

# 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

- **After a long stall in momentum due to some Republicans in the House of Representatives, the House has finally passed a \$95 billion military aid package for Ukraine, Israel, and Taiwan.** The lion's share of funds – over \$60 billion – will go towards helping Ukraine, with over \$26 billion going towards Israel, and a little over \$8 billion allotted for the Asia-Pacific, mainly Taiwan. The bill has bipartisan support and is expected to pass through the Senate and may be signed by President Biden as soon as early next week.
- **The leaders of the US, Japan, and the Philippines held the three's first trilateral summit at the White House,** bolstering the relationship between them and reaffirming Washington's commitment to what it calls a “free and open Indo-Pacific and international order based on international law.” The summit also addressed China's increasing hostility in the South China Sea towards the Philippines, as well as near disputed territory with Japan near Taiwan.
- **US President Joe Biden held a phone call with his Chinese counterpart, Xi Jinping,** to discuss their two countries' economic relations, the Ukraine war, and threats in the cybersecurity realm. Biden addressed concerns about China's trade practices as well as national security risks from China's access to US technology. Xi argued that US trade restrictions on China are damaging the two's relationship. Later, **US Treasury Secretary Janet Yellen met with Chinese Premier Li Qiang to further discuss trade and economic issues,** with both sides coming away from the meeting saying that the continued diplomacy between the two has been instrumental in stabilizing their fraught relationship.
- **Chipmaker Taiwan Semiconductor Manufacturing Company (TSMC) is pouring more money into Arizona, bringing its total investment there to \$65 billion. This expansion is backed by potential government support of \$6.6 billion and will make it the largest foreign investment ever in the US.** Meanwhile, the US government is awarding Samsung over \$6 billion to build new chip factories and a research center in

Texas. This is part of a bigger push to boost domestic production of semiconductors, and it will more than double Samsung's total US investment to over \$44 billion.

- *Market Implications: The aid package should have positive effects on US defense-related stocks. The market, given macro conditions, may be going through a transition from growth to value appreciation. Earnings are expected to grow at a healthy pace, however, a slowdown in spending as well as in earnings growth, is expected starting in Q3. Geopolitical tensions will continue to have a toll on the market, and thus hedging and anchoring are recommended.*

## Europe

- **Ukraine is struggling against Russia's invasion, facing twin crises of equipment and manpower shortages.** Russian forces have seized momentum on the battlefield on the front lines, racing for gains in time for Moscow's commemoration of World War II Victory Day. Despite heavy losses for the Russians, Ukrainian forces are being forced out of tactically important areas. Ukrainian officials say that newly-approved US aid could take weeks to reach the front lines. Meanwhile, Russia's defense minister held his first phone call with his French counterpart since 2022 after President Macron's statements about potentially sending French soldiers to Ukraine itself. France has clarified that the suggestion would be for operations away from frontlines.
- **The US and the UK have both banned the London Metal Exchange, the Chicago Mercantile Exchange, and others from offering metals produced by Russia (including aluminum, copper, and nickel).** The supply of Russian metals was already small in both countries after London banned imports and Washington imposed high tariffs, and Russian metal suppliers have already shifted towards the Asian market, which has now become their largest. These latest sanctions are designed to further reduce the price of Russian metals, thus lowering the amount of export revenue Russia can spend on its war against Ukraine.

- **Turkish President Erdogan's AK Party suffered a setback in Turkey's recent local elections, marking the first time since its establishment in 2002 that the party lost the popular vote.** The defeat was particularly pronounced in key cities like Istanbul and Ankara, which had previously been strongholds. The main opposition group, the Republican People's Party (CHP), made substantial gains, securing victory in 35 out of 81 municipalities and 14 out of 30 urban areas. Ekrem Imamoglu, the CHP candidate, was re-elected as the mayor of Istanbul with 51.1% of the votes. These results unfolded against a backdrop of economic challenges, including high inflation and a sharply declining lira.
- **European Union lawmakers have approved a major overhaul of the bloc's migration laws, aiming to end years of division and counter controversial narratives ahead of June elections.** The reforms address the thorny issue of responsibility for migrants upon arrival and whether other EU countries should be obliged to help. However, the new rules include controversial measures such as taking facial images and fingerprints from children as young as 6 and allowing for fast-track deportations. Migrant and human rights groups have criticized the reforms, saying they fail to offer sustainable solutions and could lead to human rights violations. The approval of these reforms highlights the ongoing challenges and debates surrounding migration policy in the EU.
- *Market Implications: The expected lower rates from the ECB could weaken the euro against the dollar. However, that should be a boost for European equities which have performed decently this year. Spending should also assist the anemic European growth which, depending on geopolitical developments, may need to focus on defense spending while it is also imperative to start addressing its demographic and pension challenges.*

#### Asia, Eurasia & the Pacific

- **A record number of voters in South Korea's recent parliamentary election resulted in the liberal opposition party, the Democratic Party, winning a landslide victory with 175 out of 300 seats.** The ruling conservative People Power Party suffered a significant setback, securing only 108 seats, and becoming a smaller minority. This puts President Yoon Suk Yeol in a challenging position for the remainder of his term, hampering his ability to implement business-friendly policies and tax reforms. The opposition is likely to use its legislative

power to limit Yoon's initiatives. The elections were seen as a midterm confidence vote for Yoon, who has faced criticism over scandals, economic issues, and a medical crisis. His ability to pursue key policies is now constrained as he is expected to face pressure to cooperate with the opposition.

- **The Myanmar civil war – launched after a military coup in 2021 – is evolving,** with anti-coup forces claiming to have captured a key town on the border with Thailand, Myawaddy, which sits on a major trading route. The coup leaders have intensified air strikes and conscription efforts as it faces a broad coalition of enemy forces on multiple fronts. Thailand's freeing minister made a visit to Mae Sot, a Thai town that lies across the border from Myawaddy, where Myanmar's military troops wait to cross after the rebel's capture of the town. Thailand announced it was prepared to accept 100,000 people fleeing the conflict overall, but warned that the fighting should not cross into Thailand's airspace.
- **Singapore Prime Minister Lee Hsien Loong announced his departure from office after being in power for 20 years,** saying that he will hand power to Lawrence Wong, the Deputy Prime Minister. Lee, who is 72, originally planned to step down earlier but was delayed due to COVID-19. Lee claimed that passing power to Wong before the city-state's elections next year would allow Wong to win a political mandate and successfully lead the country. He would be Singapore's fourth leader since its independence in 1965.
- **India, the world's largest democracy, has begun voting. Prime Minister Narendra Modi is seeking his third time as his party, the Hindu nationalist BJP, is aiming to expand its reach.** Modi's party has been criticized for anti-democratic crackdowns on opposition politicians and critical journalists. The BJP is heavily favored by polls, and its main rival the Indian National Congress, represented by Rahul Gandhi, lost badly in national elections in 2014 and again in 2019. India has 969 million registered voters, who will be heading to around one million polling stations and will be able to vote for over 2,600 political parties. Unemployment, economic development, and welfare programs top Indians' top election concerns. Results are expected to be announced on June 4th.
- *Market Implications: The economic and geopolitical challenges for the South Korean economy (due to Kim John Un's belligerence) are high and its market may continue facing headwinds. The Indian election could give a boost*

*to its markets while the Malaysian and Japanese markets may positively surprise us in the next several months. We expect the Chinese market to continue having a good and decent return in the next few months due to exports and government programs.*

### Middle East & North Africa

- **Seven World Central Kitchen (a humanitarian aid organization) workers were killed in an Israeli drone strike in Gaza, an incident heavily criticized by other aid organizations and the broader international community.** In response, the IDF dismissed two officers and reprimanded three others for the error. **Israel is continuing its offensive in Gaza as tensions with Iran heightened after an Israeli strike against Iranian officials in Damascus.** Tehran retaliated with an unprecedented assault from Iranian territory against Israel, one which Israel claims did little damage. In response, Israel carried out a limited strike against Iran. Iranian officials claimed that it wasn't planning an immediate response unless Israel launches a more significant attack.
- **The Palestinian Authority (PA), which administers parts of the Israeli-occupied West Bank, has announced the formation of a new governmental cabinet and pledged technocratic governance.** The PA, which was forced out of the Gaza Strip when Hamas seized power in 2007, is very unpopular with Palestinians and has not held elections in nearly two decades. Mohammad Mustafa, chosen as the new government's prime minister and foreign minister, is a US-educated economist who has vowed to establish a fund to rebuild Gaza. Hamas opposes the announcement, warning Palestinians in Gaza to not cooperate with the PA which it sees as a collaborator in Israeli occupation.
- **Russia is considering removing the Taliban from its list of terrorist organizations in order to establish dialogue between the two countries,** which it sees as important given Russia's interests in Central Asia. While officials didn't specify the important issues it needed to discuss with Afghanistan's de facto leaders, analysts believe it may relate to the recent attack on a Moscow concert hall, where gunmen killed at least 144 people. Islamic State militants claimed responsibility and US officials said that it was likely the organization's Afghan branch behind the attack.
- **Pakistan has requested a \$6-\$8 billion bailout package from the International Monetary Fund**

**(IMF), a package which could be augmented through climate financing.** An IMF report claimed that Pakistan's cash reserves fell due to outflows for debt repayments. Pakistani officials say the new loan is needed to provide macroeconomic stability, under which it can undergo necessary reforms. The country's current \$3 billion loan with the IMF ends in late April, but the IMF says that prioritizing reforms will help Pakistan more than the size of the new loan package, of which negotiations are still underway.

### Latin America & the Caribbean

- **The Biden administration has reinstated oil sanctions in response to what it says is Venezuela's failure to advance free and fair elections.** Maduro's government has obstructed opposition participation, including barring candidate Maria Corina Machado. However, Venezuela released a statement saying an earlier meeting between the two had discussed migration and lifting sanctions and accused the US of failing to comply with its commitments in this area. Analysts claim that the reimposed sanctions add uncertainty to the global oil market and may also contribute to an increase in the number of Venezuelan migrants making their way to the US-Mexico border.
- **The Organization of American States (OAS) recently condemned Ecuadorian President Daniel Noboa for the violent raid on the Mexican embassy in Quito, where former Vice President Jorge Glas had sought asylum.** The OAS resolution criticized both Ecuador for the raid as well as Mexico for failing to uphold diplomatic conventions by granting asylum to Glas, who was convicted of graft. Mexican President Andres Manuel Lopez Obrador (AMLO) announced plans to file a suit against Ecuador before the World Court in The Hague in response. In other related news, Ecuadorians recently voted in a referendum to allow the government's fight against gangs, allowing more freedom to deploy the military and increasing prison sentences for drug traffickers.
- **Peru's President Dina Boluarte is in the midst of escalating political unrest following the departure of six cabinet members amid a controversy over luxury watches.** This investigation prompted a search of her residence and workplace by law enforcement to determine any illegal enrichment on the president's part. Boluarte has denied any misconduct, asserting that the watches were acquired with her own personal finances. The departing ministers have shown solidarity with Boluarte, with

one criticizing the law enforcement's search as unwarranted and over the top. For several years, Peru has been struggling with political corruption and democratic backsliding, highlighted by the impeachment and subsequent detention of the previous President Pedro Castillo, which occurred just over a year ago.

- **A deal has been struck to establish a temporary nine-member transitional government council in Haiti**, which will represent groups including political parties, businesses, and civil society. The council's main goal is to prepare the island nation for presidential elections by early 2026, and its first step is to choose a prime minister who will form a new government with the help of the council. Haiti has plunged in chaos since the assassination of former President Jovenel Moise, with gangs controlling much of the country's capital. In an effort to prevent conflicts of interest, the planned council will not be able to participate in future elections.
- *Market Implications: Our position on Brazil is neutral while for Mexico and Columbia we retain restrained optimism that those markets will continue performing well in the next few months due to economic strength.*

### Sub-Saharan Africa

- **Bassirou Diomaye Faye, a left-wing pan-Africanist, has made history as Senegal's youngest president at 44, promising sweeping changes following years of turmoil.** Faye, who had never held elected office, secured a first-round victory just days after his release from prison where he was held for political reasons. His inauguration, attended by African leaders, marked a turning point as he pledged to lead Senegal towards hope, peace, and a strengthened democracy. Faye appointed his mentor, opposition figure Ousmane Sonko, as prime minister. His ambitious agenda includes restoring national sovereignty over key sectors, replacing the CFA franc, and investing in agriculture for food self-sufficiency. Despite international acclaim, Faye faces the challenge of generating employment for Senegal's young population amidst economic difficulties which have led many to seek opportunities abroad.
- **France held a conference to raise aid for Sudan, which has been embroiled in a civil war for over a year. Donors at the conference pledged over \$2 billion for humanitarian aid**, which would be put toward helping the millions of people displaced and facing famine due to the conflict between the country's army and the Rapid Support Forces (RSF) paramilitary group. Experts fear that other conflicts, such as Russia's invasion of Ukraine and Israel's invasion of Gaza, have taken the spotlight, leaving Sudan with little attention. French President Macron said that the \$2 billion raised was likely less than the amount of money sent by foreign powers to finance the conflict itself. Neighboring countries are also in need of aid to be able to host refugees fleeing the conflict. International aid efforts have also been hindered by the two sides, with the army denying aid to RSF-controlled territory and reports of RSF forces looting humanitarian aid.
- **Judith Suminwa Tuluka has just made history, becoming the Democratic Republic of Congo's first female prime minister.** This fulfills a promise made by President Felix Tshisekedi and marks a major milestone in the country's journey towards gender equality in Congolese politics. Tuluka steps into this role at a crucial time, especially in the eastern region, which is rich in minerals but plagued by violence. This has led to the displacement of millions and one of the world's worst humanitarian crises. In her inaugural address, Prime Minister Tuluka emphasized her commitment to prioritizing peace and development, particularly in the conflict-ridden eastern provinces. She expressed deep concern for those affected by violence and pledged to work towards sustainable solutions. As she assumes her new role, she faces the formidable task of steering the nation towards stability and prosperity amidst daunting challenges.
- **Togo officials banned a protest over the arrest of opposition figures and the removal of direct presidential elections from the country's constitution.** The constitutional change would give the country's parliament the power to choose the president, making it likely that President Faure Gnassingbe's rule could be extended to 2031. Gnassingbe has ruled for almost two decades, and his family has led the country for nearly 60 years. Both political opposition groups and clergy supported the planned protests, saying that the changes would extend Gnassingbe's rule for life.

## Suggested Reading

### [The Coming Arab Backlash](#)

Marc Lynch, *Foreign Affairs*

### [India's democracy needs a stronger opposition](#)

*The Economist*

### [What Happened to 'Stalemate' in Ukraine?](#)

Stephen Sestanovich, *Council on Foreign Relations*

### [In Latin America, China Is Facing Headwinds of Its Own Making](#)

James Bosworth, *World Politics Review*