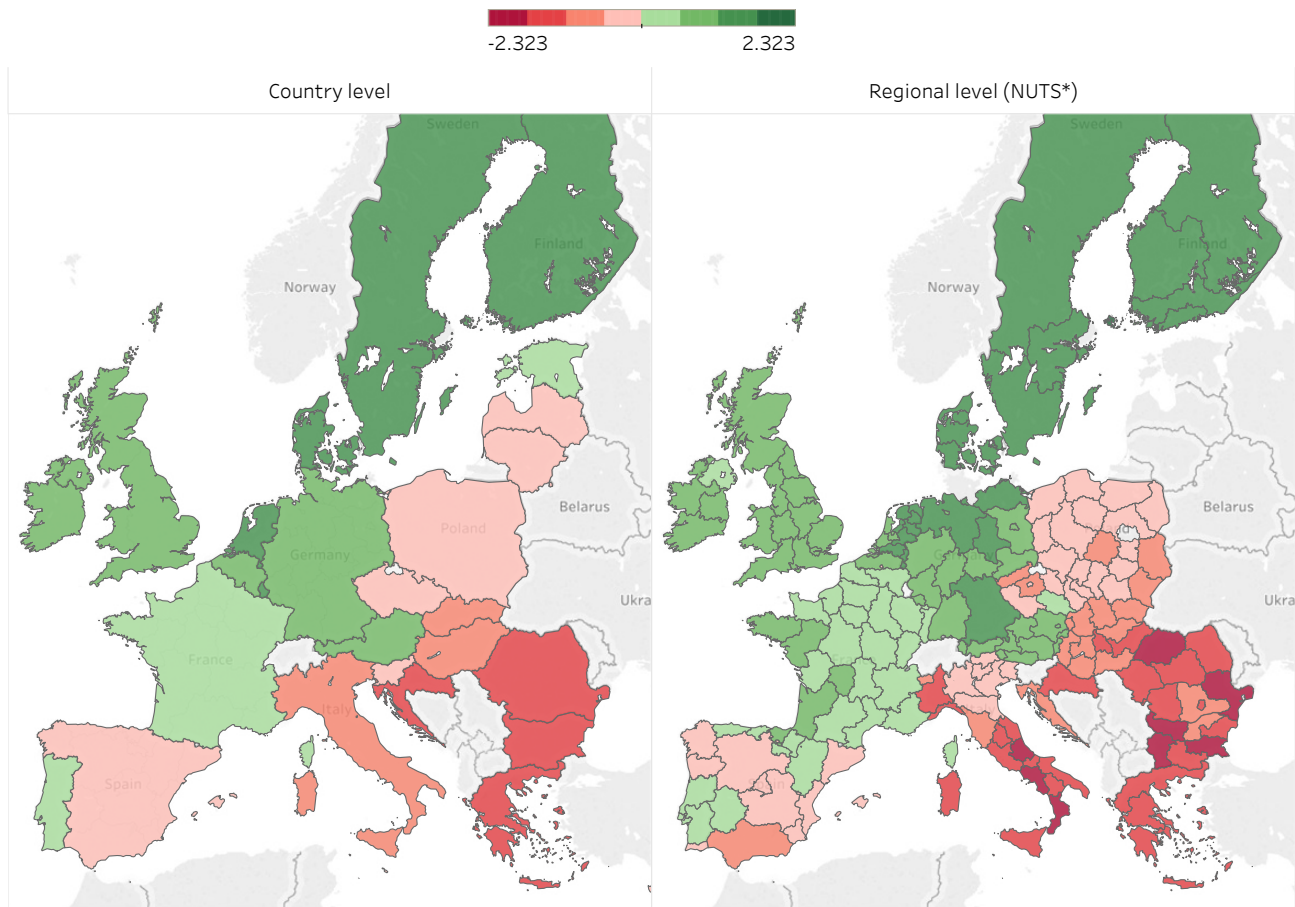


WEEKLY POLITICAL COMPASS

China's military exercise in the South China Sea was followed by a US exercise. **Mexico's** president will visit the White House following the entry into force of the new USMCA trade agreement. In **Japan**, the governor of Tokyo has been reelected. **South Africa's** supplementary budget will create noise. In **Germany**, the legal conflict over the ECB's bond buying program could be settled soon. Meanwhile, the conversation about joining CPTPP continues in **Thailand**, **Italy's** government is expected to approve a decree that favors the easiness of doing business, **Brazil's** government will extend Covid-19 related emergency assistance for two extra months, and ceasefire talks will be conducted in **Cameroon**.

CHART OF THE WEEK

European Quality of Government (EQI) Index



Source: Quality of Government Institute of Gothenburg University and European Commission

Institutional quality is defined as a multi-dimensional concept consisting of high impartiality and quality of public service delivery, along with low corruption. **The EQI aims at capturing average citizens' perceptions and experiences** with corruption, and the extent to which they rate their public services as impartial and of good quality in their region of residence.

* The NUTS classification (Nomenclature of territorial units for statistics) is a hierarchical system for dividing up the economic territory of the EU and the UK

As more local lockdowns are implemented in many European countries, **the role of regional and local governments** has expanded. In most countries, they decide about when and how new restrictive measures are enacted. Across Europe, however, they boast very different levels of "quality of government", broadly defined via indicators such as corruption, impartiality, and quality of public services. One question to watch will be whether regions with lower levels of quality of government might find it harder to successfully implement new local lockdowns, thus raising the risk of a return to more restrictive measures on higher, perhaps nationwide levels.

WHAT TO WATCH

China

The US and Chinese navies both conducted exercises in the disputed waters of the South China Sea on 4 July. The US navy, which sent two aircraft carriers, said its drills aimed to "show an unambiguous signal to our partners and allies that we are committed to regional security". However, the US navy denied that its drills were a response to Chinese drills that the Pentagon had previously criticized as "counterproductive." On 1 July China began five days of drills near the Paracel

Islands, which are claimed by both China and Vietnam. The Philippines has also criticized the Chinese drills for creating tensions.

Mexico

President Andres Manuel Lopez Obrador (AMLO) will be in Washington DC on 8-9 July to meet US President Donald Trump. AMLO wants to use his first foreign trip of his 19-month presidency to mark the entry into force last week of the new United States-Mexico-Canada trade agreement (USMCA, or T-MEC as it is known in Mexico). However, critics argue that the trip comes too close to the US elections, and therefore risks being caught up in US partisanship, while unnecessarily displeasing US Democrats. The trip could also backfire for AMLO if the upcoming campaign sees a resurrection of inflammatory rhetoric against Mexico and/or Mexican migrants.

Japan

Although she won an overwhelming victory in her reelection bid in the Sunday, 5 July gubernatorial election, Tokyo Governor Yuriko Koike must pivot quickly to managing the possibility of a second wave of Covid-19 infections in Japan's capital. Tokyo announced more than 100 new cases for the fifth straight day on Monday. Even before the election, Koike had called for Tokyoites to limit their activities over the weekend, and as the caseload swells, she may have to reintroduce business suspension orders. She could therefore once again find herself at odds with the national government, which has insisted that reopening plans proceed without alteration even as new infections continue to mount.

South Africa

Parliamentary committees will deliberate on Finance Minister Tito Mboweni's supplementary budget this week. Although parliamentary approval of appropriation bills is generally a formality, criticism of the Treasury's "austerity" budget may generate noise. Another source of tensions will be the Treasury's refusal to provide additional funds for South African Airways (SAA); creditors are due to vote on SAA's business rescue plan on 14 July. Finally, concerns over the depth of South Africa's recession will be compounded by the potential need for fresh lockdowns, as South Africa's economic hub, Gauteng province, looks poised to overtake the Western Cape as the epicenter of South Africa's Covid-19 outbreak.

Germany

All sides seem to be edging closer to a solution for the legal battle over the ECB's bond buying program PSPP. Over the weekend, ECB President Christine Lagarde went as far as declaring that the conflict was now settled. Previously, the bank's governing council had decided to publish additional information on the proportionality of PSPP, to be disclosed to German authorities by the Bundesbank. The German government and the Bundestag – tasked by the court with pressuring the ECB – have subsequently endorsed the bank's decision. The court's deadline for respective steps runs until 5 August.

ON THE HORIZON

ASIA

Pakistan

Parliament will meet on 8 July to begin a long sitting after the budget session that concluded on 30 June. The first anniversary of the new status of Jammu and Kashmir province in India (August 5) will be high on the agenda for discussion. Spirited speeches resolving to "free" the province of Kashmir might cause further tension in the relationship with the Indian government.

Thailand

A parliamentary committee will continue this July with its inquiry into whether Thailand should join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. The report is expected to be released in September, which is an indirect way of kicking the decision down the road after some speculation that it would make an

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announcement this month. Given the possibility of a cabinet reshuffle and the resistance from the farm and healthcare sectors, the decision may even be pushed to next year.

EUROPE

Italy

A long-delayed decree aimed at simplifying and streamlining rules and procedures for doing business in the country should be approved by the cabinet this week. This decree addresses the issue of public tenders and infrastructure project authorizations.

LATIN AMERICA

Brazil

The government announced an extension of the Covid-19 emergency assistance for the unemployed and self-employed for only two additional months. The overall value for this period will be BRL 1,200 (USD 226). Congress still needs to vote on the “Renda Brasil” (“Income Brazil”) program the government has proposed to unify several social programs into one monthly cash transfer of BRL 300 (USD 56). A tax reform proposal is also evolving within the government and could be sent to Congress in August, including the introduction of taxes on dividends and profits.

MIDDLE EAST AND AFRICA

Cameroon

Representatives of the government are meeting with the main leader of an Anglophone separatist group to discuss the possibility of a ceasefire. The meetings, which started last week, involve Julius Ayuk Tabe, the most prominent separatist leader who is currently serving a life sentence for charges including terrorism. It is the first time that the government negotiates with Tabe since the separatist uprising in Cameroon’s Anglophone region began in 2017. Talks with exiled separatist leaders in 2019 did not yield any tangible results. It remains to be seen whether Tabe would have enough clout over the fragmented separatist movement to enforce the cessation of hostilities if an agreement were to be reached.

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