



## *Can the Combination of Pandemic and Geopolitical Crises trigger a Risk of Great Collapse for Weak States? : An opportunity for reassessing EU's development aid to promote good governance*

**Summing up:** Could the global geopolitical tensions in the wake of the pandemic crisis be the outpost of an unprecedented structural shock on already weak countries? That toxic combination might then create a “precipitation” of accumulated institutional and structural weaknesses to trigger a systemic shock, a sort of dreadful crystallization, i.e., state collapse. Many developing economies had pre-existing vulnerabilities which are now intensifying, representing potential headwinds to any sustainable and inclusive recovery. The crisis reinforces the decline in globalization. In a world of lower volumes of trade and capital flows, and challenged cultural integration, protectionism and nationalism accelerate the process of state failure. Identifying which weak states are prone to fail should be an opportunity for reassessing EU's concerted development aid for those few countries that show genuine commitment to good governance.

### **The ramifications of the protracted pandemic and geopolitical crises create a risk of crystallization.**

Cognitive biases prevent grasping the chain reaction between interconnected systems' trajectories, hence seeking comforting support in supposedly benign past trends that should prevail again. Looking at the future with a rear-view mirror, one expects economic growth to recover after a brutal unexpected shock. Today, however, the question is: could the pandemic and geopolitical crises create a «precipitation» of accumulated institutional and structural weaknesses to trigger a systemic shock, a sort of dreadful crystallization, i.e., a Great Collapse in weak states? Many economies had pre-existing vulnerabilities which are now intensifying, representing potential headwinds to any sustainable and inclusive recovery. The World Bank announced that various downside risks cloud the outlook for developing countries<sup>1</sup>. The IMF warned that per capita incomes in fragile states won't recover to near their 2019 levels until 2024, and by then, the gap with pre-crisis income trends is set to remain larger than for other countries<sup>2</sup>. In the meantime, income inequality is rising as well as socio-political turmoil.

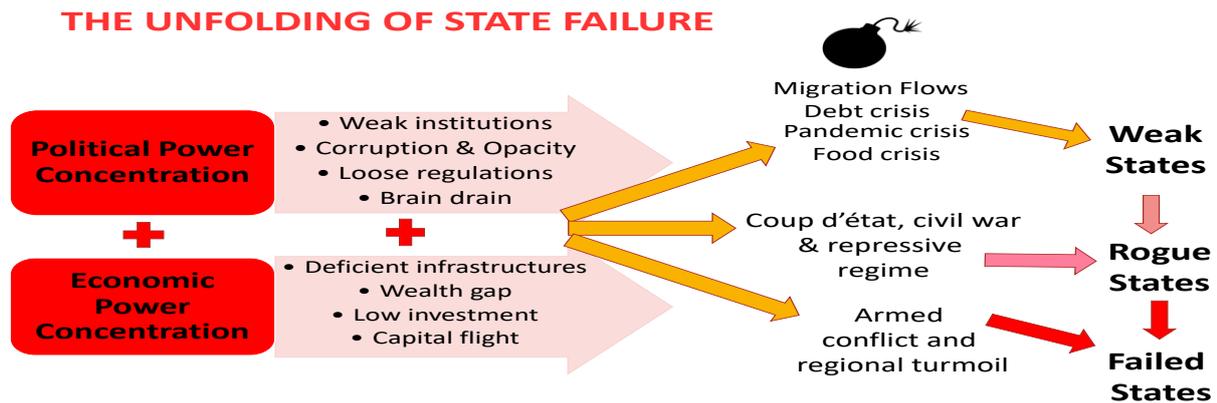
A systemic crisis always involves catalysis: An incremental aggravation in one fragility (economic, financial, sanitary, environmental, or socio-political) can trigger a chain-reaction process that precipitates multiple breaks and failures, hence destabilizing an entire social system that seemed apparently robust. This is due to snowballed fragilities: each of them, independently, cannot capsize a country. But these fragilities can crystalize, and they can precipitate state failures. In 2023, one only needs to look at Venezuela, Mali, Niger, Burundi, Burkina Faso, Lebanon, Yemen, Syria, Libya, Iraq, Nicaragua, and Congo for that matter. And what about Tunisia, Algeria, Nigeria, Egypt, Ivory Coast, and Bolivia? The pandemic crisis as well as Russia's attack on Ukraine took policymakers off-guard after a decade-long myopia of analysts, managers and governments who ignored repeated warning signals. These crises do not belong to the black swan category, which is a brutal shock whose timing is unpredictable (e.g., the twin towers in NY). They belong to a second category of crises, harsh and unprecedented, but with probable occurrence. Today, global uncertainty threatens to be the outpost of a pathbreaking structural shock that will unfold for years. Globalization, a sort of echo chamber, leaves no place to hide. The twofold pandemic and geopolitical crises politicize trade, supply chains, travel, and migration. Self-reliance becomes a strategic objective for those who can afford it.

### **The pandemic crisis and Russia's invasion of Ukraine are together a game changer.**

Why is this crisis different? One must reassess the spill-over effect of an external shock on a weak institutional system, and its internal ramifications on socio-political stability. Defining what a failed state means helps pinpointing which of the weakest countries are prone to fail soon. One needs definitions, thresholds and indicators, but one surely needs to shelve comfortable categories, such as

developed/emerging, industrialized/developing, or North/South... More than ever, institutional strength and the quality of governance are the cornerstone of resilience.

A state is expected to deliver common goods necessary to sustain social cohesion in the process of socio-economic development, e.g., security, social welfare, healthcare, political stability, and education. A “weak state », thus, is unable or unwilling to provide these public goods due to institutional flaws. These common goods are precisely crucial to transform economic growth into equal development opportunities. One of the root causes of state failure is a two-fold economic and political power concentration. Many of the weakest countries have raw materials-driven growth, which leads to cronyism and corruption coupled with high dependence on volatile commodity markets. A combination of wealth gaps and low human capital threatens socio-economic prospects. Weak states are unable to manage an efficient state bureaucracy, nor to respond effectively to challenges and crises, including sanitary.



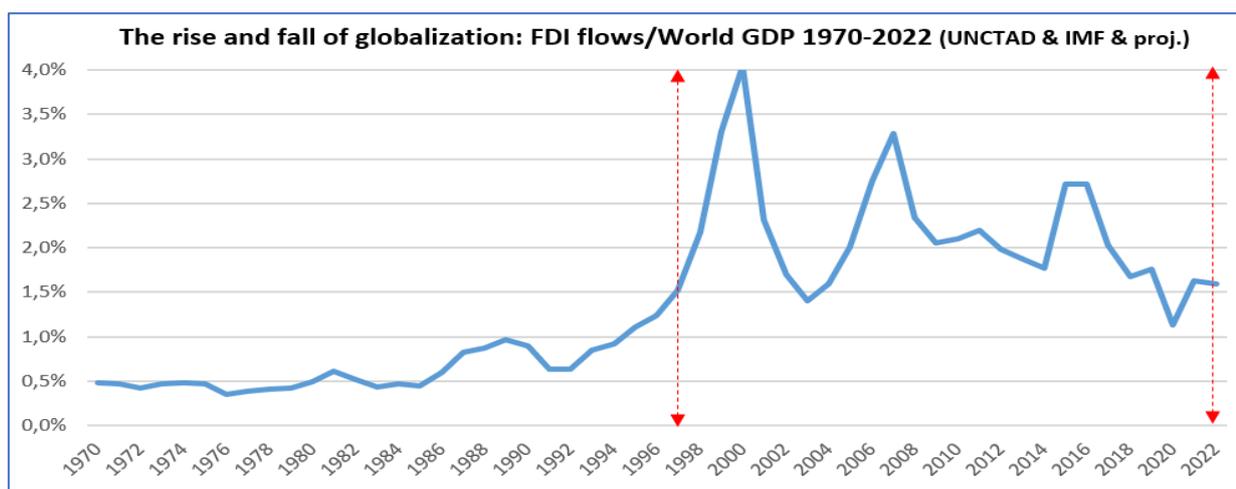
Several thinktanks have developed composite indices, which use a large number of parameters to provide a taxonomy of weak and failed states (see Appendix). These countries are all struggling with a toxic brew of corruption, low public trust, and repressive regimes. The most obvious examples are Myanmar, North Korea, Venezuela, Zimbabwe, Congo, Cameroun, Sudan, Angola, Gabon, Equatorial Guinea... among many others.

An index, whatever the quality of the underlying research, does not say why nor how states fail. Modernization is a bumpy road. As societies modernize, they become more complex, and much of the social tensions stem from faster economic change than political and institutional reforms, e.g., in fast growing BRICS, but also in Tunisia, Turkey, Morocco, Iran, Egypt, and Philippines, not mentioning oil-producing countries in Central Europe. Perfect equilibrium would produce smooth and inclusive change, with socio-political stability, though not even Norway or Switzerland can optimize this complex balance. Turbulences emerge should the process of socio-economic modernization cannot be matched by flexible institutions capable of managing the stress of change. Depending on socio-political structures, turmoil leads to frustration, strikes, rebellion and guerrilla, or civil war, hence a perverse dialectics of repression and violence. Institutional weaknesses thus generate a crisis of social mediations: parties, unions, and local elites lose credibility and trust for addressing socioeconomic demands, hence rising tensions. Examples include Tiananmen in 1989 and the Arab Spring in 2011, but also repression in Turkey and in Hong Kong, riots in Algeria, red shirts in Thailand, popular protests against cronyism in Lebanon, anti-establishment parties in Italy, France, Spain, and Greece, as well as hunger protests in Chile... The following table attempts to summarize the salient features of the state failure process:

<b>WEAK STATES</b>	<b>FAILED STATES</b>	<b>ROGUE STATES</b>
corruption and low development	external destabilization	dictatorial and military rule
illiberal democracies/electoral autocracies	endemic criminal violence	repression and arbitrariness
low public trust in institutions	regional fragmentation	arms & drug trafficking
political cronyism	ethnic/religious tensions	dosed economy and structural deficits
low economic freedom/weak investment	politized armed forces	internal/external terrorist groups
wealth gaps and low literacy	declining pc income growth	shrinking life expectancy
lack of transparency and accountability	growing wealth gaps	high mortality rates
low labor productivity	human rights abuse	despotism, civil war, insurgencies
poor physical infrastructures	armed revolts	external disruptor, disputed borders
brain drain and capital flight	dollarization and smuggling	privation and starvation

## Four powerful trends can precipitate a structural collapse in weak states

a) **The first driver of a risk of collapse is shrinking trade, capital, and foreign investment flows.** The pandemic and geopolitical crises reinforce the decreasing trend of globalization, a so-called geoeconomic fragmentation<sup>2</sup>. An exceptional, but relatively anecdotal, period of 150 years of increasing volumes of goods and capital flows, as well as global cultural integration, is coming to end. The pandemic shock thus emerged in a long-term trend of sluggish growth and large indebtedness, accompanied by weak investment, i.e., a trend of secular stagnation. Russia's invasion of Ukraine amplified financial and trade disruptions while rising inflation has negative consequences on development prospects. Globalized integration, though eroding, triggered a pernicious contagion during the pandemic crisis, i.e., the so-called "butterfly defect" of globalization<sup>3</sup>. In the meantime, the two-fold crisis reintroduced protectionism and nationalism. There are converging signs of lower international travel and tourism, but also of declining capital and trade flows. One sign is the decline in global trade openness, i.e., the ratio of global exports/GDP, which reached its peak around the financial crisis. Another clear sign is a downturn in foreign direct investment flows that today are back to their mid-90s level.



Most of the weak states suffer from a decline in foreign direct investment (that is, non-debt creating financing!), due to risk aversion and unabated corruption. According to the IMF WEO, in Sub-Saharan countries net FDI flows have been negative to the tune of \$322 billion between 2014 and 2022. For those trade and foreign capital dependent countries, rising protectionism and commodity price volatility accelerate the transition from weak to failed states. Their balance of payments deficits require ongoing capital inflows to offset low savings coupled with rising debt servicing costs.

b) **The second driver is looming debt crises.** Weak countries have benefited from central banks' quantitative easing following the global financial crisis, and again in response to the COVID-19 pandemic. They have launched massive hard-currency bond issues that they need to amortize in 2024-28. The consequence will be severe for roughly half of the 45 sub-Saharan African countries that are already in debt distress or at high risk of distress. Their External Debt/GDP ratio reaches 45% of GDP currently, back to its 1990 level, after dropping to only 21% between 2006 and 2010, thanks to generous debt reduction programs. Worse, their ratio of External Debt to Export revenues is now similar to its level in the early 1990s, around 225%, erasing three decades of debt relief that saw the ratio falling to only 61% in 2008. To fight the sanitary crisis, large budget deficits have made public debt worse. As the IMF summarizes: "The debt surge amplifies vulnerabilities, especially as financing conditions tighten."<sup>4</sup> Repeated IMF warnings shed light on upcoming debt crisis risks for low-income countries that face default-like borrowing spreads<sup>5</sup>. In Africa, a genuine "debt wall" is looming with a bunching of sovereign Eurobonds falling due in 2024-25<sup>6</sup>. Several weak countries will thus sink into sovereign bankruptcy due to a combination of risk aversion in capital markets, higher rates of interest, decreasing reserve assets, and volatile export receipts. Often, the final blow will stem from capital flight together with limited fiscal space, shorter maturities, and depreciating currencies. Venezuela, Puerto Rico, Argentina, Ecuador, Lebanon, Ghana, Belize, Suriname, and Zambia are already in default. Malawi, Ethiopia, Kenya, Belarus, El Salvador, Pakistan, Egypt, and Tunisia are about to face a severe debt crisis.

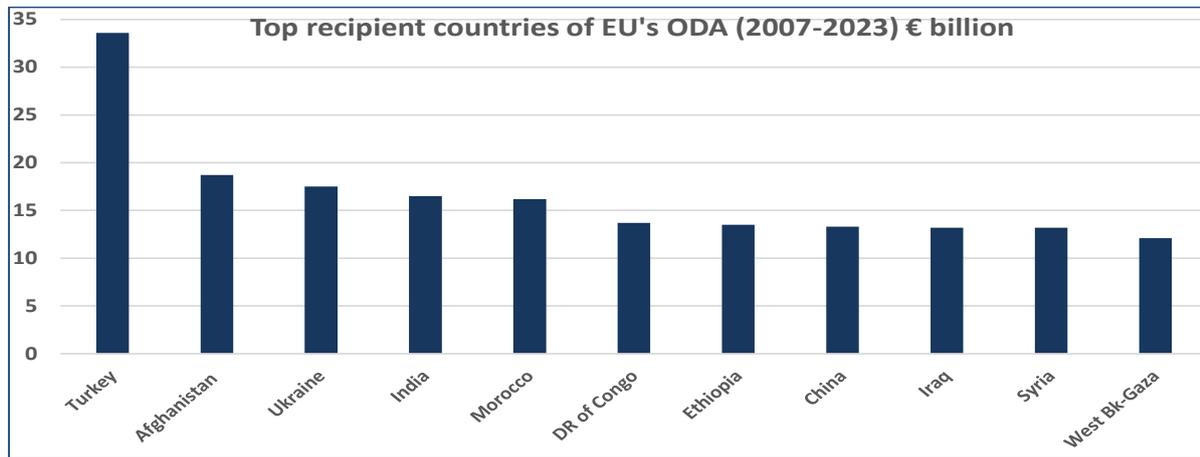
**c) The third driver of state collapse is wealth gaps:** Socio-economic convergence is a myth not only between but also within countries. The level of wealth distribution has been a key factor determining resilience in the public health crisis, due to its correlation with the quality of national health systems and their public access. If past pandemics are any guide, the toll on poorer and fragile groups will be large, particularly in weak states in sub-Saharan Africa. This is due to the disproportionate impact of the pandemic on low-skilled workers and peasants. Weak and failed countries show large wealth gaps with high GINI indices in the range of 40 (Turkmenistan, Ivory Coast, Lebanon, Bolivia, Congo, Madagascar) up to 50 (Honduras, Zimbabwe, Guinea-Bissau, Angola, Mozambique) and even close to 60 (Zambia, Sao Tome, and CAR).

**d) And the fourth driver of state collapse is endemic corruption.** Though dynamic economic growth and bad governance can be combined, corruption prevents transforming economic growth into sustainable and inclusive development. Prerequisites include sanitary systems, environmental responsibility, education, social peace, and accountability. The vast majority of weak countries, and obviously all failed countries, are below the median score of the corruption index of Transparency International<sup>7</sup>. The covid-19 has exposed a deeply rooted deficit of governance in Africa and Central America. That deficit is striking in oil-driven countries. One can observe a correlation between unabated corruption and oil-based growth because hydrocarbons and raw materials often lead to economic and political power concentration, and to bad governance.

### **Bad governance-driven state failure imposes a reassessment of EU's development aid policies.**

Economic inequalities are soaring in developing countries while corruption is often endemic despite decades of official development aid (ODA) programs. There are still a few exceptions in Botswana, Cabo Verde, Rwanda, Mauritius, Namibia, Jordan, Benin, and Ghana. In 2023 and beyond, a number of already weak countries will fall in deep economic and social distress. In the frontline are those which suffer from a commodity shock, coupled with informal economies, capital flight, brain drain, and large debt burden. For countries with weaker institutions and unsteady social resilience, deeper poverty and state bankruptcy will lead to destabilization. The IMF's involvement will remain indispensable to help restructure public debts with the Paris Club, despite China's offer of less stringent alternatives. The IMF has already committed nearly \$100 billion, but eventually the IMF will tighten its lending conditions, hence mounting social tensions. Tunisia exemplifies a country where the IMF can catalyse urgently needed rescue financing whereas institutional weaknesses prevent implementing IMF's required reforms.

However, when bad governance is widespread a key question is the inefficiency of ODA associated with debt relief to pull countries out of poverty. As Bright Simmons concludes: "However emotionally appealing it may sound, debt cancellation alone will not encourage or enhance efforts, already under way in many African countries despite everything, to demand stronger accountability and force much-needed institutional reform"<sup>8</sup>. That raises the issue of the EU's ODA disbursements and debt reduction support for countries with institutional deficiencies. In April 2020, in response to the unprecedented challenges posed by the pandemic and at the urging of the IFIs, the G20 launched the Debt Service Suspension Initiative (DSSI) to provide liquidity support for low-income countries. China, however, holds the most debt, with 18% of the total<sup>9</sup>, and is quite reluctant to embark on debt reduction. China's demand to include multilateral development banks in sovereign debt restructurings under the G20 Common Framework boils down to a sterile provocation. Meanwhile, OECD countries boosted their ODA programs toward low-income countries<sup>10</sup>. In 2022, ODA rose to \$204 billion thanks to donor countries' efforts to combat the impact of the pandemic, including \$39 billion of net bilateral ODA flows to Africa<sup>5</sup>. The EU and its 27 Member States are the biggest ODA provider, with €70 billion in 2021, which target 17 sustainable development goals, ranging from education to clean energy and strong institutions, with the altruistic objective of strengthening weak states<sup>11</sup>. Today, the aid targets countries that combine large wealth gaps, weak institutions, authoritarian regimes, and bad governance. The following table casts light on EU's ODA recipient countries.<sup>12</sup>



### The way forward to reconcile aid programs with inclusive and sustainable growth: Toward an EU's international guardianship.

After World War II, the UN established an international guardianship program for a dozen countries, based on Art. XII and XIII of its Charter, with effects until the late 1990s. More specifically, Art. 77 aimed at facilitating and monitoring a smooth transition of weak states toward democratic institutions and market-oriented economic policies, while Art. 76 aimed at promoting socio-political progress, human rights protection, and self-sustaining development. That's exactly what weak and failed state need today. As the European Commission has relaunched the public debate on the review of the EU's economic governance framework in 2022, the opportunity is good for a thorough reassessment of official aid programs. The objective should be to make ODA dependent on robust and monitored improvement in governance in partner developing countries. The instrument would be conditioning debt relief and aid flows upon long-term commitments regarding institutional strengthening and capacity building, as well as civil rights protection. This is a bold objective for three reasons: first, the EU is challenged by China as a rising official lender, whose financing comes without governance strings attached; second, the EU is at pain to mobilize private co-financing in debt restructuring negotiations due to risk aversion; and third, more profoundly, the "European model" rooted in market-based capitalism and liberal democracy is no longer a convincing and attractive paradigm in the Global South. Governance conditions imposed by the EU and its 27 Member States could be credible, however, thanks to their commitment to provide at least 0.7% of collective GNI as ODA by 2030 for the successful implementation of the Global Gateway strategy. Simply put, development aid financing would reward deserving countries.

Far from any neo-colonial subordination, guardianship would entail close concertation and partnership between the EU, foreign creditors, IFIs, and local governments. Disbursements and debt relief would be provided in bi-annual tranches to fund domestic investments in high-priority social sectors. Project and trade financing as well as development-focused grants would be the name of the game. Greater prioritization of spending would be central in this new aid strategy. Developing countries would then be better equipped to transform growth into sustainable and inclusive development. EU countries would gain the insurance that their multi-billion euros aid packages are not recycled in their capitals through capital flight. Both debtors and creditors would share the benefits of enhanced governance.

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- <sup>3</sup> See Goldin, Ian. « *Rethinking Global Resilience* », *Finance & Development*, Fall 2021, IMF. pp 5-9.
- <sup>4</sup> Vitor Gaspar, Paulo Medas, and Roberto Perrelli, « *Global Debt Reaches a Record \$226 Trillion* », December 15, 2021. IMF.
- <sup>5</sup> <https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/official-development-assistance.htm>
- <sup>6</sup> See : Smith, Gregory. « *Africa's eurobond wall revisited*», March 23, 2023. M&G Investments.
- <sup>7</sup> <https://www.transparency.org/en/cpi/2022> and See Annex
- <sup>8</sup> Brigh Simmons, „The old arguments for debt cancellation in Africa no longer apply“, FT, February 19, 2023.
- <sup>9</sup> UK Parliament : <https://publications.parliament.uk/pa/cm5803/cmselect/cmintdev/146/report.html>
- <sup>10</sup> [https://euaidexplorer.ec.europa.eu/overview\\_en](https://euaidexplorer.ec.europa.eu/overview_en)
- <sup>11</sup> EU Council, July 2022, *Annual Report 2022 to the European Council on EU Development Aid Targets*
- <sup>12</sup> . [https://euaidexplorer.ec.europa.eu/explore/recipients\\_en](https://euaidexplorer.ec.europa.eu/explore/recipients_en) (large recipients also include Nigeria and Pakistan)

		1	2	3	4	5	6	7	8	9
		TI	TI	UN	UNDP	EIU	Fund for Peace	VDEM Institute	Freedom House	Heritage Found
		Corruption	Bribery rate	Life expectancy	HDI	Democracy	Fragile state	Liberal Demo	Polit. Freedom	Econ. Freedom
		Ranking/180	Rate%	Years	Ranking/189	Ranking/167	Ranking/179	Ranking/179	Index/100	Ranking/184
1	Ghana	72	24%	70	138	59	67	48	82	101
2	Guyana	85	27%	68	123	75	74	84	73	116
3	Turkmenistan	167	30%	70	111	162	83	175	2	167
4	São Tomé	65	15%	70	135	90	96	50	84	129
5	Benin	72	23%	62	158	102	102	103	65	100
6	Senegal	72	13%	68	168	86	104	51	71	111
7	Bolivia	126	36%	70	107	94	107	121	66	172
8	Nicaragua	167	20%	70	128	120	115	168	30	125
9	Tanzania	94	15%	65	163	93	118	99	34	93
10	Honduras	157	28%	63	132	88	120	122	44	98
11	Guatemala	150	25%	74	127	97	121	83	52	75
12	Madagascar	142	21%	67	164	85	122	112	60	112
13	Gambia	110	18%	62	172	103	124	105	46	104
14	Cambodia	150	37%	70	154	130	126	167	24	118
15	Comoros	167	15%	64	156	132	132	134	16	132
16	Malawi	110	25%	64	174	82	134	72	66	145
17	Sierra Leone	110	48%	55	182	99	135	77	65	150
18	Zambia	116	16%	64	146	99	138	111	52	159
19	Rwanda	54	13%	67	160	130	139	150	21	47
20	Togo	130	24%	61	167	141	142	128	43	113
21	Burkina Faso	77	13%	62	182	116	144	57	23	124
22	Angola	116	35%	61	148	117	146	126	31	140
23	Equat. Guinea	171	25%	63	145	160	136	169	5	163
24	Lebanon	150	54%	68	92	108	145	106	43	154
25	Mauritania	130	35%	65	157	112	147	131	35	128
26	Liberia	142	47%	64	175	140	149	67	60	164
27	Pakistan	140	34%	70	154	105	151	116	37	165
28	Côte d'Ivoire	99	24%	57	162	109	152	101	44	91
29	Guinea-Bissau	164	30%	58	175	147	153	93	44	139
30	Rep. Congo	164	30%	55	149	129	154	148	20	156
31	Venezuela	177	50%	71	113	143	155	164	14	177
32	Uganda	142	43%	63	159	98	156	123	34	106
33	Myanmar	157	20%	67	147	135	157	110	28	173
34	Mozambique	142	35%	61	181	122	158	114	43	153
35	Cameroon	142	48%	59	153	142	165	145	16	163
36	Guinea	147	36%	62	178	133	166	142	38	123
37	Haiti	171	25%	64	170	106	167	120	37	155
38	Zimbabwe	157	22%	61	150	127	170	130	28	174
39	Chad	164	30%	53	187	163	173	157	17	158
40	North Korea	171	-.	72	185	167	150	178	3	178
41	Niger	124	23%	62	189	125	159	86	48	117
42	Mali	137	16%	59	184	111	161	100	33	133
43	Erithrea	162	30%	66	180	153	162	179	2	173
44	Libya	171	62%	71	105	157	163	138	9	171
45	Burundi	171	30%	62	185	154	164	170	14	161
46	Nigeria	150	34%	54	161	110	168	91	45	105
47	Ethiopia	94	44%	66	173	123	169	136	22	176
48	Afghanistan	150	46%	65	169	139	171	129	27	178
49	Sudan	162	24%	65	170	165	172	161	17	175
50	CAR	150	35%	54	188	165	174	125	9	166
51	Dem. Congo	166	71%	61	175	166	175	137	20	165
52	South Sudan	178	39%	58	185	165	176	167	2	174
53	Syria	178	50%	72	151	164	177	176	1	183
54	Somalia	180	60%	57	185	165	178	155	7	182
55	Yemen	176	74%	65	179	157	179	177	11	184

**WEAK STATES**  
 high corruption  
 low HDI  
 centralized authority  
 low econ freedom  
 large wealth gaps

**FAILED STATES**  
 Ongoing turmoil  
 internal violence  
 Authoritarian regime  
 civil war  
 growing wealth gaps  
 Widespread corruption

**ROGUE STATES**  
 Military regimes  
 & Repression  
 Terrorism & drugs  
 external disruptor  
 very low HDI  
 Civil war  
 coups d'état

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