

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 a deepening corruption scandal in **Japan**. Meanwhile, **Taiwan's** defense ministry has criticized the mainland China government, **Poland's** right-wing opposition is organizing protests against the government, and in **Argentina** the government's "omnibus" bill begins its legislative journey. Our graph of the week zooms in on **government debt**.

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

In **Japan**, the ruling LDP's corruption scandal continues to develop. Our Japan expert [James Brady](#) analyses the situation.

What are the latest findings?

A mid-ranking parliamentarian and an aide were arrested on January 7 in relation to allegations of slush funds and kickbacks within factions in the ruling party.

How will the party leadership respond?

Prime Minister Fumio Kishida will lead a 'political reform headquarters' within the LDP and may work with opposition parties to strengthen the political funds control law in the Diet term commencing in late January. However, if more senior members of the party's Abe faction are arrested before the Diet session opens, the scandal will further deepen.

WHAT TO WATCH

ASIA PACIFIC

Mainland China/Taiwan

Taiwan's defense ministry criticized the mainland China government for increased balloon activity over the Taiwan Strait and Taiwan island over the last month. The ministry has escalated its rhetoric compared to previous statements, which said the balloons appeared to be used mostly for weather monitoring; Saturday's statement called the balloons "an attempt to use cognitive warfare to affect the morale of our people" ahead of Taiwan's January 13 elections.

EUROPE

Poland

On 11 January, the right-wing opposition Law and Justice (PiS) party is organizing in Warsaw the so-called "Protest of the free Poles" against various policies of the new coalition government led by Donald Tusk (Civic Coalition, KO). PiS is criticizing the new government for allegedly undermining democracy and rule of law, censoring media, and

-serving the interests of foreign lobbyists. The protest could be seen as part of PiS's vocal anti-government campaign seeking to recover public trust and capitalize on multiple challenges facing the Tusk government ahead of local and European Parliament elections in April and June respectively.

Turkey

President Tayyip Erdogan on 7 January named former environment minister Murat Kurum as the ruling AK Party's candidate in Istanbul's mayoral election in March. Kurum will stand against incumbent Ekrem Imamoglu from the main opposition Republican People's Party (CHP), whose election as mayor in 2019 ended 25 years of rule in Istanbul by the AKP and its Islamist predecessors. Kurum is neither particularly popular nor charismatic. He was likely chosen by Erdogan due to his "moderate" profile, which could help attract votes in the ethnically mixed and politically divided city.

LATIN AMERICA

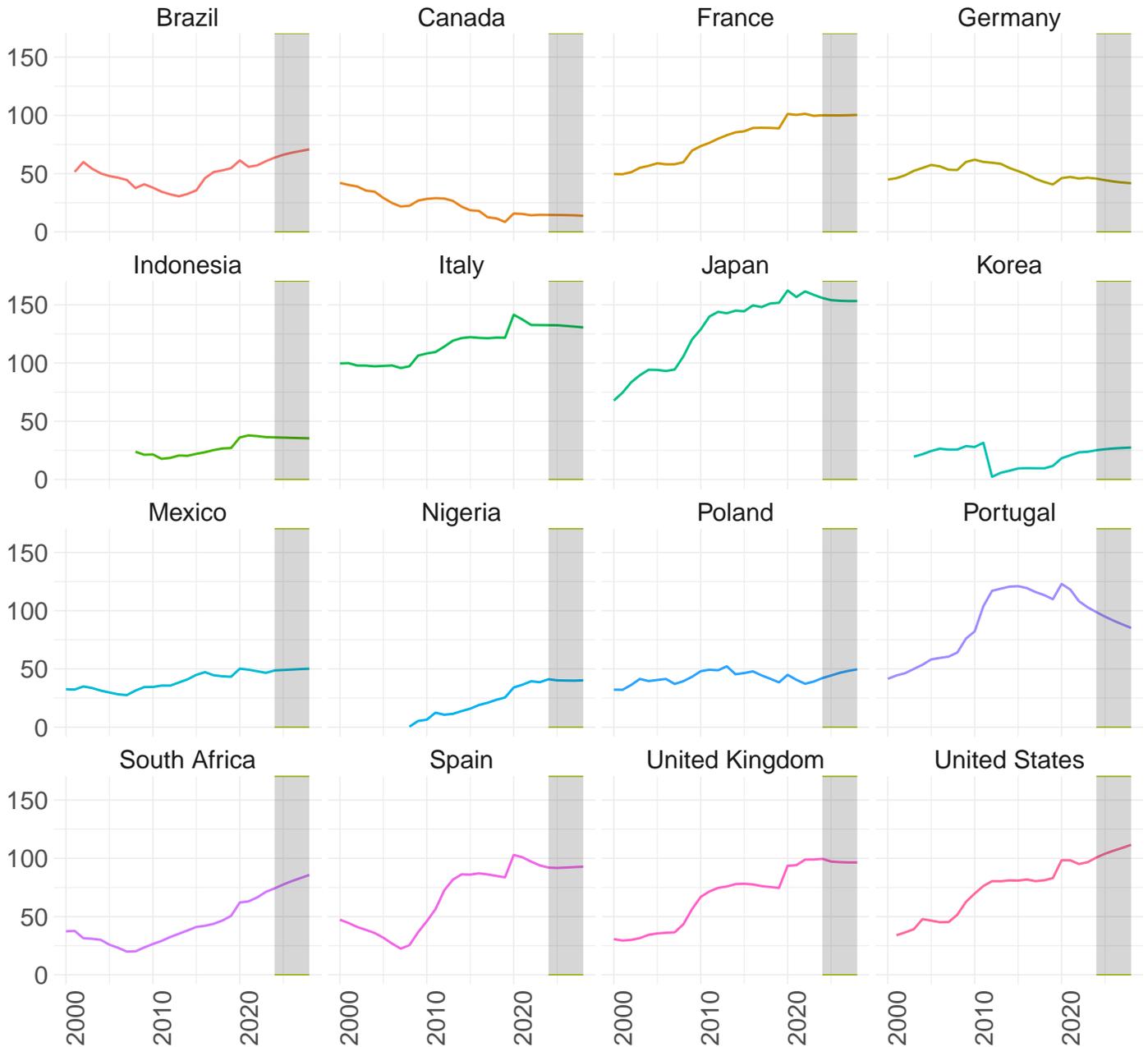
Argentina

The government's "omnibus" bill, which bundles together multiple reforms, begins its legislative journey on 9 January as lower house committees meet to review the bill. The government is aiming for a plenary vote on the bill on 25 January, which would then give the senate just one week to pass it before the extraordinary congressional session concludes. This timeframe appears highly ambitious, and so far, President Javier Milei insists that he will not extend sessions beyond January. Milei had appeared to signal willingness to compromise on aspects of the bill's content when he said that he wanted "at least 70%" of its more than 600 articles approved, though the president subsequently returned to his hardline rhetoric against the political establishment. The proposals that face the greatest pushback are the granting of emergency presidential powers for a period of two years (with the option to extend); a "temporary" hike to export taxes; and the end of automatic pension increases.

GRAPH OF THE WEEK

Government debt has grown substantially in recent decades

General government net debt as a % of GDP



Source: International Monetary Fund (IMF)

Government indebtedness has increased significantly in recent decades. While less of a concern when interest rates were low, the debt sustainability issue becomes more pressing in the current context of higher rates. Countries representing around half of the world's population go to the polls in 2024. Academic research shows that governments tend to adopt expansionary fiscal policies in the late year(s) of their terms in office to stimulate the economy. This strategy might be less viable in the current context and, if adopted, could be perceived negatively by markets. On the other hand, severe social spending cuts have been politically destabilizing in the past, leading to a significant increase in support for populist parties, lower turnout, and a rise in political fragmentation.

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