difficult to defend against Russian attacks as it faces ammunition and manpower shortages after over two years of war.** French President Emmanuel Macron highlighted the potential consequences of a Ukrainian defeat, saying that Europe's security as a whole would be threatened, and refused to rule out sending European troops to fight in Ukraine despite harsh criticism from both allies and Moscow. Russian President Vladimir Putin, who was just re-elected over the weekend for a fifth term, reiterated Russia's nuclear doctrine, that it is ready to use nuclear weapons if "the existence of the Russian state" is under threat.
- **The European Union (EU) presented a plan for an overhaul of the bloc's defense industry for the first time.** The strategy includes buying more weapons from EU members instead of the United States; including Ukraine in the bloc; ensuring supply security; financing factories to supply arms even in peacetime; and cutting red tape. Josep Borrell, the EU's top diplomat, said that "after decades of underspending" the EU must invest more in defense, especially in light of Russian aggression. The EU wants half of national defense procurements

to go to European companies by 2030 – currently, around 80% of weapons are bought from foreign companies (60% of which are from the US). The European Commission has only planned €1.5 billion for the industrial defense plan, but officials want that greatly expanded. Another key feature is that Ukraine would be treated almost as a full member, able to participate in joint procurement of arms, as well as having Ukrainian firms eligible for the industrial defense plan funds.

- **Sweden officially ended decades of post-World War II neutrality when it formally joined NATO on March 7th, 2024.** US President Biden hailed Sweden's admission, saying that it was a sign of greater unity against Russian aggression in Ukraine. The country's accession follows that of Finland's, as both applied for membership following Russia's invasion in early 2022. Sweden's membership was held up by NATO members Turkey and Hungary, where the former complained of Sweden harboring groups it regards as terrorists, and the latter's President Viktor Orban showing pro-Russian sentiment.
- **Polish President Andrzej Duda called for other NATO members to increase their defense spending to 3% of their gross domestic product** on the eve of his visit to the White House, where he and the Polish Prime Minister Donald Tusk were both invited. On March 12th, Poland (along with the Czech Republic and Hungary) marked the 25th anniversary of their accession to the military bloc. Poland spends 4% of its GDP on defense, the most in percentage terms in NATO. Duda argued that NATO members must step up due to a hostile Russia, which he claimed is allocating nearly 30% of its yearly budget on military spending.
- *Market Implications: Despite the fact that the European Union, on average, is going through times of economic stagnation, its equity markets are enjoying good returns this year. The forthcoming decision by the ECB to lower rates within the next two months should boost those returns, however any market correction on the US side would also affect European markets. For now, this year is shaping up to be a year when European equity markets outperform the US market.*

Asia, Eurasia & the Pacific

- **India has assigned 10,000 soldiers, previously on the country's western border, to guard the Himalayan border with China.** The force, combined with forces already present, will guard over 330 miles along the contested region. Both

China and India have increasingly militarized the border, especially following a 2020 clash between the two forces that resulted in the deaths of 20 Indian soldiers. Indian Prime Minister Narendra Modi further inflamed tensions by visiting the northeast border state of Arunachal Pradesh, saying the state is "an integral and inalienable part of India." The leader also inaugurated infrastructure projects in the state during the trip. Beijing issued a diplomatic protest with New Delhi in response to the visit.

- **China has announced an economic growth target of 5% for 2024, a goal that some analysts believe is ambitious.** Chinese Premier Li Qiang announced intentions to defuse the property crisis underway in the country, threatening property developers, indebted cities, and the overall economy. The announcement also called for higher defense spending alongside sharpening rhetoric toward Taiwan. Additionally, China said it would cut tariffs on advanced technology and open new channels for international trade.
- **Indians will head to the polls this year, expected sometime before May, in the largest election in history with over 900 million eligible voters.** Prime Minister Narendra Modi and his party, the Hindu nationalist BJP, are expected to extend their rule. India's elections are also expected to be the most expensive in the world, with the myriad of political parties spending over 1.2 trillion rupees. If the election schedule is the same as 2019, voting will begin in phases about halfway through April and continue for around 40 days.
- **Sri Lankan President Ranil Wickremesinghe told the country's parliament that the government was seeking a pause on loan payments** for five years and then would begin paying from the beginning of 2028 through 2042. Sri Lanka had declared bankruptcy in 2022 and suspended loan payments on \$83 billion while suffering a foreign exchange crisis. The crisis brought on a shortage of food, medicine, and other essentials. The economic trouble caused unrest that pushed then-President Gotabaya Rajapaksa to flee the country. Wickremesinghe's government has since alleviated some of the issues – the currency has strengthened, inflation has dropped from 70% to 5.9%, and interest rates have fallen to about 10%.
- *Market Implications: Despite economic headwinds in China, the Chinese market is performing well in the last two months, and signs are that good performance may continue for the next few months. The Japanese market continues to also be performing well and following today's decision by*

the central bank to stop its control on the yield curve and the negative rate policy, the equity market may get a boost as interests in Japanese firms rise. The Indian market has been performing well for some time now and while Modi's re-election seems to have very good chance of happening, we would not be surprised if the rising equity market in India takes a breather.

Middle East & North Africa

- **As tensions between Israel and Hamas rise, humanitarian groups are pushing to deliver aid to Gaza using new land and sea routes.** Efforts to boost aid include utilizing Israeli military roads, conducting security checks at crossings, and exploring alternative pathways. However, access challenges due to ongoing conflict and Israeli attacks are significant, particularly in reaching northern Gaza where the need is most acute. The US is currently deadlocked in ceasefire negotiations with Hamas, with Israel accusing Hamas of stalling to incite violence during Ramadan. Israel has threatened to strike Rafah in southern Gaza, viewing it as the last stronghold of Hamas. US President Joe Biden has cautioned Israel against the attack, describing it as a “red line.”
- **While diplomatic efforts for a ceasefire in Gaza trudge on, a US special envoy is also pressuring Israel for de-escalation on its border with Lebanon.** The US and its partners have repeatedly called for a security pact between Israel and the Iran-backed militant group Hezbollah in Lebanon as they have exchanged attacks across the border for the last few months in parallel to the war in Gaza. US Special Envoy Amos Hochstein warned that if tensions with Hezbollah were not managed, the conflict could escalate on the Israel-Lebanon border with or without a ceasefire in Gaza.
- **Iranians went to the polls on March 1st as the country held legislative elections for the first time since the protest movement of 2022. While the vote was a far cry from a free and fair election, an election boycott sent the regime a strong message.** Only 41% of Iranians, according to official numbers, cast their vote, marking the lowest voter turnout since the Islamic Revolution of 1979. There is some suspicion that the turnout was actually much lower and that around 5% of ballots cast were blank or invalid. Nevertheless, Iranian President Ebrahim Raisi still referred to his regime's legislative win as a “passionate turnout” that was an “extreme blow” to opponents.
- **Qatar plans to nearly double its LNG production capacity by 2030 following the discovery of vast new gas fields that increased the size of its reserves by 14%** to two quadrillion cubic feet. Over the next 6 years, the country will increase its production capacity by 85% from current levels as it aims to meet rising demand from China and other Asian countries. Qatar has secured two large LNG supply deals with China in the last 15 months and has also taken advantage of the surge in LNG demand following Russia's invasion of Ukraine in 2022, inking deals with buyers across the globe.

Latin America & the Caribbean

- **Haiti's Prime Minister Ariel Henry has announced his resignation, pending the establishment of a transitional council, in response to international pressure to address Haiti's crisis involving violent criminal groups.** Under Henry's administration, armed criminal groups in Haiti have increased exponentially, leading to heightened violence and disorder. The international community, led by the US, intends to aid Haiti by establishing a new council for addressing immediate needs. Meanwhile, the United States has deployed a specialized Marine unit, the Fleet-Anti-terrorism Security Team (FAST), to help secure the US Embassy in Haiti during this period. However, Kenya has decided to halt its deployment of police officers to lead an international security mission in Haiti following Henry's resignation. Abraham Korir Sing'Oei, principal secretary at Kenya's foreign ministry, states that this decision is contingent on the situation on the ground in Haiti, particularly regarding the presence of an authority with constitutional legitimacy.
- **Argentina's peso strengthened over 1.5% against the US dollar on the informal market, dropping below 1,000 pesos per dollar for the first time since December.** President Javier Milei's reaffirmed commitment to his libertarian, pro-market agenda boosted the peso, as he urged lawmakers and governors to support his austerity measures to address Argentina's deep fiscal deficit. With inflation surpassing 250%, Argentina has had strict capital controls since 2019, leading to a significant gap between the official and black-market exchange rates. The gap has narrowed to under 18% in 2024 from a high of 200% in the previous year. However, the central bank's decision not to offer put options for peso bonds in the record debt swap has discouraged private banks from participating. These options – which pledge to buy back bonds if they

fall below a certain price – are crucial for convincing banks to swap peso bonds maturing this year for new notes. The Argentine treasury is conducting the swap, but the central bank oversees the puts. Bank executives were informed on Monday that the instrument would not be offered during the auction. The full terms of the swap are expected to be released on Tuesday.

- **Peruvian Prime Minister Alberto Otarola resigned amidst controversy over leaked audio recordings** suggesting he used his position to benefit his romantic partner’s business interests. Otarola denied any wrongdoing, claiming the recordings were manipulated to frame him and asserted they predated his term in office. Prosecutors are now investigating him for possible conflict of interest and illegal sponsorship. According to Peruvian law, Otarola’s resignation triggers the resignation of the entire cabinet, leaving the president to decide whether to reinstate them. The scandal exacerbates existing unrest in Peru, marked by violent protests and accusations of human rights abuses by security forces, deepening the country’s political crisis.
- **The Inter-American Development Bank (IDB) is making reforms to its lending instruments, aiming to boost the impact of loans across multilateral institutions and ramping up its lending capability by \$112 billion over a decade.** These instruments, like debt swaps and sustainability-linked bonds, would be tailored to each country’s needs. IDB President Iñigo Gómez sees this as a key step in reforming multilateral development banks, creating a shared toolkit for innovative development financing, particularly for developing countries that need more financial support to address climate change. This includes a \$62 billion boost through its investment arm, streamlining public lending, and enabling IDB Invest to sell off successful loans, freeing up resources for further lending.
- *Market Implications: Taking a risk on the Argentinian market is too speculative for our taste. On the other hand, we would not be surprised if the Mexican and Colombian markets continue performing well.*

Sub-Saharan Africa

- **Somalia announced a defense deal with Turkey to bolster its sea assets. This has been viewed as a response to Ethiopia's moves to secure sea access through Somaliland, a region Somalia considers its own territory.** Under the agreement, Turkey will

train and equip the Somali navy to protect territorial waters from threats such as terrorism, piracy, and foreign interference, illustrating Turkey's expanding influence in Africa and the deal's importance for Somalia's security and development. This comes as the Paris Club creditors have agreed to cancel \$1.2 billion in debt for Somalia under the IMF and World Bank's Enhanced Heavily Indebted Poor Countries Initiative. Additionally, Somalia will receive \$815 million in voluntary and bilateral relief, totaling 99% of the debt owed to Paris Club members as of January 2023.

- **Over 25 million people in Sudan, South Sudan, and Chad are confronting severe food insecurity amid Sudan’s decade-long civil war.** The crisis is threatening to trigger the world’s largest hunger crisis. Aid workers can only reach 10 percent of those facing “emergency levels of hunger” due to the relentless violence. To seek a peaceful resolution, Sudan has recently agreed to engage in indirect negotiations with the Rapid Support Forces (RSF), facilitated by Libya and Turkey. These discussions entail the RSF’s withdrawal from civilian and government sites, as well as the evacuation of armed elements from Khartoum. Despite a prior agreement in May 2023, the RSF has failed to adhere to these terms.
- **The Senegalese government, after a Council of Ministers meeting, has rescheduled the country's presidential election to March 24th.** This decision comes after President Macky Sall, facing term limits, postponed the election by 10 months which triggered protests and disorder. The Constitutional Council, Senegal's top election body, overturned the delay, instructing the government to fix a new election date. Consequently, the March 24th date was announced, accompanied by the dissolution of the government and the appointment of a new prime minister.
- **Zimbabwe has seen a surge in interest in carbon offset projects since implementing new regulations** last year, with 13 applications spanning forestry, regenerative agriculture, waste, and energy efficiency sectors. Six of these projects have already passed assessment by the national authority, and developers are now focusing on detailed design plans. This trend is part of a broader push in African nations, including Zambia, to boost revenue from the carbon credit industry, which has the potential to account for about 30% of global credits. However, African countries currently earn less than \$10 per ton sold, underscoring the importance of a more unified approach to maximize financial gains.

Suggested Reading

[America's extraordinary economy keeps defying the pessimists](#)

The Economist

[Why Russia's Election Matters to Putin](#)

Thomas Graham, *Council on Foreign Relations*

[Crisis in Haiti comes after decades of turmoil: A chronology](#)

Bryan Pietsch, *The Washington Post*