



R&R Weekly Column
By Brunello Rosa



The “War of Corridors” is Yet Another Battleground of Cold War 2

In 2013, China launched its One Belt One Road (OBOR) project, later rebranded [Belt and Road Initiative \(BRI\)](#). Taking the cue from [Marco Polo’s “Silk Roads,”](#) the BRI’s initial intention was that of allowing China to export its excess capacity to neighbouring and allied countries in South-East Asia, Central Asia, the Middle East, and eventually up to Europe. The terrestrial “Belt” was accompanied by a crucial maritime “Road,” which was also aimed at breaking China’s straitjacket represented by its inability to project its influence over the seas.

In fact, the US is totally unconstrained in its dominance of the seas, the same way the British empire was, and has made its maritime superiority a key geo-strategic lever. Conversely China needs to break the maritime constraints posed by the presence of many other countries off its coasts: Japan, North and South Korea, the Philippines, only to name a few. Opening a commercial road, through various ports purchased or built in key countries along the BRI, allowed China to also establish a military presence over the seas, at the very least to defend its legitimate commercial interests.

The US reacted to that move by establishing the TPP, [the Trans-Pacific Partnership](#), which was conceived by the Obama administration, subsequently abandoned by the Trump administration, and eventually revived by Japan – without the US – under the name of [Comprehensive and Progressive Agreement for Trans-Pacific Partnership \(CPTPP\)](#). Meanwhile, the BRI became an instrument to impose “slave contracts” to adhering countries, that found themselves [in a debt trap with China](#) (e.g. Sri Lanka). The BRI was also used by China to export (and impose) its technology to the countries along the way via the so-called [“Digital Silk Road Initiative,”](#) launched in 2015.

With an inexcusable delay of around ten years, the G7 countries reacted to China’s BRI by launching their [Partnership for Global Infrastructure and Investment](#) (PGII), a USD 600bn investment plan, that is supposed to offer an alternative to China’s BRI and its associated debt traps. Last week, at the G20 meeting in New Delhi, the G7 agreed to create a logistical counterpart to the PGII, i.e. the so-called [“India-Middle East-Europe Economic Corridor,”](#) i.e. a railway network designed to provide reliable and cost-effective cross-border ship-to-rail transit, complementing existing maritime and road transport routes passing through India, the UAE, Saudi Arabia, Jordan, Israel, Italy, France and Germany.

This new strategic corridor excludes Turkey, a country that is between Europe and the Middle East, is a NATO member while being closer to Russia even after the invasion of Ukraine and [has sided with China in its “space race” against the US.](#) For this reason, Turkey is now proposing an alternative corridor, the [Iraq Development Road](#), which foresees the participation of Kuwait, Iraq, Qatar and the UAE, together with Turkey. Besides all these corridors, there’s also the so-called [“North-South Transport Corridor,”](#) signed between India, Iran, Azerbaijan and Russia in September 2020, and which connects these three countries.

All these initiatives show the importance of [establishing new “corridors”](#) to make sure that goods and technology will continue to be efficiently transported and exported even in presence of balkanised supply and value chains, which are a distinctive feature of the ongoing Cold War 2 between US and China.

Our Recent Publications

- Review: [ECB Hikes Rates and Hints at the Peak of The Tightening Cycle](#), by Brunello Rosa and Nato Balavadze, 14 September 2023
- Preview: [ECB To “Skip” the Hike in September, In a Finely Balanced Decision](#), by Brunello Rosa, Nouriel Roubini and Nato Balavadze, 11 September 2023

- [Central Banking in BRICS: Post-Pandemic Landscape And Next Likely Moves](#), by Ridipt Singh, 8 September 2023
- [The Qatari Bridge Between the U.S. and Iran](#), by Gulf State Analytics, 6 September 2023

Looking Ahead

The Week Ahead: Headline Inflation To Stay Unchanged In the EZ, While Rising In the UK; Fed to Take A Pause; BoE To Hike

In the US, the Fed is expected to maintain its target Fed funds range at 5.25% - 5.50%.

In the EZ, in August, headline inflation rate is expected to stay unchanged at 5.3% y-o-y, while core inflation is likely to fall to 5.3% y-o-y (p: 5.5%).

In the UK, in August, headline inflation rate is seeing rising to 7.1% y-o-y (p: 6.8%), whereas core inflation is expected to ease off to 6.8% y-o-y (p: 6.9%). In August, retail sales are likely to rise to -1.2% y-o-y (p: -3.2%). In September, Gfk consumer confidence is seen contracting to -27 (p: -25).

Still in the UK, the BoE is expected to increase its Bank Rate by 25 bps to 5.5%.

The Quarter Ahead: UAW Union Announced A Strike; The EU Is Probing China's EV Subsidies; North Korea-Russia Summit

US United Auto Workers (UAW) union announced a partial strike. In a White House speech on Friday, Biden urged a "win-win agreement" to address the deadlock between the UAW union and the three major American car companies: Ford, General Motors, and Stellantis. Approximately 12,700 UAW workers stayed on strike for a second day on Saturday in an effort to push for wage increases, shorter hours and improved retirement benefits. Stellantis stated on Saturday that their latest offer to the UAW includes salary increases of almost 21% during the contract, which involves an immediate 10% raise.

The EU has initiated an investigation into subsidies provided by China for electric vehicles. As European Commission President Ursula von der Leyen said "global markets are now flooded with cheaper electric cars. And their price is kept artificially low by huge state subsidies". The Commission will take up to 13 months to decide if it should apply tariffs higher than the usual 10% rate for cars.

North Korea's Kim Jong-un visits Russia. Putin stated that Russia aims to establish "good neighborly relations" with North Korea, despite Western warnings about adhering to international sanctions against Pyongyang. The Kremlin stated that no formal agreements were made so far, despite earlier speculations about a potential arms deal that could impact Russia's situation in Ukraine.

Poland, Slovakia, and Hungary plan to go against the EU's decision and continue their ban on importing grain from Ukraine. The EU announced the end of its temporary ban on Ukrainian grain exports to Eastern European countries, which was imposed in May to prevent price competition for local farmers. In the meantime, Zelenskyy who welcomed the news, is expected to meet Biden during his US trip.

Last Week's Review

Real Economy: US Headline Inflation Rose, While Core Fell; UK Unemployment Increased; ECB Raised Interest Rates

In the US, in August, headline inflation rose to 3.7% y-o-y (c: 3.6%; p: 3.2%), whereas core eased off to 4.3% y-o-y (c: 4.3%; p: 4.7%).

In the EZ, in July, IP shrank by -2.2% y-o-y (c: -0.3%; p: -1.2%).

In the UK, in July, unemployment rate edged up to 4.3% (p: 4.2%) as expected. In July, IP increased by 0.4% y-o-y (c: 0.5%; p: 0.7%).

In the EZ, the ECB raised its three key interest rates by 25 bps, with the deposit rate reaching 4.0%.

Financial Markets: Stock Prices Increased, But Major US Stocks Were Down; Bond Yields, Dollar Index, Oil And Gold Prices Increased

Market Drivers: In the US stocks fell due to chipmakers' worries about weak consumer demand, and rising Treasury yields weighed on Amazon and other large growth firms. In Europe, stocks rose after the ECB raised rates, signaling a potential peak in borrowing costs, while better Chinese economic data boosted investor confidence.

Global Equities: decreased w-o-w (MSCI ACWI, +0.5%, to 681.34). The US S&P 500 index edged down (-1.2% w-o-w, to 4,450.32). In the EZ, share prices were up (Eurostoxx 50, +1.4% w-o-w, to 4,296.15). In EMs, equity prices moved up (MSCI EMs, +1.1%, to 984.99). Volatility fell to 14.15 (VIX S&P 500, 52w avg.: 20.9; 10y avg.: 18.7).

Fixed Income: w-o-w, the 10-year US Treasury yields edged up (+8 bps to 4.34%). The 2-year US Treasury yields increased (+5 bps to 5.04%). The German 10-year bund yield rose (+8 bps to 2.68%).

FX: w-o-w, the US Dollar Index increased (DXY, +0.2%, to 105.33; EUR/USD -0.4%, to 1.07). In EMs, currencies increased (MSCI EM Currency Index, +0.7% w-o-w, to 1,677.45).

Commodities: w-o-w, oil prices increased (Brent, +4.0% to 94.27 USD/b). Gold prices rose marginally w-o-w (+0.1% to 1,945.6 USD/Oz).



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Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	MSS	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	MPC	Monetary Policy Committee
bpd	Barrels per day	NAFTA	North-American Free Trade Agreement
bps	Basis points	NATO	North Atlantic Treaty Organization
BS	Balance sheet	OECD	Organization for Economic Cooperation and Development
c	Consensus	Opec	Organization of Petroleum Exporting Countries
C/A	Current account	p	Previous
CB	Central bank	P2P	Peer-to-peer
CBB	Central Bank of Bahrain	PBoC	People's Bank of China
CBK	Central Bank of Kuwait	PCE	Personal Consumption Expenditures
CBT	Central Bank of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union, Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CPI	Consumer Price Index	pps	Percentage points
DJIA	Dow Jones Industrial Average Index	pw	Previous week
DJEM	Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	q-o-q	Quarter-on-quarter
ECB	European Central Bank	RE	Real estate
ECJ	European Court of Justice	RBA	Reserve Bank of Australia
EIA	US Energy Information Agency	RRR	Reserve Requirement Ratio
EM	Emerging Markets	RUB	Russian Rouble
EP	European Parliament	SWF	Sovereign Wealth Fund
EPS	Earnings per share	tn	Trillion
EU	European Union	TRY	Turkish Lira
EUR	Euro	UAE	United Arab Emirates
EZ	Eurozone	UK	United Kingdom
Fed	US Federal Reserve	US	United States
FOMC	US Federal Open Market Committee	USD	United States Dollar
FRB	US Federal Reserve Board	USD/b	USD per barrel
FX	Foreign exchange	UST	US Treasury bills/bonds
FY	Fiscal Year	VAT	Value added tax
GCC	Gulf Cooperation Council	VIX	Chicago Board Options Exchange Volatility Index
GBP	British pound	WTI	West Texas Intermediate
GDP	Gross domestic product	WTO	World Trade Organisation
IMF	International Monetary Fund	w	Week
INR	Indian Rupee	w-o-w	Week-on-week
IPO	Initial public offering	y	Year
IRR	Iranian Rial	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year