

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

- **On June 5th, the Biden administration's new migration policy went into effect** aimed at stemming the rising tide of migrants crossing the southern border illegally. The policy allows migration officials to rapidly deport migrants who cross the southern border illegally, without hearing asylum claims if migrant arrests surpass a seven-day average of 2,500 per day. The ban will stay in place until the average drops to 1,500 per day over seven days. In April, border arrests averaged 4,300 per day. Furthermore, administration officials announced that asylum seekers would now only have four hours to find a lawyer versus the previous 24 hours allotted to improve screening times. The American Civil Liberties Union plans to sue the government over the new policy. In other immigration policy news, the White House announced a new pathway for undocumented spouses of US citizens to receive green cards. The new measures are expected to impact more than half a million people.
- **Former president Donald Trump became the first former president to be convicted of a felony** following the decision of a Manhattan jury which found him guilty of 34 felony counts of falsifying business records in his hush money criminal trial. His sentencing is scheduled for July 11th. The US Constitution does not bar a convicted criminal from running for the presidency, so the conviction does not impact his eligibility as a presidential candidate in the upcoming November election. Earlier this year, the US Supreme Court rejected an effort made by several states to remove Trump from the ballot based on the 14th amendment. Likewise, experts say states are unlikely to succeed in passing additional eligibility requirements for a presidential candidate.
- **Former Mexico City Mayor and protégé of the outgoing Mexican President Andres Manuel Lopez Obrador, Claudia Sheinbaum, won the Mexican presidency** by more than 30 percentage points. She is the first woman president of Mexico and will continue MORENA's dominance in Mexican politics, as fears of a return to a one-party system rise. As a party, MORENA fell short of a

supermajority in the Senate with control of 83 out of 128 seats but gained two-thirds control in the Mexican House winning 372 out of the 500 seats.

- In what has been the nation's strongest step towards the regulation of artificial intelligence (AI), **the US Justice Department and the Federal Trade Commission have begun antitrust investigations into the roles that Microsoft, OpenAI, and Nvidia play in the AI industry.** The burst of generative AI – which can produce humanlike text, images, videos and audio – has created industry frenzy and with it has come greater regulatory scrutiny across the globe. The US lags behind Europe in regulating AI as European officials have already agreed on landmark rules for governing AI technologies.
- *Market Implications: We continue the belief that US equity markets could gain another 3-4% by year's end. Markets were fueled this week by AI momentum as Nvidia surpassed Microsoft to become the world's most valuable company. With more than half of the S&P 500's gains this year coming from just four stocks (NVDA, MSFT, AMZN, META), caution should be exercised, especially for conservative portfolios.*

Europe

- **The recent European Union (EU) parliamentary elections have sent ripples of uncertainty throughout the continent, especially in France.** In terms of numbers, the traditional centrist and pro-EU parties still hold 450 of the body's 720 seats with the center-right European People's Party having bolstered its position with 186 seats, positioning it to lead a governing coalition. While both the far-right and far-left saw gains, they lacked sufficient numbers to form coalitions, nudging the EU parliament slightly rightward. French President Macron, responding to his party's election setback, has opted to dissolve the National Assembly and thus trigger snap elections which are set for July, a risky move for his political future. Macron's centrist alliance secured only 15% of the vote, while the far-right National Rally, led by political rivals Marine Le Pen and Jordan Bardella, garnered 31%.

- **United Kingdom (UK) Prime Minister Rishi Sunak announced snap elections that will be held July 4th** despite having until January to do so. The prime minister's decision was likely to show confidence in his Conservative party (aka the Tories), despite its 14 years of rule and ever-decreasing popularity among the British public. The Labour Party is expected to win big on July 4th as they try to capitalize on voter discontent regarding rising inflation, energy costs because of the conflict in Ukraine, and labor shortages. Keir Starmer, the leader of the Labour Party, will likely succeed Mr. Sunak as the British Prime Minister if elections go as expected.
- **During the G-7 summit, President Biden and European leaders reached an accord to support Ukraine financially by utilizing the interest-frozen Russian assets.** This agreement, representing a unified stance against Russian aggression, aims to provide economic stability and assistance to Ukraine amid ongoing tensions with Russia. By leveraging these assets to finance a loan of up to \$50 billion, the international community intends to bolster Ukraine's resilience and reinforce its sovereignty in the face of Russian threats. This collaborative effort underscores the commitment of Western powers to stand with Ukraine and address geopolitical challenges posed by Russia's actions in the region.
- **On June 12th, the EU announced additional long-expected tariffs of up to 38% on Chinese electric vehicles.** Critics worry that this move will set off a trade war and make low-emission vehicles more attractive to EU consumers even as the EU seeks to ban all combustion vehicles by 2035. There had already been a 10% duty in place before the announcement that has ratcheted up tension with China. In a retaliatory move, the Chinese Ministry of Commerce was quick to announce an investigation into whether EU pork was being dumped in China for lower-than-fair prices.
- *Market Implications: Greater-than-expected gains for right-wing populist parties in Europe rattled markets, especially in France, but it did not upset the status quo as centrists retained power at the pan-European level. European equity markets are projected to continue exhibiting strength, so we believe some EU exposure is warranted. The Euro may experience minor tremors due to the potential for political instability following France's snap elections.*

Asia, Eurasia & the Pacific

- **Narendra Modi's nationalist Hindu BJP party suffered a surprising setback in the recent national elections, signaling a significant shift in the country's political landscape.** Before the election, Modi had claimed that the BJP and its allies would win over 400 legislative seats, but official results show that they only won 293 seats out of the 543 up for grabs (240 directly for BJP). Opposition parties, like the increasingly populist-acting Congress party, hold less than half (99) of the seats that the BJP has in the legislature. Still, they are chipping away at Modi and his power structure after only securing 52 seats in the 2019 election.
- **Tensions have escalated on the Korean peninsula with South Korea formally suspending a 2018 military agreement with North Korea.** The decision was made following Pyongyang's recent missile launches and a barrage of trash balloons that it sent over the border into South Korea. The 2018 agreement, which was partially suspended last year by South Korea due to North Korea's launching of a spy satellite, called for both sides to reduce their military presence near the Demilitarized Zone. North Korea said it sent the 15 tons of trash via the balloons in retaliation for propaganda balloons previously sent by activists in South Korea. Meanwhile, South Korea and the United States have conducted joint aerial bombing drills utilizing precision-guided munitions to deter further aggressive actions from North Korea. On the other hand, North Korea and Russia just announced a bilateral defense pact.
- **Armenian Prime Minister Nikol Pashinyan announced that a peace treaty with Azerbaijan is nearing completion, however, Armenia rejected Azerbaijan's demand to amend its constitution.** Following Pashinyan's remarks, protests erupted in Yerevan against his policies, including returning villages to Azerbaijan, with demonstrators calling for his resignation. Clashes between police and protesters resulted in injuries to 79 civilians and 17 officers. Despite tensions, Pashinyan described the treaty text as advanced and ready for signing after necessary adjustments, aiming to end the long-standing Nagorno-Karabakh conflict between the two former Soviet republics.
- **Thailand's main opposition party, the Move Forward Party, is facing disbandment and a lifetime political ban** on its leaders by the Constitutional Court. Move Forward claims that the court lacks the authority to dissolve political parties despite the same court's order to dissolve its

predecessor in 2020. Dissolution of Move Forward could reignite protests akin to those following the dissolution of the Future Forward Party in 2020, with around 47% of respondents in a recent survey backing Move Forward's candidate Pita Limjaroenrat for prime minister. Move Forward has garnered popularity for its platform centered on easing penalties for royal insults and reforming the finances of the royal household.

- *Market Implications: We continue to recommend limited exposure to Asian markets, particularly Japan and India. Despite Modi suffering a surprising setback, but nonetheless winning re-election, we expect India to continue outperforming other emerging markets, though the slow development of its employment market could hold it back.*

Middle East & North Africa

- **The Lebanese militant group Hezbollah has intensified its military activities along the Israel-Lebanon border**, raising concerns of a potential escalation beyond the present low-intensity conflict. The group has been fortifying its positions and conducting military drills, heightening tensions in the region. The situation is exacerbated by provocative rhetoric from leaders on both sides as well as Hezbollah's use of explosive drones that are increasingly striking deeper into Israeli territory. Israel remains concerned about Hezbollah's medium-range missile arsenal that is likely capable of striking central Israel but is increasing planning for the creation of a security zone in southern Lebanon akin to the one that was in place until 2000, if forced to. However, a conflict would not benefit either side as Israel continues its military operations in Gaza and Lebanon tries to improve its bleak economic situation.
- **Attempts at a ceasefire deal between Israel and Hamas in Gaza have once again stalled**, as Secretary of State Anthony Blinken blames last-minute demands from Hamas. The US is continuing to work with the Qataris and Egyptians to close a deal. Meanwhile, Benny Gantz left Israel's war cabinet highlighting his distrust in Prime Minister Benjamin Netanyahu as well as his preference for a new strategy aimed at bringing home Israeli hostages in Gaza versus prolonging the war. Following Gantz's departure, Netanyahu decided to dissolve the war cabinet, leaving Netanyahu's decisions on the war against Hamas to a smaller group of advisors.

- **Egypt's foreign exchange reserves reached a historic high of \$46.1 billion in May following a \$35 billion investment deal with the UAE**, the largest-ever influx of foreign investment into the North African nation. This surge, from \$41.1 billion the previous month, marks a significant turnaround after Egypt's prolonged economic crisis. The UAE agreement, which includes development rights for Ras El-Hekma on Egypt's Mediterranean coast, enabled a currency devaluation and unlocked additional financing from international entities, boosting total aid commitments to \$57 billion. The International Monetary Fund (IMF) anticipates reserves could further rise to approximately \$49.2 billion by the end of June.
- **Pakistani Prime Minister Shehbaz Sharif's recent visit to China aimed to secure \$17 billion in new investments in energy and infrastructure amidst Pakistan's economic turmoil**, particularly within the \$50 billion China-Pakistan Economic Corridor (CPEC). However, the visit concluded with minimal success, as Beijing showed reluctance due to concerns over Pakistan's economic stability and the effectiveness of previous CPEC investments. Despite modest gains such as advancing the ML-1 Railway project in phases and upgrading a segment of the Karakoram Highway, China's response remained cautious, reflecting a shift away from large-scale commitments amid financial challenges and security risks in Pakistan.

Latin America & the Caribbean

- **The Maduro regime is doubling down on opposition parties ahead of elections despite the promises it made late last year**. At the end of May, the US reinstated gold and oil sanctions on Venezuela after President Nicolás Maduro's government failed to honor an agreement to allow fairer elections in July. For example, in the last few days, four activists from opposition parties were detained, bringing the total for the year to 37. Maduro and his party are feeling the pressure after the opposition's recent victories in primaries and regional elections have signaled a shift in the political landscape. A recent poll shows that opposition candidate, Edmundo González Urrutia, is favored by 50%. His surge in popularity is fueled by Maria Corina Machado's campaigning efforts after she was disqualified by the regime, along with Venezuela's economic woes including high inflation, low wages, and stagnant oil production.
- **President Javier Milei achieved a significant legislative victory in Argentina** as the Senate

narrowly approved his economic reform bill, featuring privatizations and labor law changes, despite violent protests in Buenos Aires. The bill's passage boosted investor confidence, with Argentine sovereign bonds leading emerging market gains. However, a proposed income tax measure was rejected, adding complexity to further legislative efforts in the lower house where the government maintains a stronger position. Earlier this week, the IMF approved a nearly \$800 million disbursement to Argentina. The news came shortly after it was reported that the country's inflation rate last month was at its lowest level in two-and-a-half years, 4.2%.

- **Haiti's transitional council appointed Garry Conille as the new prime minister amidst ongoing gang violence and political instability.** Conille had been UNICEF's regional director for Latin America and the Caribbean since 2023 and was previously the Haitian prime minister (2011-2012). He faces the challenge of restoring order in Port-au-Prince and addressing deep economic woes, including record inflation. His selection followed a contentious process marked by procedural disputes within the council and widespread criticism over transparency. With tasks ahead including forming a new cabinet and preparing for elections, Conille's leadership aims to stabilize Haiti amid escalating crises.
- **Colombia's lower house approved President Gustavo Petro's pension reform, a significant win for the leftist leader after facing challenges** in passing key legislative measures. The reform aims to bolster state pension fund Colpensiones, reduce subsidies, and expand coverage for those lacking adequate savings. Despite concerns from analysts and business groups about its impact on capital markets and public finances, the bill received 86 votes in favor and 32 against. Petro will be hoping this success will improve the public's perception of his government—his approval rating has hovered at 34% for months— but is unlikely to, based on April's protests against his reforms, which drew hundreds of thousands of Colombians in various cities. Colombia's tax collection fell by 10% in the first four months of 2024 as compared to the same time frame in 2023, forcing the finance minister to temporarily block public spending on new projects.
- *Market Implications: Following the governing party's win in Mexico and given the positive outlook for the macroeconomic environments and commodities markets in Brazil and Colombia, we remain interested in some limited exposure to these markets.*

Sub-Saharan Africa

- **After failing to secure a majority for the first time since the end of Apartheid, with 40.2% of the vote, the African National Congress (ANC), led by Cyril Ramaphosa, has formed a broad coalition government** in South Africa amid internal political tensions. The two junior partners will be the centrist Democratic Alliance (22% of the vote) and the right-wing Inkatha Freedom Party (4% of the vote). The coalition's diverse ideological differences pose significant challenges, particularly regarding policy deadlock and potential instability. These dynamics also raise questions about the future direction of South Africa's traditionally non-aligned foreign policy, given its membership in the Southern African Development Community (SADC) and African Union (AU), and its strategic interactions with global powers like the West, China, and Russia.
- **South Korea's President Yoon Suk Yeol hosted the nation's first summit with the African Union, inviting the 48-member block to discuss critical minerals.** The result of the two-day summit in Seoul was the agreement to launch the Korea-Africa Critical Minerals Dialogue. South Korea intends to diversify and increase its access to critical minerals, to produce batteries, electric vehicles, and smartphones, curbing its heavy reliance on China. Africa has significant reserves of minerals prompting South Korea to deepen relations with the continent, highlighted in the South Korean announcement to expand development aid to the continent to \$10 billion by 2030 as well as offer \$14 billion in financing to South Korean exporters doing business in the region.
- **During President William Ruto's historic US visit, Kenya secured a \$3.6 billion agreement with Everstrong Capital LLC to construct a 440-kilometer toll road linking Nairobi and Mombasa.** Named Usahihi, Swahili for "correctly," the expressway will feature four to six lanes and traverse a wildlife reserve. It is financed independently to avoid burdening Kenya's finances. Ruto's visit marks the first state visit by an African leader to the US in 16 years, aiming to bolster private investment amid rising geopolitical competition in Africa. Additional agreements include a \$1 billion Microsoft data center and Coca-Cola's \$175 million expansion, highlighting Kenya's strategic economic partnerships. The US also designated Kenya as a major non-NATO ally, making Kenya the first country in sub-Saharan Africa to receive this designation.

- **Russian Foreign Minister Sergey Lavrov made a visit to key partners in Sub-Saharan Africa** to bolster Russia's presence in the region as the US and France have hit recent stumbling blocks. He first visited Guinea to meet with its foreign minister Morissanda Kouyaté and discuss "areas of cooperation". Guinea has been ruled by a military junta since 2021, led by Mamadi Doumbouya. Doumbouya has shifted the country away from the West, stating that Africans are "exhausted by the categorizations with which everyone wants to box us in", presumably referring to the West's criticisms of recent coups in West Africa and the Sahel. Lavrov continued to the Republic of the Congo, expressing support for the African country's leadership in Libyan reconciliation efforts, and criticized Western initiatives in both Libya and Ukraine.

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[What Comes After Neoliberalism?](#)

Project Syndicate

[Legal immigration to America has rebounded](#)

The Economist

[South Korea Has Its Sights Set on Africa and the Middle East](#)

Jonathan Fenton-Harvey, *World Politics Review*

[India Steps Back From the Brink](#)

Pratap Bhanu Mehta, *Foreign Affairs*

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