

## WEEKLY POLITICAL COMPASS

Welcome to this edition of the Weekly Political Compass from Teneo's political risk advisory team.

This week, we are taking a closer look at the **G7's** strong statement on **China**. Meanwhile, **Germany** is voting on a major new infrastructure and green transition fund, the **EU** is taking steps towards increasing defense spending, and **South Korea** nervously awaits the presidential impeachment verdict. Elsewhere, the Bank of **Japan** looks set to hold interest rates, **Serbia's** PM is set to step down following protests, and bumpy budget processes continue in **Brazil** and **South Africa**.

As always, we welcome your questions or comments at [Macro@teneo.com](mailto:Macro@teneo.com).

### GLOBAL SNAPSHOT

*With G7 foreign ministers adopting tougher language on China's maritime activities in the East and South China Seas, we ask our China analyst [Gabe Wildau](#) to look ahead.*

#### What did the latest statement say?

The joint statement of G7 foreign ministers on 14 March following a meeting in Canada "condemn[ed] China's illicit, provocative, coercive and dangerous actions." The text also omitted prior reassurances of commitment to the One China Policy that were included in the G7 foreign ministerial statement in November, while adding criticism of China's use of "dangerous maneuvers and water cannons" against the Philippines and Vietnam in the South China Sea.

#### How has China responded?

China's embassy in Canada responded with equally strong language, saying that the G7 statements "grossly interfere in China's internal affairs and blatantly smear China." Though direct Chinese retaliation against the G7 is unlikely, the bloc's toughening rhetoric may prompt Beijing to accelerate its efforts to build up the BRICs as a counterweight that represents the interests of developing countries.

### WHAT TO WATCH

#### ASIA-PACIFIC

##### South Korea

**Seoul is on tenterhooks as the country continues to await the Constitutional Court's judgement on whether to uphold the National Assembly's impeachment of President Yoon Suk-yeol.** All police leave has been canceled as authorities plan to deploy over 20,000 riot police to minimize disorder from either supporters or opponents of Yoon, depending on which way the judgement goes. The ruling is now expected on 20 or 21 March, with the Court likely to announce the date of its decision in advance.

##### Japan

**The Bank of Japan seems unlikely to shift policy at its monetary policy committee meeting ending 19 March (local time), given broader uncertainty in the global economy.** Recent economic data suggests that a hike from the current 0.5% interest rate remains likely in the coming months, with headline consumer price inflation reaching 4.0% in January and annual wage hikes by large firms set to average around 5.5%. But with US President Donald Trump's tariff war hurting global economic sentiment, the BOJ seems likely to wait and reassess the domestic economic outlook at its meetings ending 1 May or 17 June.

#### Thailand

**Leaders of the government and the opposition coalition will meet this week to work out the mechanics of a 24 March no-confidence motion against Prime Minister Paetongtarn Shinawatra.** The opposition wants up to four full days of debate to highlight the government's economic failings, while Paetongtarn's For Thais (PT) party wants only two. The debate does not pose a serious threat to the PM's position, but is aimed at weakening her public support. The opposition also wants to highlight the role of former PM Thaksin Shinawatra, but the government whip has stated that raising Thaksin as an issue could lead to the debates being called off.

### **EUROPE**

#### Germany

**The Bundestag will vote on 18 March to add to the constitution a new special fund of EUR 500bn for infrastructure and the green transition, while largely exempting defense spending from the debt brake.** This follows an agreement struck by chancellor-in-waiting Friedrich Merz with the Greens. Thanks to their support, the Christian Democrats (CDU/CSU) and the social Democrats (SPD) now have the required two-thirds majority in the "old", pre-election Bundestag. The next signpost to watch is the vote in the upper house of parliament, the Bundesrat. If doubts over the required support from the Bavarian state government persist, the CSU might have to reshuffle its regional government coalition.

#### EU

**The European Commission will present its defense white paper to member state leaders at the European Council meeting on 20-21 March.** The key element will be a loosening of EU fiscal rules to enable member states to invest more in defense. A new program of loans to member states, backed by the EU budget, will also be part of the proposal. However, EU defense bonds are not yet on the agenda, amid continued skepticism in countries such as the Netherlands and Germany. Leaders will also discuss the Commission's preference for "Buy European" clauses, which will have to be balanced against continued capacity constraints in the European defense industry. Overall, member states remain firmly in the driving seat in the highly sensitive area of security and defense policy.

#### Russia/Ukraine

**The week will see a series of high-level diplomatic events focused on Russia's war in Ukraine and its broader threat to Europe.** On 17 March, the EU Foreign Affairs Council will discuss continued military support for Ukraine and the ongoing US-led peace talks. On 18 March, US President Donald Trump is set to hold a phone call with Russian President Vladimir Putin regarding the 30-day ceasefire proposal and broader efforts to settle the war. On 19 March, the European Commission will present a white paper outlining plans to strengthen Europe's defense capabilities and enhance support for Ukraine. These issues will be further debated at the European Council summit on 20-21 March.

#### Serbia

**Following the biggest demonstration in the country's history on 15 March in Belgrade, parliament is expected to formally accept the resignation of Prime Minister Milos Vucevic on 18-19 March.** Once this step is completed, the 30-day constitutional deadline to form a new government or call early elections will begin. Protest organizers are also expected to announce further plans this week.

### **LATIN AMERICA**

## Brazil

### **The Joint Budget Committee is likely to miss its own March 19 deadline for voting the Annual Budget Bill (PLOA).**

The bill met the first constitutional deadline of 31 August 2024 to be sent to Congress, but was not approved by 22 December 2024, as mandated in the Constitution. The delay of almost three months in the approval is due to unresolved negotiations on parliamentary budget allocations dating to mid-2024. The Joint Budget Committee (CMO) now plans to approve the budget bill by 19 March but significant hurdles remain, including adding funding for new social programs planned by the Lula administration. Even if it passes the committee stage this week, the bill is unlikely to be approved by the full Congress before the return of Senate Chairman Davi Alcolumbre and House Speaker Hugo Motta, who will join President Lula da Silva on an official visit to Japan on 24-27 March.

## Colombia

### **President Gustavo Petro has declared that 18 March will be a “civic day” in which public sector workers are excused work.**

The impromptu holiday coincides with a senate committee vote on Petro’s labor reform, which a majority of committee members have indicated they will reject. In response, Petro has called for a public referendum in support of his reforms, and is planning rallies on 18 March meant to galvanize a mass mobilization campaign. However, several city mayors have already rejected giving municipal workers any time off. Poor turnout at the rallies would deflate Petro’s initiative before it has properly started, while the senate plenary must also approve the referendum.

## **AFRICA**

### South Africa

**South Africa’s budget and its bilateral relations with the US will both be in the spotlight this week.** The finance committees of the National Assembly and the National Council of Provinces (NCOP) have 16 days to process Finance Minister Enoch Godongwana’s budget proposals. For the first time, this could mean potential budget amendments given that the African National Congress (ANC) has lost its majority needs support from other parties to pass the budget. On the diplomatic front, US Secretary of State Marco Rubio has expelled South Africa’s ambassador, hurting Ramaphosa’s hopes of resetting diplomatic relations.

### DRC/Great Lakes

**Ahead of planned 18 March peace talks between warring factions in the Great Lakes region, Angolan President and current African Union (AU) chair João Lourenço has called for a ceasefire.** The Democratic Republic of Congo (DRC) government has not officially confirmed its participation in the talks, planned to take place in Angolan capital Luanda. However, rebel group M23 has expressed support for Angola’s peace initiative, calling on Congolese President Felix Tshisekedi to publicly commit to direct negotiations. If Tshisekedi agrees to participate, it would mark the first meeting in three years between the DRC government and the M23 rebels.

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