Obama trip

Three American allies of historic importance, all with big challenges for the relationship of late. All three governments are disillusioned with the recent evolution of US foreign policy and the level of perceived American commitment to their respective alliances. All three leaders face unprecedented political challenges at home. And each with a big unsolvable issue — at least for the time being — that makes a breakthrough with the Americans all but impossible on this trip. For the Saudis, it's the Iran deal (and, to be sure, an imploding middle east that they see the us as abdicating leadership from). For the Brits, it's Brexit. And for the Germans, it's the refugee crisis. Absent coming to terms with each of these crises (with different obstacles in each case), all three alliances are open to question.

The **Saudis** have the most difficult position, and the Obama administration put less effort in than usual to sugarcoat Saudi disillusionment, with the White House offering that it was good for King Salman and to “clear the air”. There's actually been a fair amount of air-clearing between the two sides over the past three years, starting in earnest after the Obama decision to pull back from its Syrian "red lines”. But there's not much room for progress. Bilateral relations remain robust and smoothly functioning in most areas of defense coordination, intelligence sharing, and weapons sales… but that's about it. Direct trade is limited: US foreign direct investment is reasonable but quickly getting dwarfed by China’s. And Saudi Arabia’s strategic importance for energy supply has evaporated (and their influence in OPEC along with it, evidenced just this weekend, after all the posturing to the contrary, with the Russians now threatening to increase production). Diplomatic mistrust around Saudi Arabia’s insecurity on most every geopolitical issue in the region is at historic highs, and the Obama administration has little interest in turning that around in its closing months. Nor is there much of a lobby remaining in congress to do so, as evidenced by the chasm on clear display in the media between the social, political, and cultural values of the two countries.

I'm told the latest flare-up between Riyadh and Washington — the potential for congress to pass a bill with bipartisan support that would allow 9/11 victims' families to sue Saudi Arabia (with support from the leadership of both parties and, most recently, a nod from democratic presidential candidate Hillary Clinton) — didn't make it into Obama’s talking points with King Salman. Instead, Obama chose to address it publicly before the trip, saying he opposed the bill but stopping clearly short of threatening a veto — rather, saying the Saudis wouldn't follow through on their threat to sell-off all their assets in the United States if the bill secured passage. That analysis is on point — the Saudis will diversify further away from the dollar, but they won't suddenly strip off their American investment exposure given the impact such a move would have on investor confidence on the us-riyal peg and the broader Saudi economy. But Obama deciding to air his perspective on the eve of the trip was perceived as a clear slap by the Saudis — no surprise the king didn't show up to meet Air force one upon landing.

Then to the **United Kingdom**. Where Obama's trip turned out to be a political football. The two governments haven't been as close of late, with little European focus in the Obama administration’s foreign policy, and the Brits’ mighty effort to build their China relationship into a strategic partnership of the highest order (even if at the expense, at the margins, of the "special relationship"). But with the Brexit referendum now only two months away and prime minister David Cameron’s pro-Union position under siege, he wanted the strongest possible support to his side from the American president.

Cameron got it. It was a contentious internal debate in the administration, with many Obama advisors suggesting the president should keep his nose out of the issue, instead playing up importance of British sovereignty and the country's need to make its own decision. Obama, Secretary of state John Kerry, and others were already on the record as being no fans of the British going it alone. But Obama's statements during the trip proved the strongest intervention from the administration on any internal issue involving a developed state — saying a Brexit vote would significantly weaken Britain's international standing… and that on trade specifically, the UK would end up "at the back of the queue," as opposed to on a fast track in getting a bilateral agreement back on in case of Brexit (and certainly wouldn't get a faster deal than the slow-moving, multilateral transatlantic trade and investment partnership, or TTIP).

The pro-Brexit opposition had a sharp and immediate reaction, led most vituperatively by London mayor Boris Johnson, claiming Obama's Kenyan background partly explained a knee-jerk anti-colonial and anti-British sovereignty perspective. I don't expect this to prove an inflection point in the Brexit campaign, but if the brits end up out, the UK-US relationship will take a bigger hit as a consequence of the Obama strategy and associated reaction… and the potential assumption of power by a pro-Brexit Boris Johnson down the road would likely spell the formal end of the special relationship.

That leaves **Germany**, where in some ways the disillusionment has been the greatest. Not so much after the Edward Snowden incident, actually, given that the Germans had themselves been engaging in a significant and not exactly publicized international surveillance program (though Merkel had to at least publicly express a level of personal pique given the blockbuster nature of the revelations at the time). Instead, it was America's lack of willingness to second chancellor Angela Merkel's fateful decision to take a leadership role in the refugee crisis that left the greater mark.

Nevertheless, it's the easiest visit of the Obama tour. And the US-German bilateral relationship is likely to end the Obama administration on firm footing. Despite anti-TTIP demonstrations of about 35,000 Germans in Hanover on Saturday, the Obama administration still counts Merkel as its most stalwart supporter on Russia sanctions policy; and continues to see Germany's leadership on European integration (though overly-focused on austerity) as critical to keeping the union on (at least somewhat) stable footing. Obama's appearance in Germany at a domestically-important industrial trade fair was important to Merkel, and ended up being the anchor for the entire trip. as long as Merkel persists in power — still governing with sufficient political capital, though no longer as secure in the context of the refugee issue, growing security concerns, and mounting domestic opposition — there's not much direct concern about the alliance.

Russia-Ukraine

Even with the best of possible governments, Ukraine was between a rock and a hard place. And now it's very far from the best of governments. President Petro Poroshenko, working to ensure political support from nationalists as well as security and stability from oligarchs, has been unwilling to bring technocrats to the forefront of key ministries. That's meant a new government with only a few truly competent players and compromise on key ministries with loyalists who continue to get large paychecks off the books (around $100,000 a month in informal salaries — with offers by two members of government to take polygraph tests promising not to take any illegal money quickly rebuffed by the president).

And so most of Ukraine's key oligarchs remain in place, and critical reforms — in energy, agriculture, and other fields — are slowing or have stalled. Energy has proven a particular area of pushback, despite a strong program implemented, providing Ukraine an ability to act as only a transit point from Russia, and supporting the poor with significant subsidies. Because returning to large contracts of hundreds of millions in energy purchases from the Russians, even at punitive rates for the Ukrainian state budget, keeps a large number of high level Ukrainian officials and their business "krishe" (roofs) in place.

That means problems for the ongoing IMF deal. Those involved in present negotiations think the next tranche of the loan program (some $1.7 billion) will go ahead after contentious debate, but after that the program will stall and the Ukrainian economy will stagnate.

From the Russian perspective, a sit and wait strategy makes sense for its plans for Ukraine; ultimately the Ukrainian leadership will recognize that the only country that really cares about Ukraine's fate — for better and (usually) for worse — is Russia. That will provide Moscow with opportunities to rebuild kiev's economic and strategic dependence on Russia. The problem is that it's not a strategy that gives much scope to the Europeans for justifying the sanctions reduction that most of them would like to see. And so it's getting harder to see significant relaxation at the end of the year.

Russian president Vladimir Putin certainly recognizes the bind that puts his own economy in over the near- to medium-term. and so his strategic response takes a few different shapes. First, lots of talk about opening upcoming Russian parliamentary elections to appear more democratic and "peaceful," including allowing the reformist Yabloko ("apple") movement into the fray, as well as bringing technocrats like highly respected former finance minister Alexei Kudrin back into the fold (recently appointed as head of the council of economic experts, due to meet for the first time in two years to draft a new structural reform plan). Despite all the anti-americanism being stoked in Moscow for populist reasons, western companies doing business in Russia aren't likely to see additional direct pressure from the Kremlin in this environment. And indeed, the Kremlin is gearing up for an effort to renormalize relations with the next US administration irrespective of who the president is. It may not amount to much, but the Russians will almost certainly make the effort.

But on the flipside, there's little willingness to accept risk in the Kremlin. One point worth mentioning on that front is Putin's decision to completely overhaul Russia's security forces, including the creation of a new "Russian guard" (originally called a national guard, but they changed the name because the Kremlin thought it sounded too American), bringing together internal troops, special forces, riot police, and Russia's extensive state security companies. The group will have political immunity from investigation… and will serve directly under president Putin's oversight. The intention is to have the whole mechanism in place by 2018, ready for the next Russian presidential elections. just in case.

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Problems looming in **Nigeria**, where president Muhammadu Buhari is facing slowing growth, spiraling inflation, rising deficits, and a currency crisis. There's meaningful reform effort in the government on anti-corruption, national security (including turning the tide on Boko Haram's control in the northeast). But the government has proven inconsistent on policy implementation across the board — particularly around currency, where its monetary policy committee raised rates by 100 basis points last month just two months after cutting them by 200 basis points.

There's a nationalist slant to the currency issue — Buhari sees a strong naira as a sign of national strength. The Nigerian president is especially suspicious of external pressure, whether from the IMF or from foreign investors. Buhari's military background trumps the technocratic leanings of his advisors, and so devaluation has become politically incorrect in Abuja. Leading most portfolio investors to vote with their feet. And so the government's mismanagement of the oil shock has created a big gap between the official exchange rate and the parallel/grey market rate (now at some 50% above the official dollar peg). China has provided some interim support, with a $6 billion infrastructure fund and other committed investments, but it's not enough to turn the tide… and worth noting that while Chinese exports are some 22% of Nigeria's total, only 1.6% of Nigeria's exports went to China. India, not China, has become Nigeria's top energy partner in recent years, helping to fill the void left by the loss of the American market. Nigeria is likely to face high inflation — already at 13% — and growing scarcity of key consumer goods (including fuel, ironically).

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The outlook has also taken a turn for the worse in **Egypt**. Though one of the few countries looking stable in the broader middle east, large scale demonstrations hit after Egypt decided to hand over a couple (uninhabited) islands in the red sea to the Saudi kingdom. Cairo will pick up some cash accordingly. but in a region where the Saudis are getting more geopolitically isolated, the move by president Abdel Fattah el-Sisi has damaged his heretofore strong nationalist credentials.

It's not a near term threat: the outlawed Muslim brotherhood taking the hardest anti-government line undermines more legitimate opposition; and most of the business elites and middle class remain in favor of the government in the face of other plausible options. But Sisi's support base is weakening. He never managed to transition from military general to capable political and economic leader; what he ultimately had playing in his favor were strong nationalist credentials. That have now taken a hit. Ultimately, without the ability to turn the economy around, a strong appeal to nationalism should have been what allows Sisi to keep up a united front against the emergence of a new opposition movement… and keep the military intact around him if and when opposition does arise.