

WEEKLY POLITICAL COMPASS

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

This week, we take a closer look at the race to become **Japan's** next prime minister. Elsewhere, **France's** PM looks set to lose a no-confidence vote, **European** leaders will discuss new Russia sanctions in Washington, **India** moves to streamline its sales tax system, and **China** criticizes Australia and Canada. Meanwhile, **the UK's** reshuffled cabinet begins budget planning, **Lithuania's** new government takes shape, **Argentina's** president suffers an electoral setback, and **Indonesia** names a new finance minister. Finally, key court rulings loom in **Turkey** and **Thailand**, **Baltic** states brace for Russian military drills, **African** states seek joint climate positions, **Norway** heads to the polls, and **Brazil** sees polarized protests.

As always, we welcome your questions or comments at Macro@teneo.com.

GLOBAL SNAPSHOT

Following Shigeru Ishiba's announcement that he will step down as prime minister of Japan, we ask our Japan analysis lead [James Brady](#) to look ahead.

What precipitated Ishiba's departure at this point?

The ultimate cause was the ruling Liberal Democratic Party (LDP)'s poor performances in elections held in the year since Ishiba took office — in particular, the ruling coalition losing its Lower House majority in October 2024 and its Upper House majority in July 2025. The proximate cause was the release of the LDP's [post-mortem report](#) into that latter result on 2 September, which catalyzed a rebellion by the PM's opponents within the party that reached a peak by the weekend.

Who is likely to replace him?

The contest to become LDP party president is likely to feature many of the same candidates who ran in the September 2024 race, with the winner getting a two-year term. Youthful centrist agriculture minister Shinjiro Koizumi will again be among the favorites, while former economic security minister Sanae Takaichi has a sizable following on the party's right flank. Former foreign minister Toshimitsu Motegi was the first to declare his candidacy, with chief cabinet secretary Yoshimasa Hayashi and another former economic security minister Takayuki Kobayashi also considering running again, though none of those three gained much traction in last year's race.

When will Ishiba's replacement take over?

The LDP will announce on 9 September about the format of the party-presidential race, whether a full contest involving the entire party membership voting or simpler format favoring the views of the party's Diet members. Early indications are that the race could kick off on 22 September with voting on 4 October. An additional wrinkle is that, since the ruling coalition lacks a Lower House majority, the next LDP leader will have to secure the support of at least one of the larger opposition parties in order to be elected as prime minister.

WHAT TO WATCH

ASIA-PACIFIC

India

The government has decided to implement a major Goods and Services Tax (GST) reform, reducing four existing rates to either 5% or and 18%, while adding a 40% rate for luxury and 'sin' goods. This restructuring will be effective from 22 September and is designed to lower consumer prices and boost domestic demand amid a slowing economy, though it implies a significant revenue loss for the government. Externally, economic concerns persist over potential US pressure on India's services exports and Washington's efforts to indirectly constrain Indian imports of Russian oil, though these latter measures would be difficult to enforce.

Mainland China/Taiwan/Australia/Canada

China's military criticized a joint sail-through of the Taiwan Strait by Australian and Canadian warships. The People's Liberation Army said it had followed and warned the Canadian frigate *Ville de Quebec* and the Australian guided-missile destroyer *Brisbane*, which it said were engaged in "trouble-making and provocation." The US, Canada, Britain, France, and Australia have traversed the strait, which they consider international waters, about once a month in recent years.

Indonesia

President Prabowo Subianto removed Finance Minister Sri Mulyani on 8 September, replacing her with economist Purbaya Yudhi Sadewa. Sri Mulyani apparently asked to leave her post after her house was looted during recent protests. Sadewa is a technocrat, but since he is not particularly well-known there will be some caution regarding his ability to resist political pressure. He previously worked under Luhut Pandjaitan, one of President Joko Widodo's most trusted advisers and current chair of the National Economic Council under Prabowo.

Thailand

The Supreme Court is set to rule on 9 September on whether former Prime Minister Thaksin Shinawatra intentionally evaded jail time following his return in 2023. Thaksin is accused of feigning illness in order to remain in a police hospital rather than serving his sentence in prison until his parole in early 2024. The court may order his return to custody. Thaksin departed Thailand on 4 September, reportedly bound for Singapore for a medical check-up, but his private jet diverted to Dubai. The aircraft later landed in Singapore on Monday morning, and recently-ousted former prime minister Paetongtarn Shinawatra has stated that her father will appear in court on Tuesday.

EUROPE

France

Prime Minister Francois Bayrou is widely expected to lose the confidence vote in the National Assembly on 8 September. Talks with the main parties about the 2026 budget did not yield a breakthrough in recent days. If Bayrou's government falls, President Emmanuel Macron will ask him to serve as a caretaker until a new prime minister is chosen. The search could once again be difficult, but one option might be to turn to a candidate from the moderate wing of the center-left Socialists (PS). In any case, parties will struggle to find a compromise between the welfare reforms sought by the right and the tax hikes demanded by the left.

Russia/Ukraine

European leaders will hold consultations with the Trump administration in Washington this week on potential new sanctions against Russia and other measures to halt Moscow's war in Ukraine. By the end of the week, the European Commission is expected to unveil its proposal for a 19th sanctions package, which could include further restrictions on Russia's financial and energy sectors as well as measures targeting third countries to prevent circumvention. After signaling readiness to impose additional measures on Moscow, US President Donald Trump is also expected to hold a phone call with Russian

counterpart Vladimir Putin later this week. Overall, the trajectory of the war is moving toward military and economic escalation, rather than resolution.

UK

After Sir Keir Starmer's first major cabinet reshuffle, the focus will shift to the autumn budget in November. Crucially, Chancellor Rachel Reeves retained her post, signaling continuity ahead of a fiscal event that will likely entail unpopular tax hikes. The new cabinet line-up suggests a shift away from the left on economic issues and on migration. Within the ruling Labour Party, the departure of Angela Rayner as deputy leader poses risks around managing the left-leaning grassroots and backbenches in parliament.

Lithuania

Parliament is expected to approve Prime Minister Inga Ruginiene's new cabinet and governing program on 10 September. Ruginiene, of the Lithuanian Social Democratic Party (LSDP), will head a renewed coalition with the populist Dawn of Nemunas (NA) and the center-left Lithuanian Farmers and Greens Union (LVZS), holding a combined 82 seats in the 141-member legislature. Her cabinet is likely to maintain policy continuity, prioritizing national defense, economic competitiveness, and social security. Notably, the initial program includes plans to raise taxes on the financial sector, buy out minority shareholders from state-controlled energy firm Ignitis Group, and restore diplomatic ties with China.

Baltic region

Baltic states will be on heightened alert for potential military provocations during the Russian-Belarusian "Zapad" (West) joint exercises, scheduled for 12 to 16 September. Lithuania's military intelligence estimates up to 30,000 troops will participate across sites in Russia and Belarus. Recent drone incursions into Lithuania and Poland underscore persistent gaps in NATO's front-line detection and response capabilities.

Turkey

On 15 September, an Ankara court is set to rule on the validity of the main opposition Republican People's Party (CHP) vote in November 2023 to elect Ozgur Ozel as party leader. If the case proceeds, the likely outcome is the annulment of Ozel's leadership, potentially leading either to the return of former leader Kemal Kilicdaroglu or the appointment of a court-appointed trustee to oversee the party. Such a decision would risk weakening the CHP's cohesion and could leave it more vulnerable in the run-up to future elections.

Norway

Voters head to the polls for the general election on 8 September, with the ruling Labor Party is expected to remain the largest party, enabling PM Jonas Gahr Store to continue leading a minority government. Labor's prospects improved following the return of popular Finance Minister Jens Stoltenberg earlier this year. However, the right-wing populist Progress Party may surpass the traditional center-right to become the second-largest bloc. Post-election negotiations are expected to focus on the national oil fund, including both portfolio allocations and contested levels of domestic spending.

LATIN AMERICA

Argentina

Following the 7 September defeat in the Buenos Aires provincial assembly elections, the government's main message is that economic policy will remain unchanged. In elections for half the seats in both chambers of the provincial legislature, the opposition Peronist movement secured a sizable 14% margin over President Javier Milei's Liberty Advances (LLA) party. Milei had framed the vote as a plebiscite on his administration. Speaking after the results, he reaffirmed his commitment to fiscal discipline and tight monetary policy, alongside continued deregulation efforts. However, Milei also acknowledged the need for reflection, possibly signaling adjustments to his electoral strategy ahead of October's national midterms or potential cabinet changes.

Brazil

Polarised political protests took place across Brazil on 7 September, with the largest gatherings in São Paulo.

Bolsonaristas rallied in support of an amnesty law for former President Jair Bolsonaro and the January 2023 rioters, while government supporters including labor unions focused on national sovereignty issues and proposed income tax relief for lower earners. Despite the larger turnout for Bolsonaro, the display of a giant American flag at the rally drew criticism and may have weakened the movement's message. The demonstrations underscore Brazil's deep political divisions but are unlikely to alter Bolsonaro's legal trajectory. The passage of a broad amnesty law remains improbable, with the former leader's conviction and a prison sentence of at least 20 years the most likely outcome.

AFRICA

Region

The Africa Climate Summit kicked off in Addis Ababa today, 8 September. The goal is to reach a unified African position ahead of the COP30 and G20 summits in November. Signposts to watch for include tax proposals, financing targets, debt instruments, and any concrete pledges from international financial institutions and G20 countries. African leaders may also back Brazil's push for a global forest fund and changes to carbon pricing. Together with Brazil and India, South Africa wants a multilateral carbon pricing agreement, largely in response to the EU's Carbon Border Adjustment Mechanism, which they argue unfairly penalizes emerging markets.

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