

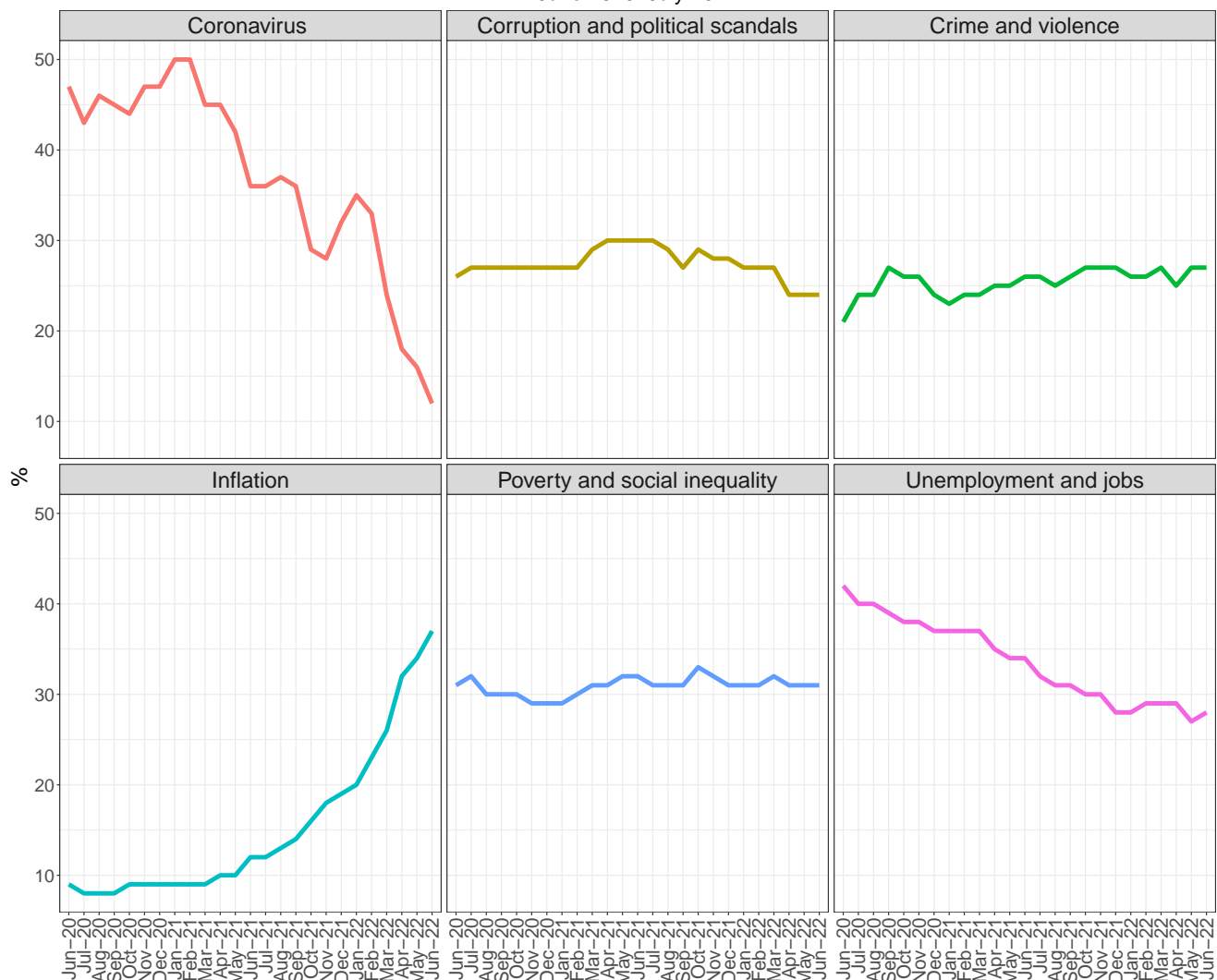
## WEEKLY POLITICAL COMPASS

**Russia** has halted gas shipments to Germany. **Japan's** ruling party strengthened its majority in the wake of Shinzo Abe's death. The **US** foreign minister met his **Chinese** counterpart. **Sri Lanka's** president is expected to resign. Meanwhile, the foreign ministers of **Australia** and China have met, Conservatives in the **UK** will begin selecting a new prime minister, a controversial constitutional amendment will be voted on in **Brazil**, and political campaigns are in full swing in **Nigeria**.

### CHART OF THE WEEK

#### Inflation is the top concern for citizens today

June 2020–July 2022



Source: Ipsos. Representative sample of 19,000 adults aged 16–74 in 27 countries

In recent months, **inflation** has replaced the pandemic as the top-of-mind concerns for citizens across the globe. However, concerns about social inequalities, corruption, and crime have remained relatively stable over the past two years, while citizens are less concerned about unemployment today than at the beginning of the pandemic. However, important differences are found across countries. Inflation is now the number one concern in Argentina, Australia, Canada, Great Britain, Germany, Poland, the US and Turkey – all countries that have seen a dramatic rise in inflation this year. In South Africa, Spain, Italy, and most Latin American countries unemployment is still the main concern for a majority of citizens. Concerns about poverty and inequality – the second largest global concern – are particularly widespread across emerging markets (i.e., Hungary, Brazil, and Turkey), but also in Germany and the Netherlands. The interaction of rising inflation and material hardship concerns could lead to an autumn (and winter) of discontent in many countries.

## WHAT TO WATCH

### Russia/EU

**On 11 July, Russia's Gazprom completely halted gas shipments to Germany via Nord Stream 1 due to annual maintenance, scheduled to last until 21 July.** There are concerns that Gazprom might not renew shipments after 21 July. A prolonged halt in gas deliveries would significantly complicate the EU's plans to fill up its gas storage facilities to at least 80% by 1 November. Meanwhile, Gazprom is further cutting gas supplies to Italy by about one-third. Italy's gas storage system is currently filled at around 64%. To boost storage ahead of the winter, Rome may be forced to enact emergency measures, including reducing gas supplies to energy-intensive firms.

### Japan

**The ruling LDP-Komeito coalition secured an increased majority in the 10 July Upper House election, adding momentum for key policy agendas including defense build-up and possibly nuclear power plant restarts.** Parties open to constitutional amendment reached the necessary two-thirds supermajority threshold, while only the populist-right Ishin no Kai saw decent gains among the main opposition parties. The victory was overshadowed by the assassination of former premier Shinzo Abe on the campaign trail on 8 July, and Prime Minister Fumio Kishida now faces a delicate task of honoring Abe's legacy while trying to steer policy in a more defense-moderate, fiscally conservative direction.

### US/China

**US Secretary of State Anthony Blinken met Chinese Foreign Minister Wang Yi at the G20.** The respective readouts from the meeting suggest that "guardrails" has emerged as the new buzzword for bilateral relations, after US President Joe Biden began using the term last year. Wang suggested the 1972 "Three Joint Communiques" as an appropriate set of "guardrails," hinting at Beijing's concerns that Washington is [wavering on the One-China Policy](#).

### Sri Lanka

**President Gotabaya Rajapaksa is expected to resign from his post on 13 July, paving the way for a new government.** Prime Minister Ranil Wickremesinghe has also offered to step down but has not indicated a deadline. According to the constitution, Parliament Speaker Mahinda Yapa Abeywardene will be officiating president for 30 days.

## ON THE HORIZON

### ASIA PACIFIC

#### Australia

**Foreign Minister Penny Wong met with her Chinese counterpart Wang Yi on the sidelines of the G20 summit on 8 July, the first such meeting in almost three years.** Wang echoed a list of 14 demands provided to Australia in 2020 for improving bilateral relations. Prime Minister Anthony Albanese dismissed the requests, saying that while Australia sought stability in the relationship, and would cooperate with China where it can, it would not "respond to demands". The Albanese

government has not yet fully articulated what 'stability' looks like, or how it will get there, but faces the challenging task of having to maintain some positive momentum in the relationship with China while pursuing a regional security strategy largely aimed at counterbalancing it.

#### Japan/US

**During a busy week for bilateral engagements, Secretary of State Anthony Blinken has arrived in Tokyo to offer condolences following the murder of former premier Shinzo Abe.** Treasury Secretary Janet Yellen will make a first visit to Japan on 12-13 July ahead of the G20 finance ministers and central bank governors meeting in Indonesia; and on 12-13 July, officials from Japan, the US, Australia, and India will meet during the Sydney Energy Forum to deepen Quad cooperation in the energy sector.

### EUROPE

#### UK

**The process of selecting a new Conservative leader and prime minister begins this week.** The first signpost to watch is the 1922 committee of backbenchers electing a new executive and setting a quorum for the number of supporting Tory MPs required for any leadership bid. Voting will then begin by the middle of the week. Aggressive campaigning by the currently eleven contenders might make it less likely that the two candidates eventually selected by the parliamentary party agree on a joint ticket instead of letting Tory members decide in a ballot during the summer.

### LATIN AMERICA

#### Brazil

**The House of Representatives will vote on a controversial constitutional amendment (PEC 01/2022) to allow for increases in social spending in an electoral year this Tuesday.** The intention was to approve it last week, but another related vote showed that the government did not have the necessary 308 favorable votes (three fifths of the chamber). One of the texts that needs to be voted along with the main text of the amendment refers to the institution of a state of emergency which would justify the non-compliance with the electoral law that prohibits the concession of new social benefits in an electoral year. The government hopes the quorum at the House this Tuesday will be sufficient to reach the vote approval threshold. The PEC is seen as crucial to improve President Jair Bolsonaro's numbers in the polls, currently 10 to 14 percentage points behind former president Luiz Inácio Lula da Silva in the polls.

#### Mexico

**President Andres Manuel Lopez Obrador (AMLO) travels to Washington DC today, 11 July, ahead of a meeting with his US counterpart Joe Biden tomorrow.** Migration is likely to be the main topic of discussion amid, not just record levels of migrant arrests at the US-Mexican border, but signs of a significant uptick in Mexicans (as opposed to Central Americans and others) seeking to migrate. AMLO will hope to sell an expanded temporary work visa scheme as a win. US concerns over the regulatory environment, the treatment of US investors in Mexico, and security challenges will also be on the agenda, though the importance of migration to US domestic politics will mean that Biden continues to tread carefully when discussing these issues.

### MIDDLE EAST AND AFRICA

#### Nigeria

**Political campaigns are now in full swing as all major presidential candidates have selected their substantive running mates for the 25 February 2023 polls.** Former Governor of southeast Anambra State, Peter Obi of the Labour Party announced Yusuf Datti Baba-Ahmed (Muslim Northerner) as his running mate. Meanwhile, in a move that continues

to generate a lot of domestic controversy, Bola Ahmed Tinubu – the candidate for the governing All Progressive Congress (APC) party – chose former Governor of northeast Borno State, Kashim Shettima (Muslim Northerner) as his running mate. The controversy stems from the fact that Tinubu himself, despite being a southerner, is a Muslim and therefore many sceptics see this as an extension of the bid by the 'Muslim North' to consolidate political power in a country with extremely sensitive ethno-religious and regional identities.

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