

Brazil

It's never the crime, it's always the cover-up. That's been the theme in the United States for the last umpteen high level political scandals. And now it's the case in Brazil.

President Dilma Rousseff appointed beleaguered ex-president Luiz Inacio Lula da Silva to her administration as chief of staff. No sooner had she announced it than tapes from a series of wire-tapped conversations between the two of them (as well as chief of staff Jaques Wagner) were released, with Rousseff saying she would offer the appointment to reduce Lula's legal vulnerabilities (as a cabinet minister, Lula could only be tried in the federal supreme court — potentially delaying proceedings for years). This would also give Lula time to help the president negotiate an anti-impeachment coalition in congress.

Rousseff and her supporters claim they did nothing illegal and the release of the recordings was itself against the law. It doesn't matter — in the court of public opinion, she's guilty, and it's likely brought fatal damage to her already much-weakened administration. Rousseff's impeachment, which had been avoidable given her own apparent lack of involvement with criminal activities and non-interference with the lava jato scandal investigations and the comparatively low bar of deputies to vote with her against impeachment (172 out of a total of 513), now looks like it's going to happen. That would come from Rousseff's coalition partners bolting from her government, something the center-right Brazilian Republican Party (PRB) has already done, and on which her main coalition partner (and the party of the vice president Michel Temer), the PMDB, could soon follow suit.

Despite the flurry of news, timing around the impeachment process may come a bit quicker than most expect. A special committee is now in place to consider the impeachment petition — Rousseff has up to ten congressional sessions to mount her defense. Then she'll face a vote on whether to force the president to step down for 180 days. That means vice president Michel Temer could be president by as early as late April or the first half of May.

The markets are showing nothing but enthusiasm for an impeachment. They shouldn't. Should it happen, Temer's honeymoon will be short and his room to maneuver narrow. Temer would become president under a national unity government. He'd have a new cabinet and promise a quick more on economic reforms. He would also benefit from goodwill from the opposition PSDB and centrist legislators, which means he'd be likely to get some reforms done. All good... except that he and his top political allies in the PMDB would also be every bit as vulnerable to the lava jato probe as Rousseff and Lula were — with evidence already piling up compromising senior members of his party and no reason to believe the pace of investigations will slow. Combine that with the size of Brazil's present economic woes, and it's hard to see much of a turnaround in Brazil's fortunes coming off an impeachment.

Ironically, the real plus would come from Temer's failure — specifically the prospect of the superior electoral court (TSE) deciding to call new elections shortly after he assumes the presidency. That could happen as early as November. If it does, then we're ready to get bullish on Brazil again.

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For all the challenge — and what's the absolute worst possible timing for Olympic games in modern memory — this is precisely the scandal Brazil needs. Indeed, one of the biggest challenges in the world presently is that most of the negative conditions we see are chronic, not acute. Which means there's

insufficient pressure to force dramatic political change, leading to sudden improvements in trajectory. that's true in South Africa, it's true in Russia. It's true for the Eurozone, it's true for the United States. And it's surely true of the world's geopolitical condition — the G-zero — more broadly.

Not so in Brazil. Where the worst political crisis since the country returned to democracy is shaking its political system to the roots. And backsliding isn't an option — there's not even a remote prospect of a military coup to respond to the crisis; something that would have been overwhelmingly likely even two decades ago. Once a true clean slate emerges, either following a TSE decision for early elections or at the natural conclusion of the Rousseff/Temer administration in 2018, we're likely to consider Brazil one of the most attractive emerging markets globally.

Still, that's not providing much solace for most Brazilians today. Brazil has a bright future... we aren't there yet. But it's path is becoming more visible.

Russia – Syria

As suddenly as Russia was in Syria, it was out. President Vladimir Putin announced the Russian mission's objectives were substantially accomplished, and so his country's expansive military operations were no longer necessary. Over the course of a week, a good portion of Russia's presence in Syria has returned to Russia.

Given how strongly opposed the Obama administration was to the Russian mission, surely the withdrawal was cause for celebration? Not exactly. The Americans didn't have a solution for Syria before, and they don't now. Indeed, pretty much the only country that has come close to achieving its goals in Syria is Russia. While the stated Russian goals were to destroy Isis (similar to the United States, and equally unrelated to actual strategic objectives, which for the Obama administration was to avoid getting sucked into the morass), the Kremlin's intention was to shore up president Bashar al-Assad and his regime, and tilt the balance against the western-supported rebels, without taking significant costs, blame, or responsibility for the civil war. On those three counts, the Russian military intervention was a success.

What now? Peace negotiations are being pushed along by the United States and Europe. Now that Assad isn't going anywhere (ensuring the security of two Russian military bases accordingly) the Russians would be happy to see those negotiations succeed. In other words, a frozen conflict a la what's presently, more or less, in place in Ukraine would be Moscow's preferred outcome. But it's impossible to see it happening. The Syrian opposition remains weak, divided, and dominated by radical groups unacceptable to the west. Assad will keep fighting against them. The west will continue to bomb Isis.

One key question is the Kurds. Right after the Russians floated a federal solution as acceptable, the Syrian Kurds said they wanted autonomy for the territory they presently control — not exactly a Kurdish government, but open to all living there. It makes sense in the context of separate American and Russian comments supporting a federalized Syria — especially as the only part of the country that presently looks governable. but with Kurdish-supported terrorism picking up dramatically in Turkey (with two major attacks just in the past week), Ankara's opposition to anything that looks like the precursor to a Kurdish state will be severe. The prospects of Turkey directly involving itself in the war now that the Russians are out are growing — don't be surprised if president Erdogan effectively tries to replace the Russians, but on the other side of the fight.

Until and unless that comes about, however, the worst of the conflict may be behind us. Fighting will diminish somewhat and humanitarian support for the millions of displaced Syrians will pick up pace. But Isis will remain in place. Human rights abuses at their hands and the hands of the Assad regime will continue. And so we'll still see more refugees coming in from Syria, as well as from across the broader middle east, over the course of the year. It's a good news story for Putin. And pretty much nobody else.

North Korea

A busy week of escalation from the North Koreans. Another ballistic missile test. Promise of another nuclear test. A demonstration that they've achieved nuclear miniaturization technology, by ostensibly showing off a payload sized warhead (western intelligence sources claim the north Koreans are still a minimum of five years out). And a decision to hand down a 15-year hard labor sentence to an American student alleged to have stolen a propaganda sign from a hotel where he was staying.

Lesson: North Korean souvenirs are more expensive than you think.

More meaningful lesson: not many. The Americans are against a wall here. The Obama administration has already expanded sanctions to their maximum plausible level, including a freeze on north Korean government property in the United States and a ban on exports to/investment in the country. North Korea doubled down, essentially daring the Americans to take further action. There's not much else the Americans can do. Military options aren't on the table. And almost all of North Korea's economic support comes from China... which has no interest in shutting them down.

This is starting to cause more significant friction between Washington and Beijing. When Sony pictures were hacked by North Korea, China quietly helped the Americans to retaliate and reduce tensions overall. That wouldn't happen now. American efforts to push the Chinese in that direction have fallen on deaf ears – latest was US Undersecretary of Treasury for Terrorism and Financial Intelligence Adam Szubin in Beijing (and Hong Kong) last week, trying to convince the Chinese to take a harder line... no dice. China is feeling hemmed in by the conflict, and has accordingly pushed back on unrelated security issues where it feels it has more leverage. Beijing recently stepped up its South China Sea military and artificial island building activities, and turned to warn Japan in the past two weeks to back away from the United States on South China Sea political positioning. A further rise in temperature here now looks likely.

But as for North Korea itself? There's not much to see beyond the headlines — the Kim Jong Un regime seems to have a solid hold on its decision-making and, as long as that's true, has no interest in provoking actual military conflict. The danger is what happens when the regime implodes. Right now that doesn't feel likely. But Pyongyang's power is contingent on keeping the population like mushrooms — fed manure and kept in the dark. That's already more challenging with the proliferation of smart phones (which right now are controlled by China, which evidently limited searchable information). What happens when the internet of things explodes? When the proliferation of data means the entire consumer economy and supply chain resists isolation?

When North Korean refrigerators start talking to each other (in other words, when they have both an internet and things...), I'm not sure the regime has long to go. That's the big eventual risk here, how can an extremely poor totalitarian regime keep the rise of technology at bay. And it's really a South Korea problem — given the refugee issue, as well as the danger for North Korea's military leaders and the race to control the regime's key military assets. Longer term, I worry.

Trump

Last week in Tokyo, I didn't have a single meeting in which the question of us republican presidential candidate Donald Trump didn't come up. I doubt it's possible to have a social dinner in the states of late that doesn't end up veering to the topic. But "dominating the news" isn't the same as "world-changing". I remain more skeptical of the phenomenon and persona than most.

Why? First, I still don't think Trump is going to win. Getting a majority of delegates before convention time isn't a done deal, and resistance in a brokered convention will be overwhelming. His negatives will subside if he becomes the nominee, but they're still sky high. Polls against Hillary Clinton, who will soon lock up the democratic nomination, show her winning handily.

And even in the unlikely event that he wins, impact on us domestic policy and the economy isn't likely to be significant. There's very little room for policy compromise in an increasingly polarized congress; it's hard to imagine sudden breakthroughs on the budget, tax policy, immigration or much else in a Trump administration.

Two issues to pay attention to. One: US foreign policy is a different story. Essentially, we get a lot more G-zero under a president Trump. American alliances would fray to the point of breaking. geopolitical creative destruction, presently limited to the Middle East, would become global. Most all allies would feel the need to hedge downside of American unilateralism and more limited (and less predictable) support. Antagonists like Russia, China, and Iran would make gains accordingly in their backyards. And Europe would come under far greater pressure.

And two, more sadly: presuming a Trump loss, we've likely passed the tipping point on a "normal" election. The prospects of meaningful violence accompanying the Trump campaign are now significant, as well as the likelihood that Trump and/or allies are able to create a political movement around their supporters — essentially bringing a France-style national front of 15-20% of the population to the United States. Longer term, that creates significantly more ethnic and racial tension, undermining the economic benefits of diversity in the country.

Japan

In all of my Tokyo meetings last week, people expressed significant comfort with prime minister Shinzo Abe. With no opposition to speak of, there's an appreciation for now several years of stable and reasonably strong governance.

Interesting to note that one long-standing and significant perceived negative — the fact that the Japanese population is severely contracting — is starting to be considered a more mixed story. Yes, companies no longer see much scope for growth within Japan. But if economies around the world are turning to automation — with huge potential for social dislocation and instability as a consequence — there's no pushback here from a Japan with far fewer people. On the fourth industrial revolution, the Japanese may have the best national model.

I also heard a growing skepticism that the long-promised consumption tax hike is coming. Of late, Abe has been meeting with a bunch of global economists casting doubt on the timing (meant to be April 2017). He was well aware of the advice before they were invited: but rather than seeking actual advice, the prime

minister is looking to show he's doing his homework... before changing his mind and postponing the measure again.

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And worth a comment on \$81 million stolen from **Bangladesh**, stolen by cyber criminals who breached the country's central bank computer systems (they had tried to steal a staggering \$951 million, and failed largely through their own mistakes/clumsiness). The central bank governor resigned over the issue, but admitted the country was nowhere close to capable of defending themselves from that kind of threat. I've written in past months that I've been surprised we haven't seen more of this sort of thing — and I wonder why, given that Isis and other terrorist organizations really need the cash, they haven't developed greater hacking/cyber capabilities.

The biggest implication strikes me that weaker states need larger, more capable protectors or their vulnerabilities will become maximally exploited. In other words, if (almost surely "as") these attacks become much more frequent, it'll become more difficult for these governments to hedge their bets as "pivot states," and they'll instead have to pick an ally with a system of cyber protection (as well as the surveillance capability that comes along with it) that they can align and integrate with. Most likely that's the United States or China. In other words, it's a trend that creates more fragmentation, less globalization.