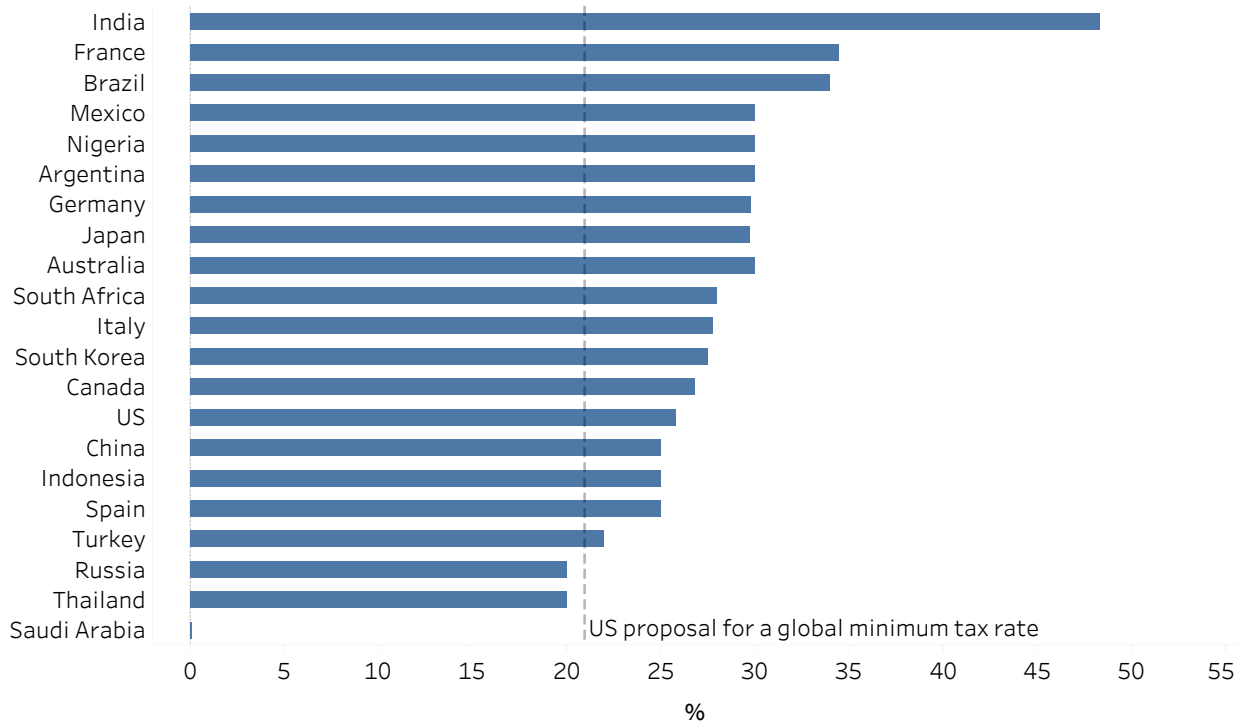


## WEEKLY POLITICAL COMPASS

**Chinese** vaccines are in the spotlight. **Japan's** PM will visit US President Joe Biden. The race for the Merkel succession is heating up further in **Germany**. Diplomatic efforts will attempt to prevent an escalation of the conflict in eastern **Ukraine**. Guillermo Lasso will be **Ecuador's** new president. Meanwhile, **France's** foreign minister will visit India, **Turkey's** currency faces a pivotal week, **Peru's** first-round presidential vote was held, and a cabinet reshuffle is possible in **South Africa**.

### CHART OF THE WEEK

### Corporate tax rates in 2020



Source: OECD. The **combined statutory corporate income tax (CIT)** rate shows the combined central and sub-central headline tax rate faced by corporations. It is given by the central government rate (less deductions for sub-national taxes) plus the sub-central rate. Where a progressive (as opposed to flat) rate structure applies, the top marginal rate is shown.

### People across the globe perceive unfairness in tax systems

#### "Tax burden is too high for low income/middle income/high income earners"



Source: ISSP Research Group (2018): International Social Survey Programme: Role of Government V ISSP 2016.

US President Joe Biden has announced his plans to raise the US corporate tax rate to 28% from 21% and establish a 21% minimum corporate tax rate globally. This is the last reminder of **the increasingly political nature of tax systems in the post-pandemic world**. Apart from being a source of revenue, taxes are seen by governments as an opportunity to increase perceptions of fairness among the public and improve citizens' satisfaction with the political system. The graph above shows that citizens across the globe believe that the burden of taxes falls disproportionately on those with low and middle incomes. Recent developments on corporate taxation, employment relationships, welfare states, and the regulation of platform and technological companies must be seen as part of a larger shift in the political-economic framework of advanced economies. Therefore, even though a new model of governance could be emerging in some countries, both the pace and the extent of these changes will vary substantially depending on multiple domestic political and economic factors.

## WHAT TO WATCH

### China

**In an unusually candid statement, the director of the China Centers for Disease Control (CDC), Gao Fu, hinted that Chinese-made vaccines might suffer from low efficacy.** He said that authorities are assessing whether higher doses or the mixing of different vaccines can produce better results. Another CDC official said that Chinese-developed mRNA vaccines have entered clinical trials, a sign that China may be shifting away from inactivated-virus vaccines like those currently produced by Sinopharm and Sinovac.

### Japan/United States

**Prime Minister Yoshihide Suga will visit Washington for the first time since his selection as prime minister and US President Joe Biden's election on 16 April.** Suga will also be the first world leader to meet with Biden at the White House. Beyond demonstrating the Biden administration's focus on Asia and its belief in the importance of Japan as a partner in the region, it is possible that the two leaders could unveil new bilateral initiatives on regional infrastructure investment, supply chains (particularly for semiconductors), and climate change. The leaders will also likely send a strong message to China on Taiwan, its activities in the East and South China Seas, and human rights abuses in Xinjiang and Hong Kong, the last a reflection of a marked shift by Tokyo in recent months.

### Germany

**The race for the Merkel succession is heating up further.** During the weekend Bavarian state PM and CSU party leader Markus Soeder formally announced his interest in running for Merkel's Christian alliance (CDU/CSU). On 12 April, the leadership of the much larger CDU responded by backing its chairman Armin Laschet. A decision will have to be negotiated between the two parties' leaders – or perhaps via a vote in CDU/CSU's joint group of Bundestag MPs. In any case, a coalition with the Greens remains the most likely scenario past the September elections.

### Ukraine/Russia

**Diplomatic efforts to prevent a further escalation of the conflict in eastern Ukraine will continue this week.** Ukraine's President Volodymyr Zelensky has requested direct talks with his Russian counterpart Vladimir Putin; Zelensky is also expected to discuss the deteriorating situation in the Donbas with French President Emmanuel Macron during his visit to Paris. Meanwhile, US Secretary of State Antony Blinken and Secretary of Defense Secretary Lloyd Austin are expected to discuss Russia's actions with NATO partners and allies in Brussels. Finally, a meeting of the Normandy Four (Ukraine, Russia, Germany and France) political advisors is scheduled for 19 April, which could pave the way for a summit in the coming weeks.

### Ecuador

**Former president Rafael Correa (2007-2017) suffered a resounding defeat on 11 April, as his proxy presidential candidate Andres Arauz lost to the conservative former banker Guillermo Lasso in a run-off vote.** With 98% of votes counted, Lasso of the center-right Creating Opportunities (CREO) party was on 52.48% and Arauz was on 47.52%.

Beyond the immediate pandemic question, there will be deeper challenges arising out of the structural basis of the incoming administration. Many of Lasso's run-off votes are an expression of anti-Correismo more than they are an enthusiastic endorsement of the CREO candidate. Moreover, Lasso will have to convert his rainbow electoral coalition – e.g., LGBT voters with social conservatives and free market enthusiasts with the moderate Left – into an effective governing coalition. Lasso's polychromatic electoral support will also have an impact on economic policy, making it more pragmatic than purely orthodox.

## ON THE HORIZON

### ASIA

#### India

**France's Foreign Affairs Minister Jean-Yves Le Drian will begin an official visit to New Delhi on 13 April.** The visit takes place amid allegations that bribes were paid to Indian middlemen for the procurement of India's Rafale fighter aircraft. Le Drian will hold consultations with Indian foreign minister Subrahmanyam Jaishankar on the bilateral strategic partnership, joint initiatives in the Indo-Pacific, regional and global issues of common interest, and cooperation in the United Nations Security Council, where India currently sits as an elected member. Le Drian will also meet Prime Minister Narendra Modi.

### EUROPE

#### Turkey

**The beleaguered Lira faces a critical week, with the value of the currency hanging on a 15 April decision by the central bank (TCMB) on interest rates.** This will be the first meeting since President Erdogan rocked markets by installing as governor a like-minded critic of tight policy. Markets expect the TCMB to maintain the key policy rate unchanged. This sounds reasonable but given the circumstances the potential for a negative surprise is substantial.

#### UK/EU

**Both sides appear to be edging closer to a deal on clarifying the contested Northern Ireland protocol to the Brexit deal.** After several days of violence in Northern Ireland, there is hope that both sides will agree on a set of measures to operationalize the protocol. As discussed in the past, this would mainly clarify (and perhaps somewhat simplify) way in which security controls for agricultural products will be conducted. With Brexit, the province has remained within the UK but continues to apply EU single market and customs rules, thus creating an inner-UK regulatory border in the Irish Sea.

### LATIN AMERICA

#### Brazil

**The week will see a continued negotiation towards an agreement on the 2021 budget.** As the draft bill stands, the budget is unenforceable since it violates the official "spending ceiling". Congress changed it by lowering figures allocated to mandatory expenditures and transferring them to cover parliamentary amendments that dispense cash to politicians and their constituencies. The solution to the impasse will certainly involve a partial veto by President Jair Bolsonaro to avoid trouble with fiscal laws; the official deadline to resolve it is 22 April. Meanwhile, on 14 April, the Supreme Court (STF) should confirm a ruling by one of its members for the immediate installment of a parliamentary inquiry committee (CPI) in the Senate to investigate the handling of the Covid-19 pandemic by the government. The CPI has received sufficient signatures to be installed for over two months, but pro-government Senate Chairman Rodrigo Pacheco has held it back. The CPI is sure to enhance Bolsonaro's image as denialist and incompetent.

## Peru

**The vote count following yesterday's first-round presidential election will continue today, 12 April, tomorrow and possibly beyond if results remain as tight as they appear to be.** Preliminary results based on around half of votes counted have the radical leftist Pedro Castillo in top place on 16%. Castillo's probable run-off rival could seemingly be any one of three conservatives: Hernando de Soto, Keiko Fujimori, or Rafael Lopez Aliaga. To judge from an Ipsos exit poll, de Soto or Fujimori have a stronger chance than Lopez Aliaga. The Ipsos exit poll also has the center-left Yonhy Lescano in the mix. If Lescano does not make it, the run-off – to be held on 6 June – would appear to be heading towards a Left versus Right contest.

## **MIDDLE EAST AND AFRICA**

### Ethiopia

**State Minister for Finance Eyob Tekalign Tolina signaled late last week that the government intends to find a “market friendly” solution for a planned sovereign debt restructuring under the G20's “Common Framework for Debt Treatments beyond the DSSI.”** Bondholders, who are unlikely to be the principal target of Ethiopia's restructuring drive, will welcome the minister's assurances that Ethiopia plans to honor its upcoming coupon payment in June and “to raise significant capital from the market in the next couple of years.” However, the Common Framework remains untested and technically “requires” equal treatment of all lenders.

### South Africa

**There is growing speculation about a cabinet reshuffle.** President Cyril Ramaphosa is under pressure to weed out poor performers, but factional considerations could trump performance concerns. At a minimum, Ramaphosa could simply fill a couple of current vacancies; a more interventionist approach would see multiple replacements. There is also speculation that contested public enterprises – Eskom and South African Airways – could be removed from the Department of Public Enterprises' portfolio. Whatever the extent of the reshuffle, often-reluctant Finance Minister Tito Mboweni is likely to stay on for now, if only because of a lack of credible replacements.

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