

## 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 political outlook in **Slovakia**. Meanwhile, **Indonesia** unveils an important rail project funded through the Belt and Road Initiative. In **Greece**, New Democracy (ND) is expected to maintain a stronghold on local politics in this week's local and regional elections. **Argentina's** three-way presidential race sees another candidates' debate at the end of the week. Finally, unions could take strike action in **Nigeria**. Meanwhile, our graph of the week zooms in on foreign investment screening in the **EU**.

Should you have questions or wish to discuss any of these stories in greater detail, please do not hesitate to reach out to us!

### GLOBAL SNAPSHOT

Following Direction – Social Democracy's (SMER-SD) victory in Slovakia's [parliamentary elections](#), our Central and Eastern Europe expert [Andrius Tursa](#) analyzes the situation.

#### What happens now?

Today, 2 October, President Zuzana Caputova will start a government formation process by appointing the SMER-SD leader Robert Fico as Prime Minister. Fico will then have 30 days to present the cabinet and its governing program for approval in parliament by an absolute majority of votes. Fico intends to start talks with the center-left Voice-Social Democracy (HLAS-SD), which will be a crucial partner for forming a majority government. Despite potentially difficult coalition talks, SMER-SD holds the best chance of leading the next government.

#### What are the implications of a Fico government?

On the domestic front, the return of a SMER-SD-led government would likely bring setbacks in tackling corruption, pose a risk of democratic erosion, and heighten risks to foreign investors. On the foreign policy front, Bratislava would take a Euroskeptical and pro-Russian turn, which would strain relations with its key Western partners.

### WHAT TO WATCH

#### ASIA PACIFIC

##### China

Aiming to boost inbound tourism and business travel, China plans to reinstate visa-free travel for some countries, add new countries to the visa-exemption list, and expand international flights, the cabinet said on 29 September. Starting in October, the number of weekly passenger flights to the US is scheduled to increase by six to 24, compared to 40-50 weekly flights in 2019.

##### Japan

The invoice system that came into effect on 1 October could cause near-term disruption for smaller firms by raising the administrative burden around reporting sales tax liability. The new system is similar to European models and designed to better account for the two different consumption tax levels in place since 2019—10% generally, and 8% on food and certain other items. But with the government incentivizing smaller firms to register with the national "e-tax" system and pushing them to record transactions digitally using dedicated accounting software, the longer-term impact may be to increase the number of recorded transactions—and hence overall tax receipts—from smaller firms.

##### Indonesia

President Joko Widodo today inaugurated Southeast Asia's first high-speed rail, funded and built through the Belt and Road Initiative. The 142-km rail line runs between the capital Jakarta and the city of Bandung. The Indonesian government

says it wants to extend the line to the city of Yogyakarta first, which is an additional 400 km east and then later on to Surabaya, the country's second largest city, which is another 300 km. These are ambitious targets; while the rail line creates positive headlines, the project's final cost is USD 7.3bn, or 35% more than the USD 5.4bn estimate when it was awarded in 2015. Over the past few weeks, the government also had to walk back its promise not to subsidize fares. If the rail line is extended, it would likely also be as a Chinese-backed project.

## **EUROPE**

### Greece

Comforted by polls suggesting its popularity has not suffered much despite successive natural disasters, ruling New Democracy (ND) is expected to maintain a stronghold on local politics in the 8 October local and regional elections. However, it could be hard for ND to replicate its 2019 success when it secured nearly all regions and the cities of Athens and Thessaloniki. ND's dominance could be challenged in four regions, including in flood-affected Thessaly, where the incumbent ND governor will face a challenger supported by both SYRIZA and PASOK.

## **LATIN AMERICA**

### Argentina

The second and final presidential candidates' debate takes place on 8 October ahead of the election on 22 October. There was no obvious winner in a cagey first debate held yesterday in which the candidates mostly spoke to their own supporters. A scandal that broke over the weekend may have more of an impact than the debate. The scandal centers on Martin Insaurralde, chief-of-staff to Buenos Aires provincial governor Axel Kicillof, one of Kirchnerismo's leading lights; pictures have emerged of Insaurralde, who is close to Vice-President Cristina Fernandez (CFK), enjoying a lavish vacation on a yacht in the Mediterranean. Insaurralde has since stepped down but the exposé risks denting support for Kicillof's re-election bid in the country's key electoral district and possibly amplifying the anti-establishment sentiment that the ultra-libertarian Javier Milei has exploited so successfully.

### Brazil

The House should vote on measures that increase revenues following a major protest obstruction of all voting last week. The bone of contention for the lower chamber was two-fold: (1) an impasse between the government and congress on the appointment of a new leadership to the federal savings bank and (2) progressive rulings by the Supreme Court on matters of strong interest to the conservative caucus such as the demarcation of indigenous lands, the legalization of abortion, and drugs for personal use. It is likely that the House will break the ice this week and vote on the taxation of offshore and special funds, in addition to a bill modified in the senate on a legal framework for loan guarantees. At the senate, the plenary should vote on the government flagship debt renegotiation program (*Desenrola Brasil*).

## **MIDDLE EAST AND AFRICA**

### Nigeria

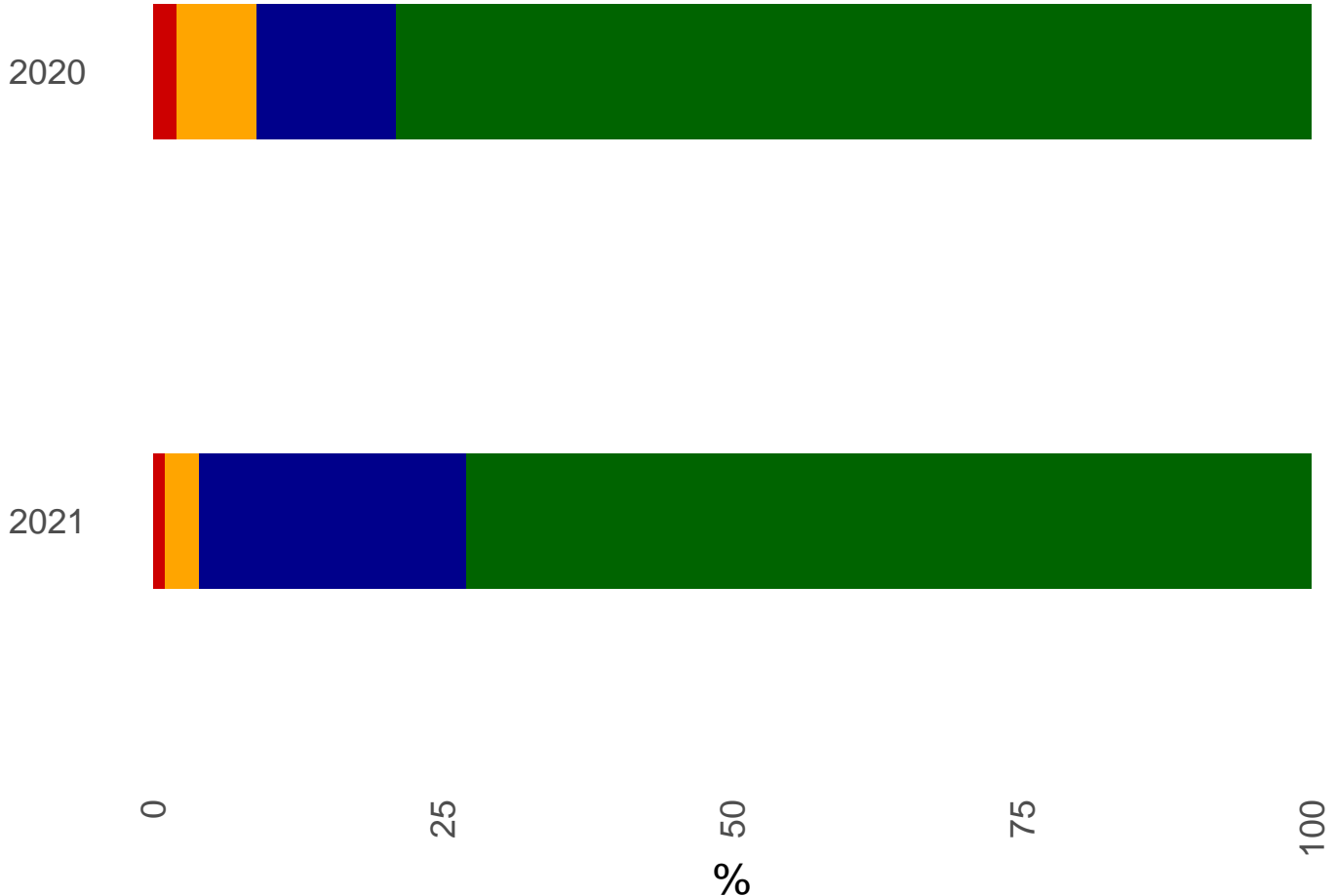
Labor unions look set to yet again mount a challenge to President Bola Tinubu's administration's recent policy decisions with threats of strike action this week. The development follows months of negotiations between the government, on the one hand, and the Nigeria Labour Congress (NLC) and their Trade Union Congress of Nigeria (TUC) counterparts, on the other, to reach an agreement on how to cushion the negative impact of the abolishment of fuel subsidies. The government's latest offer includes a wage increase of NGN 25,000 (roughly USD 32) per month for the next six months; fast-tracking the provision of Compressed Natural Gas (CNG) buses to ease public transportation difficulties; the provision of funds for micro and small-scale enterprises; a VAT waiver on diesel for the next six months; and the commencement of a cash transfer program totaling NGN 75,000 (roughly USD 97) per household to 15mn households for a three-month period from October-December 2023.

## **GRAPH OF THE WEEK**

## Most cases of EU FDI screening are approved

*EU FDI screening: type of decision*

- Prohibited
- Aborted
- Authorised with conditions
- Authorised without conditions



Source: European Commission

Since 2020 the European Commission has ramped up its efforts in screening foreign investment in the European Union. While member states examined in 2020 and 2021 a total of 3,356 FDI dossiers, around 75% of these were not subject to a formal check as they would not affect national security or public order. In addition, those that were subject to formal control were approved – 79% in 2020 and 73% in 2021 – without conditions, while around 25% were approved with conditions. The public mood, however, is shifting in favour of tougher rules on foreign direct investment against the backdrop of increased geopolitical risks and competition with China. This is particularly true in critical sectors such as semiconductors and artificial intelligence, as recently put forward by the French and German governments. This debate is likely to intensify as the EU's new security strategy takes shape, including issues such as increasing coordination on export controls and the screening of outbound investment.

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