

## SEMINAR INTRODUCTION:

# GLOBAL RISK MANAGEMENT & GOVERNANCE IN AN AGE OF MOUNTING GEOPOLITICAL THREATS

5 ECTS



CIFE ROMA NOVEMBER 2024  
MICHEL-HENRY BOUCHET

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## Global Economic & Geopolitical Headwinds: THIS TIME, IT'S DIFFERENT!



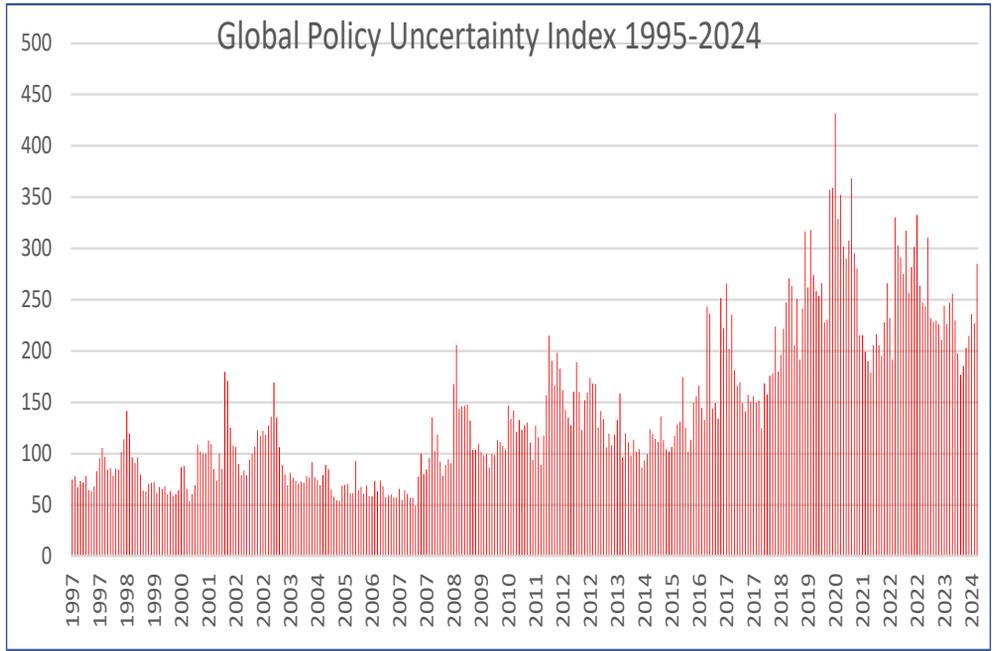
1. 2022-24: Rising geopolitical and institutional headwinds
2. Macro Outlook : Secular stagnation coupled with rising indebtedness, higher interest rates, and inflation threats = many countries in Maghreb and Africa will default
3. Living standards will fall in most developing countries (also in the OECD!)
4. Africa cannot afford high oil & commodity prices for long. Energy consumption per capita will shrink as well as production of goods and services
5. Most significant geopolitical-driven shockwaves are in Africa ( $\Delta$  wheat & energy prices= no fiscal space) and Middle-East

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**Q4-2024:**  
**Global uncertainty** is rising and undermines growth and development prospects in both developed and developing countries



[https://www.policyuncertainty.com/global\\_monthly.html](https://www.policyuncertainty.com/global_monthly.html)

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### CHINA, INDIA, TURKEY, RUSSIA AND OTHER CBS PUSH GOLD PURCHASES TO RECORD LEVELS



Purchases reported to the IMF  
Sources: Metals Focus, Refinitiv GFMS, World Gold Council  
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**1989-2024: GLOBAL GOVERNANCE PARADIGM SHIFT**

Since the 1980s Reaganomics & Thatcherism imposed the dominant political idea = smaller states can do less and tax less!

1989 Fall of the Berlin Wall + end of the Cold war = peace dividend, with defence spending redirected into other uses (<2% GDP)= demise of geopolitics

Borderless market economy : Focus on cross-border investment and trade liberalization under IFIs' monitoring and guidance

**THE WASHINGTON CONSENSUS**

**Washington consensus :**

Global economic development=

>0 sum game



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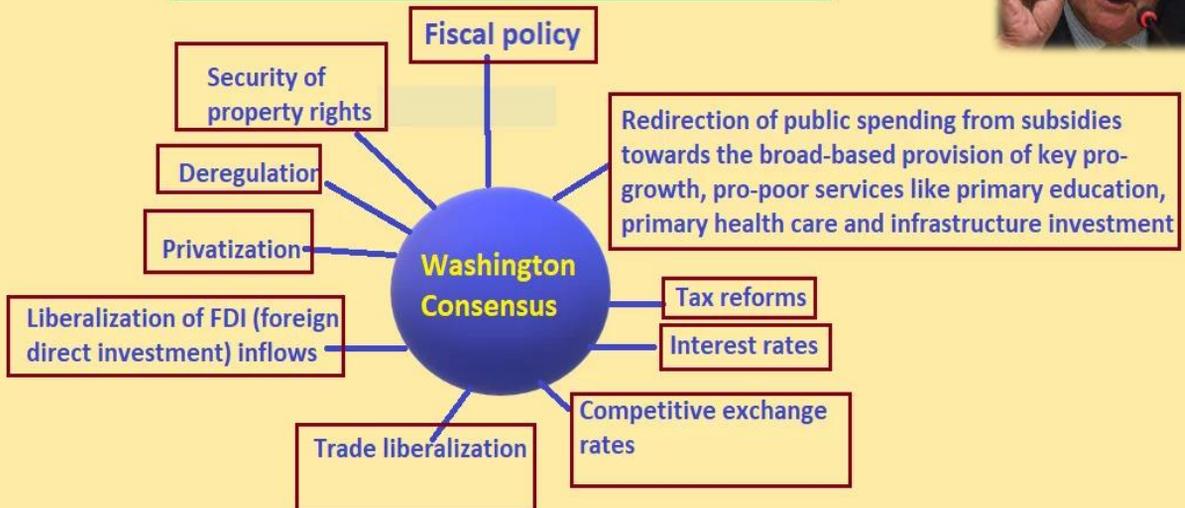
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## THE WASHINGTON CONSENSUS IN A NUTSHELL



### Reform policies of Washington Consensus



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## MAIN CHALLENGES OF THE CRUMBLING WASHINGTON CONSENSUS

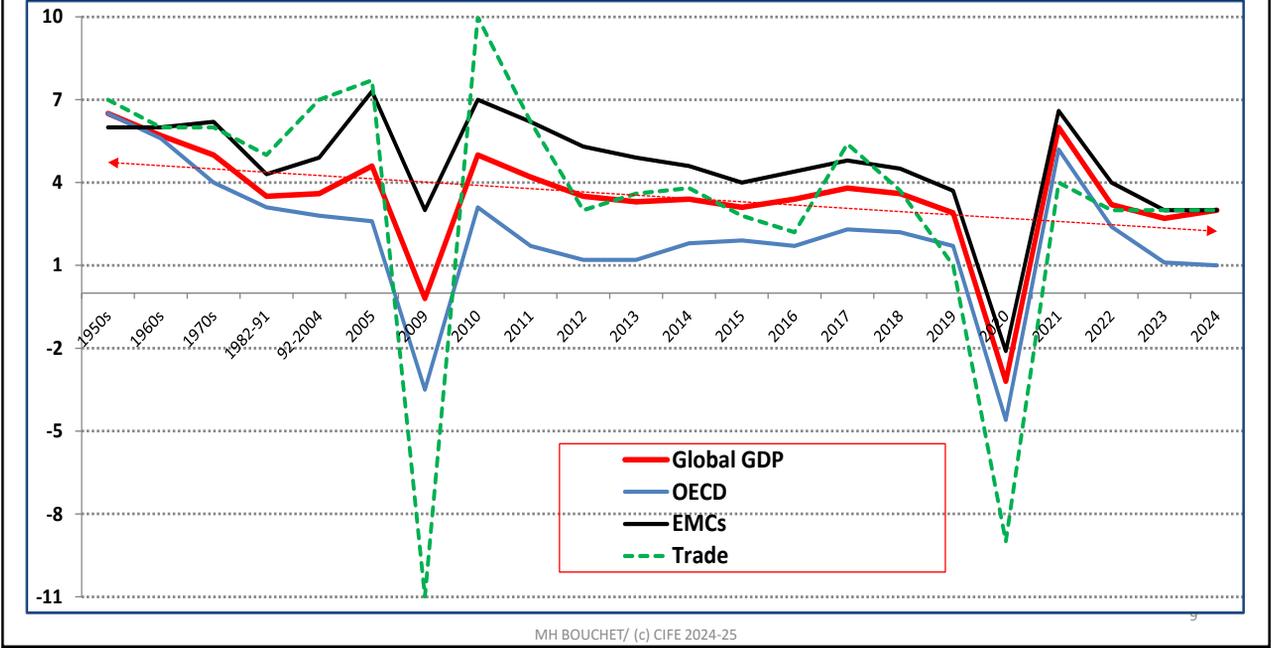
1. 2020-2024: return of geopolitical threats with a vengeance
2. Secular stagnation & growing wealth gaps (Kuznet is wrong)
3. Looming financial and debt crises
4. Growing spending needs: Fiscal & monetary interventionism?
5. Sustainable financing of inclusive development and climate risks?
6. Global governance crisis at the country and multilateral levels (obsolete BW framework)
7. From post WWII geopolitical containment to global trade and financial containment?

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## THE SECULAR STAGNATION (1950-2024)



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## ECONOMIC GROWTH BELONGS TO THE PAST

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The EU economy will expand by just 0.8% in 2024 and 1.3% in 2025, with high prices hitting consumer spending across the bloc; German economy faced 0 growth in 2023-24

The EU economy has lost momentum. "Economic activity stalled in the second quarter and survey indicators point to further weakening in the coming months. The new figures predict a contraction in German GDP of 0.4 per cent, compared with a previously forecast rise of 0.2 per cent. Consumer prices slow down while the US CA deficit remains high!"

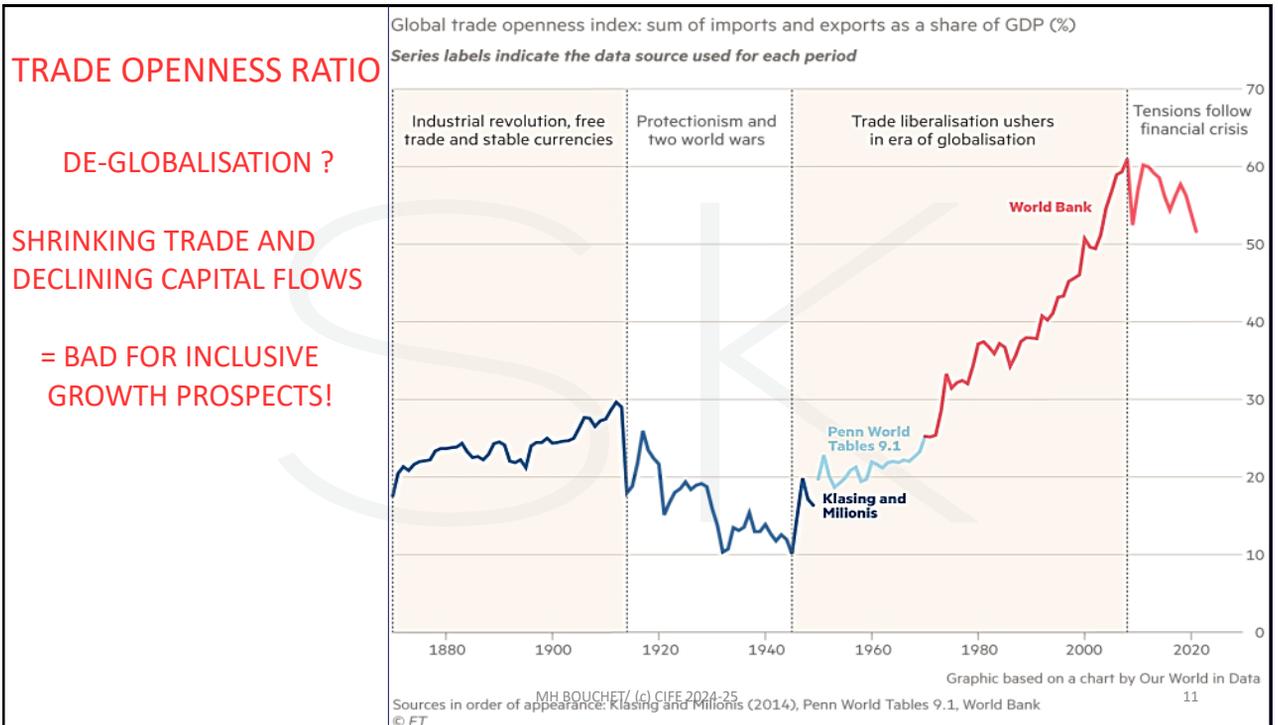
### DELICATE BALANCES | ECONOMIC AND FINANCIAL FORECASTS

#### ECONOMIC FORECASTS

	GDP (yoy. %)			Consumer price* (yoy. %)			Current account (% of GDP)		
	2023	2024	2025	2023	2024	2025	2023	2024	2025
United States	2.9	2.5	1.3	4.1	2.9	2.2	-3.1	-3.3	-3.2
Japan	1.7	-0.3	0.2	4.0	2.3	1.0	3.5	4.0	2.5
Eurozone	0.5	0.8	1.3	5.4	2.3	1.8	2.9	4.0	3.8
Germany	-0.1	0.1	0.8	6.0	2.4	2.1	6.2	7.2	6.9
France	1.1	1.1	1.0	5.7	2.4	1.3	-0.7	1.7	1.6
Italy	1.0	0.8	0.8	5.9	1.0	1.4	0.5	2.7	3.5
Spain	2.5	2.6	1.8	3.4	2.8	2.0	2.6	2.1	0.9
Netherlands	0.1	0.7	1.3	4.1	3.1	2.0	9.9	9.4	8.8

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## WHAT'S THE PROBLEM OF SECULAR STAGNATION, DECLINING TRADE AND MOUNTING DEBT TRENDS?

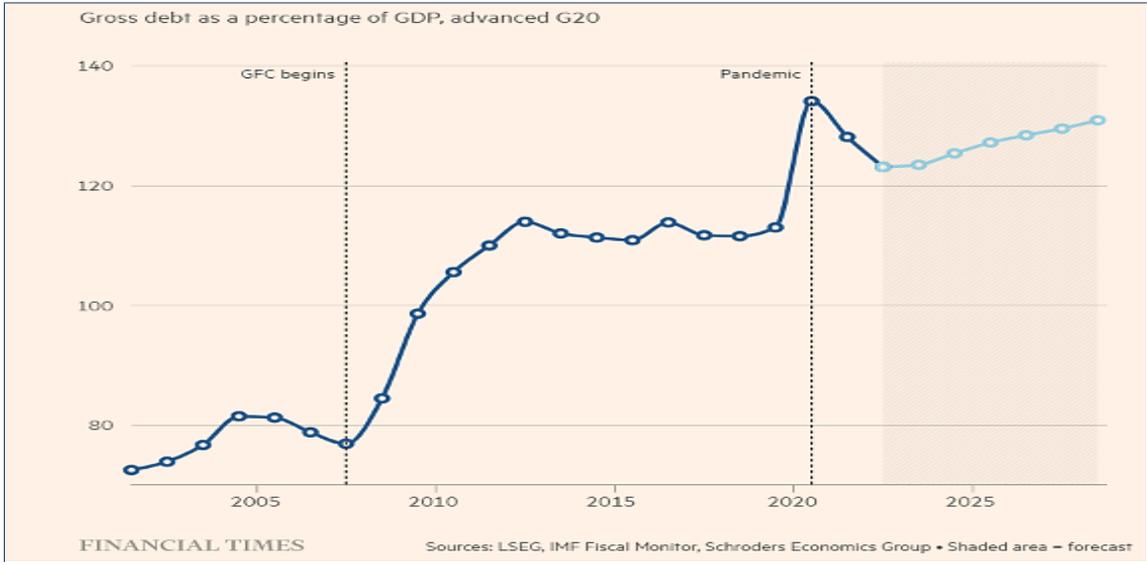
1. Shrinking income per capita + growing wealth gaps: fiscal, social & political economic dilemmas
2. Race between GDP, interest and debt rates!
3. Demographic threats
4. Lower productivity despite Hi Tech revolution 2.0

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**FINANCIAL + PANDEMIC CRISES= HIGHER BUDGET DEFICITS = MOUNTING DEBT!**



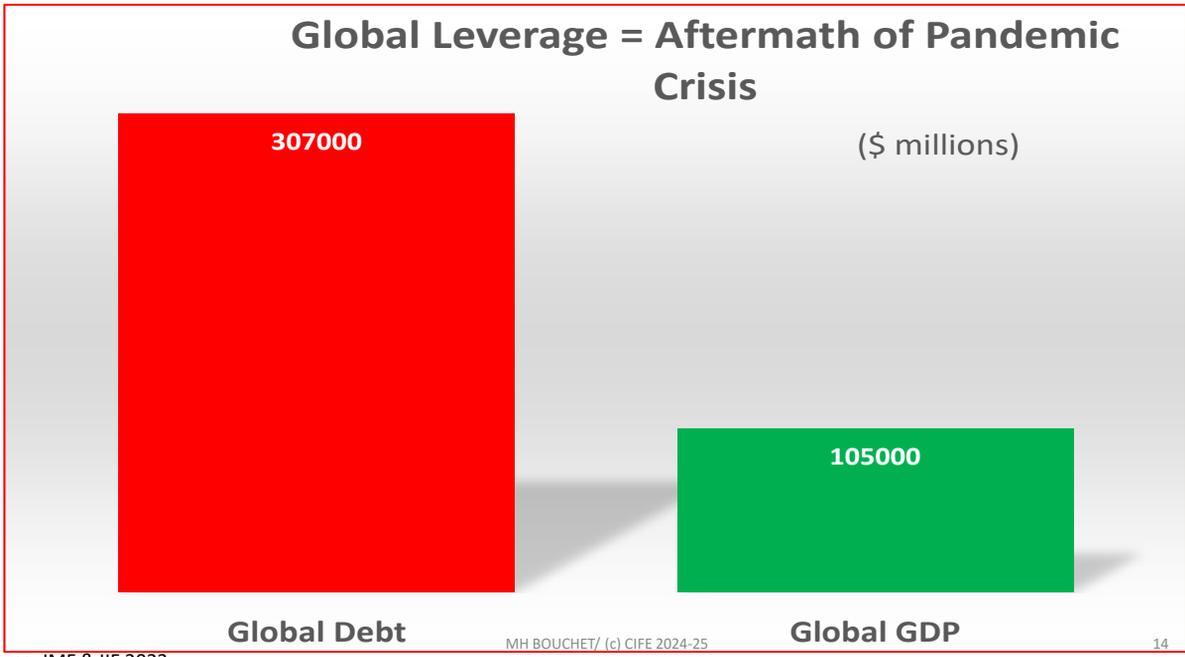
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**HOW MUCH IS TOO MUCH? >333%**

**Global Leverage = Aftermath of Pandemic Crisis**

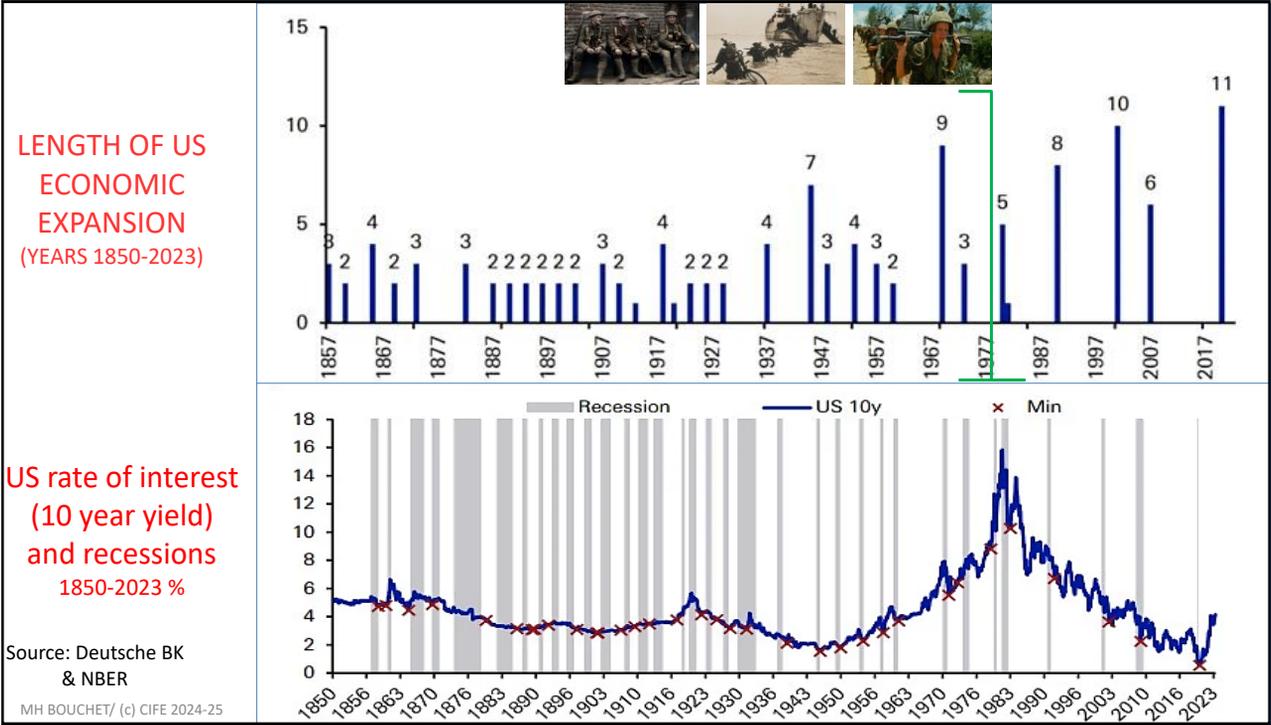


Source: IMF & IIF 2023

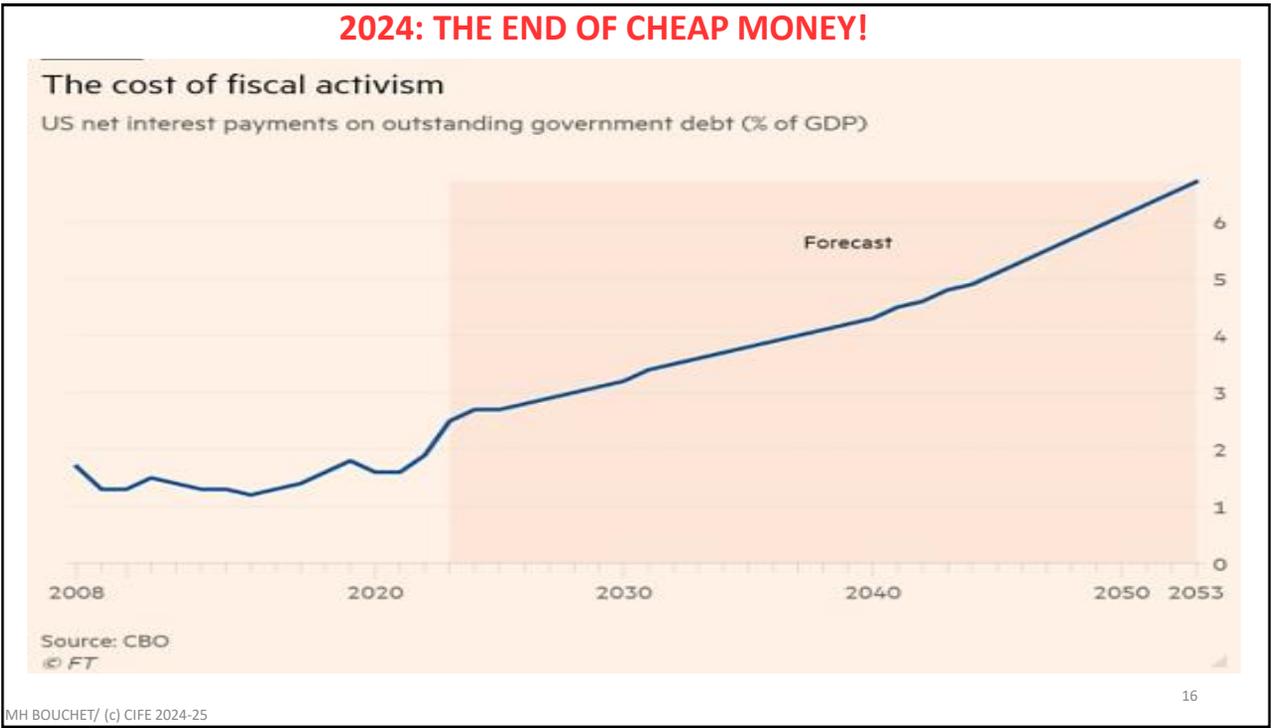
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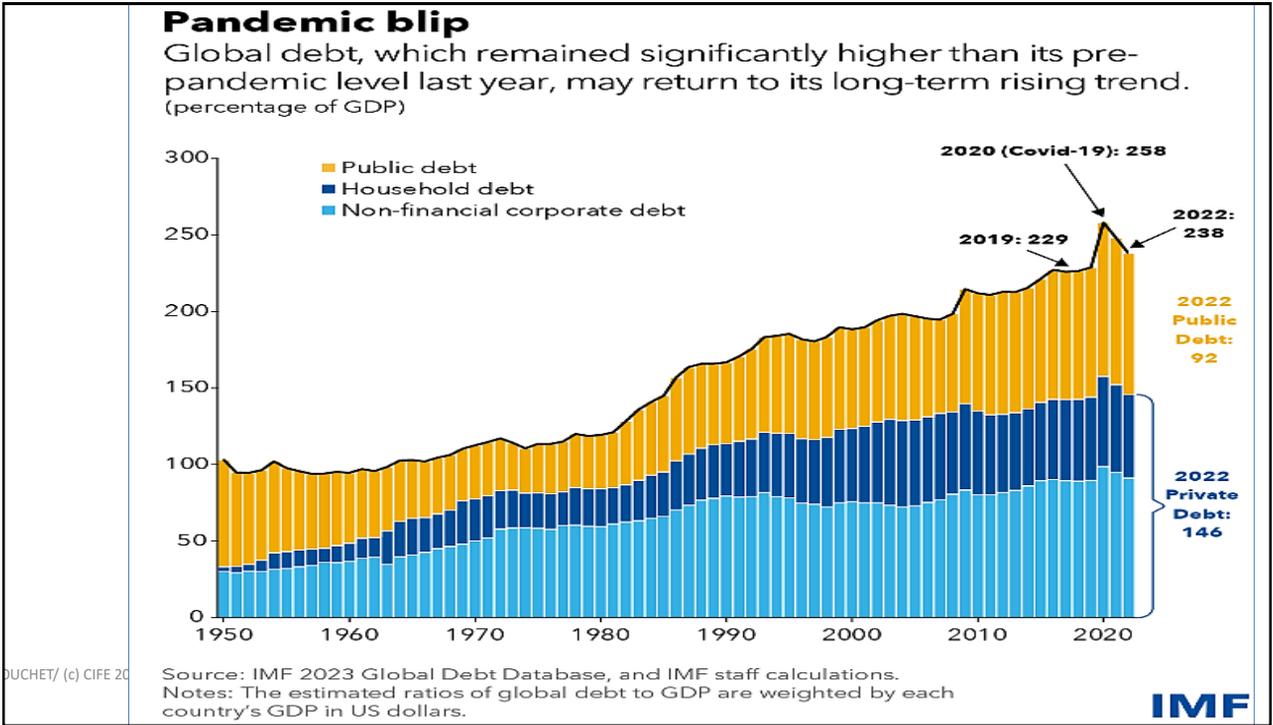
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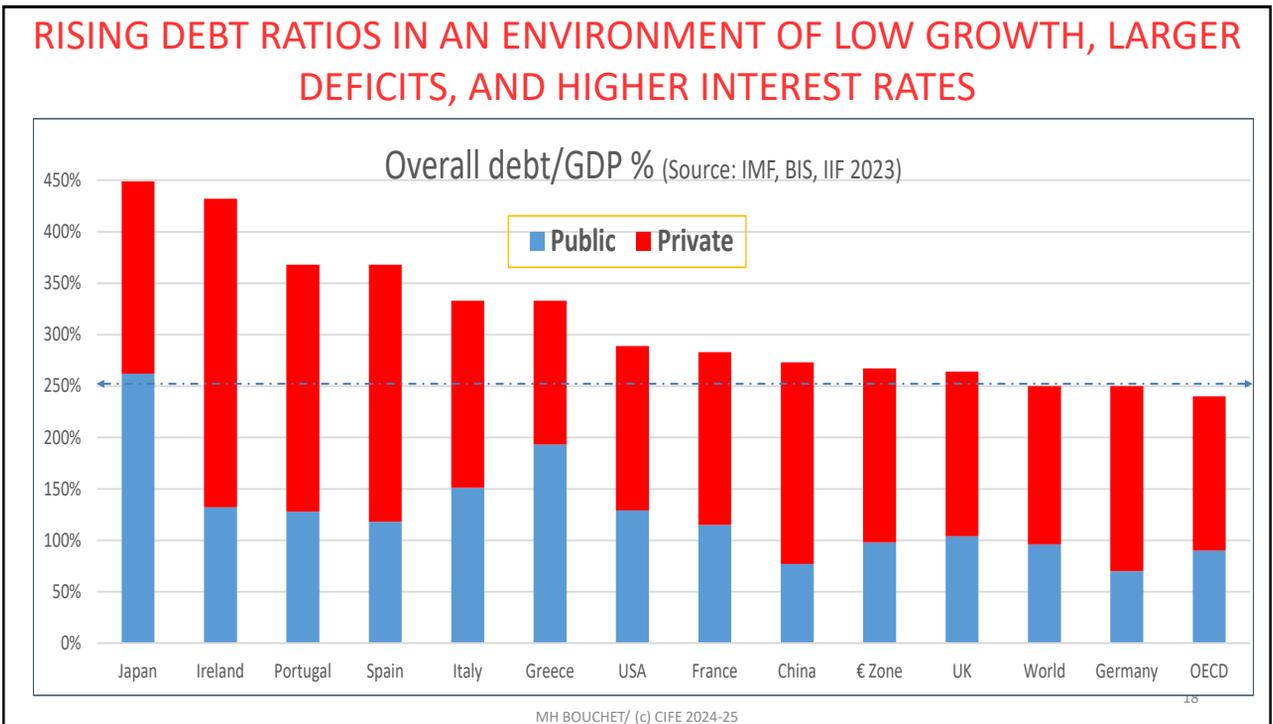
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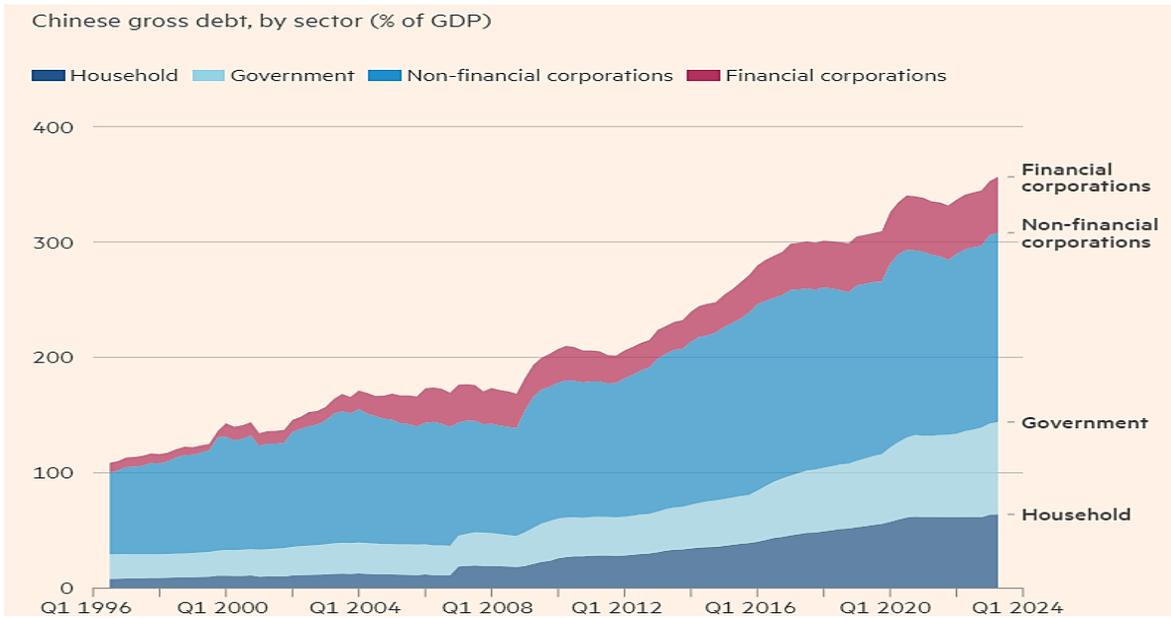


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### CHINA IN 2023-24: GROWTH HAS BEEN DRIVEN BY A DEBT MOUNTAIN



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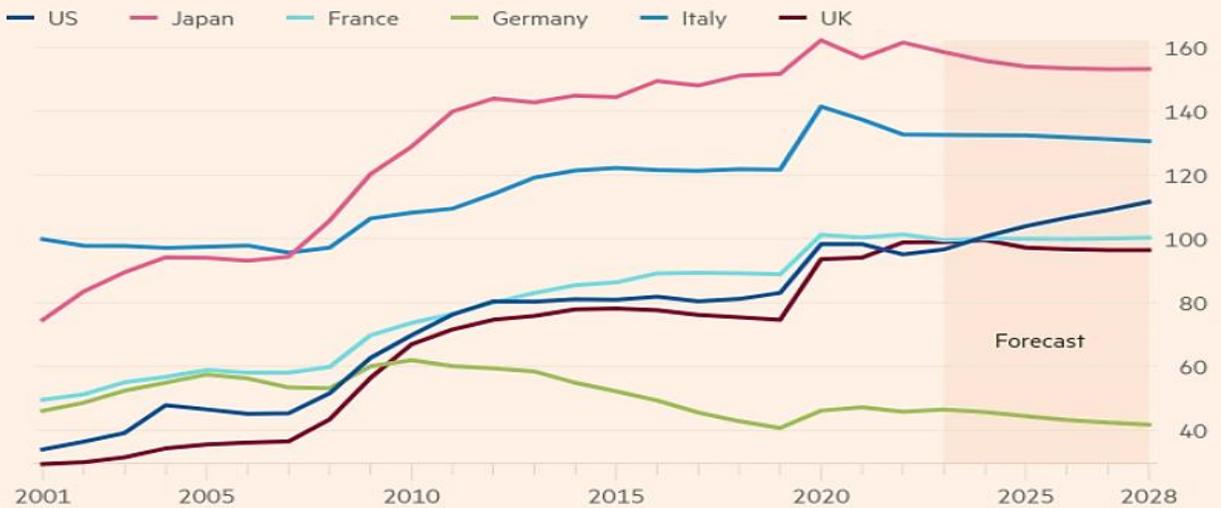
Source FT 09/2023

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### Government indebtedness has mostly soared in the past two decades

General government net debt as a % of GDP

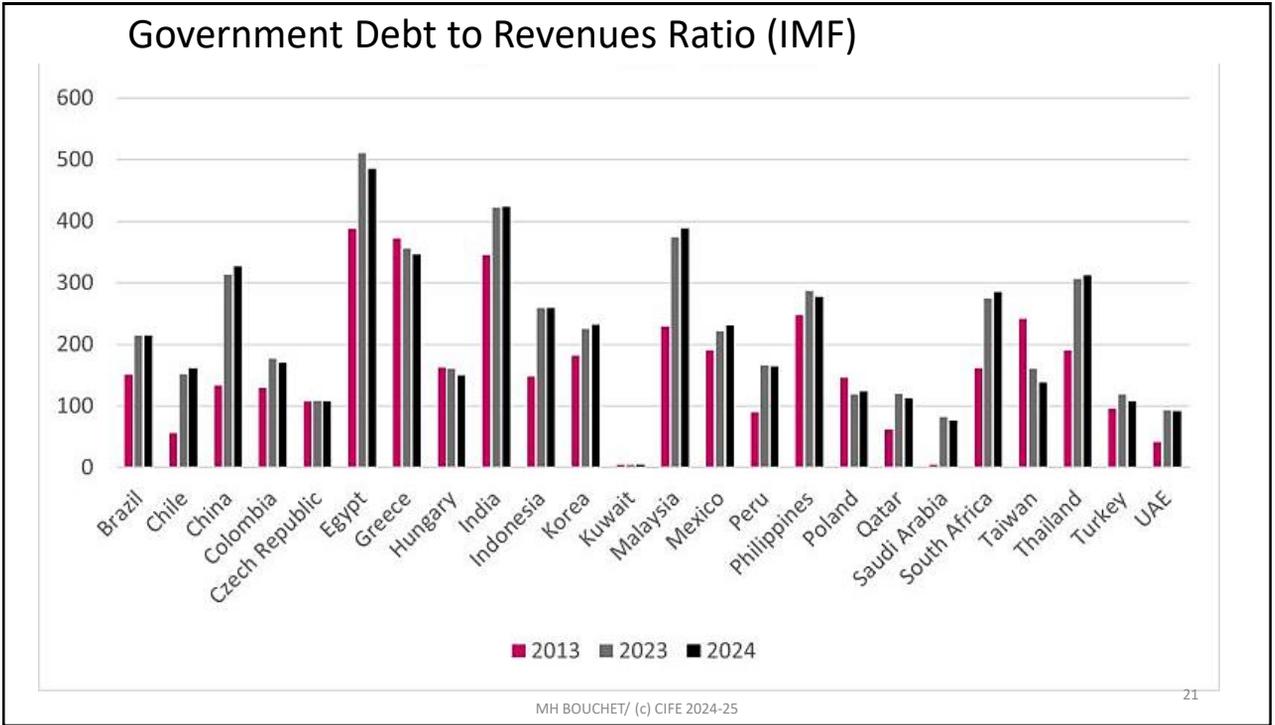


Source: IMF © FT

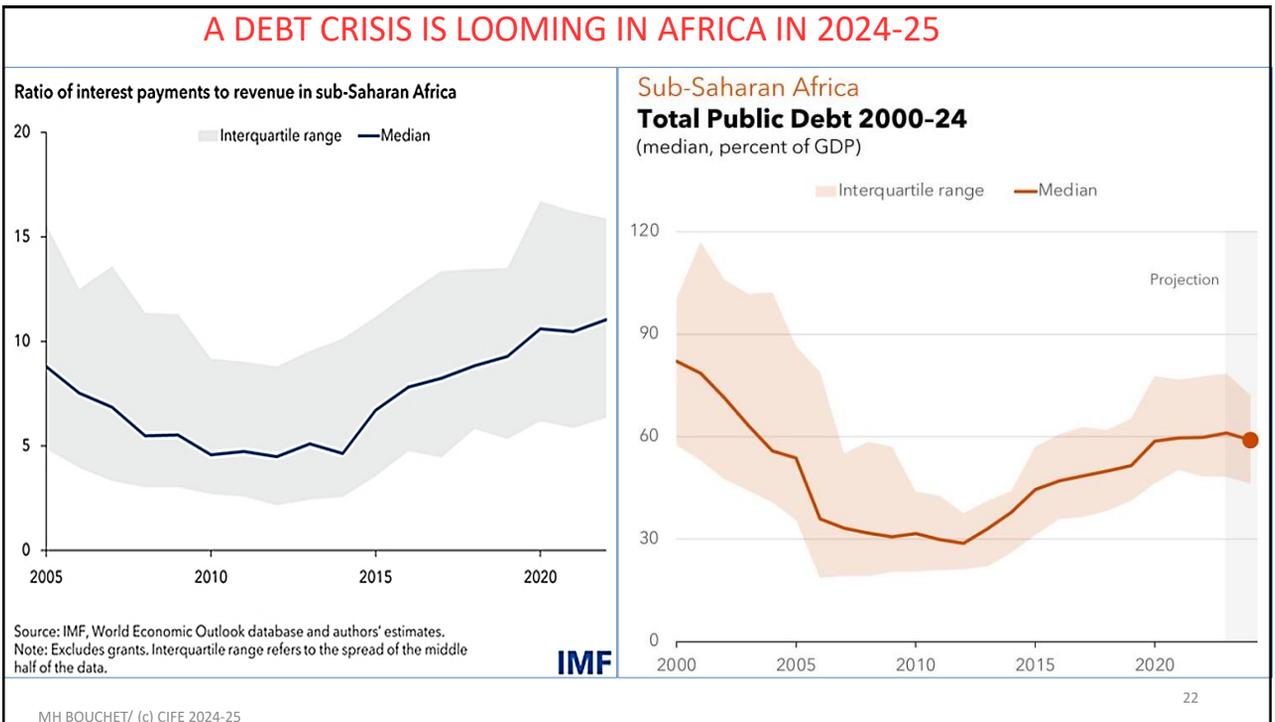
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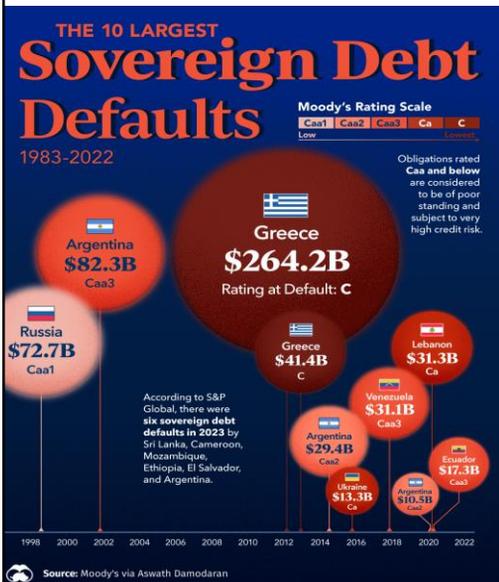


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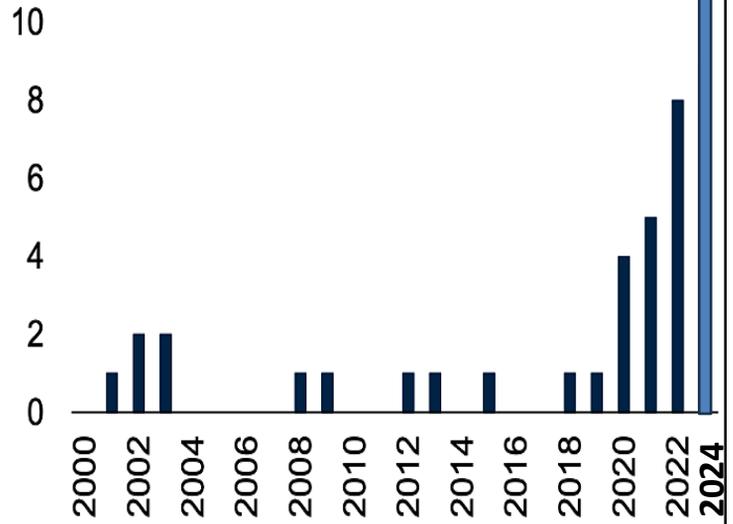


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## NUMBER OF LDCS IN DEBT DISTRESS HAS NEVER BEEN HIGHER: DEBT DEFAULT AHEAD!



Number of countries



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## NEED FOR GREATER GOVERNMENT SPENDING: DEFENSE + DEMOGRAPHICS + CLIMATE CHANGE

Russia's invasion of Ukraine and rising tensions between the west and China have prompted many governments to expand their military capability: Three days after the start of the Ukraine war, Olaf Scholz talked about Zeitenwende — a tectonic shift — pledging to meet the 2 per cent target by 2024. Japan is planning a 57 per cent increase in its defense budget.

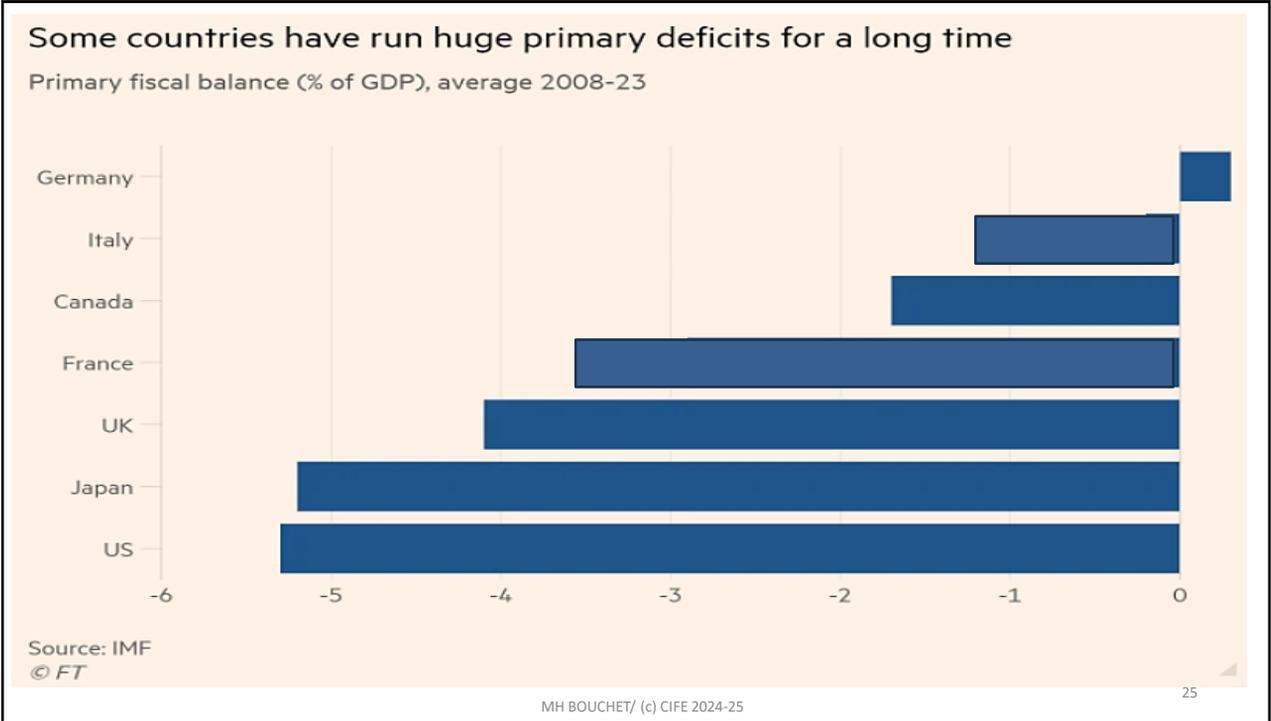
But spending on healthcare and pensions must continue to increase sharply. The old age dependency ratio (% of people > 65 compared with the number aged 20 to 64 ) is set to rise across the OECD, from 33 per cent in 2023 to 36 per cent in 2027 before rising to 52 per cent by 2050.

**Macroeconomic policy is to become more political!**

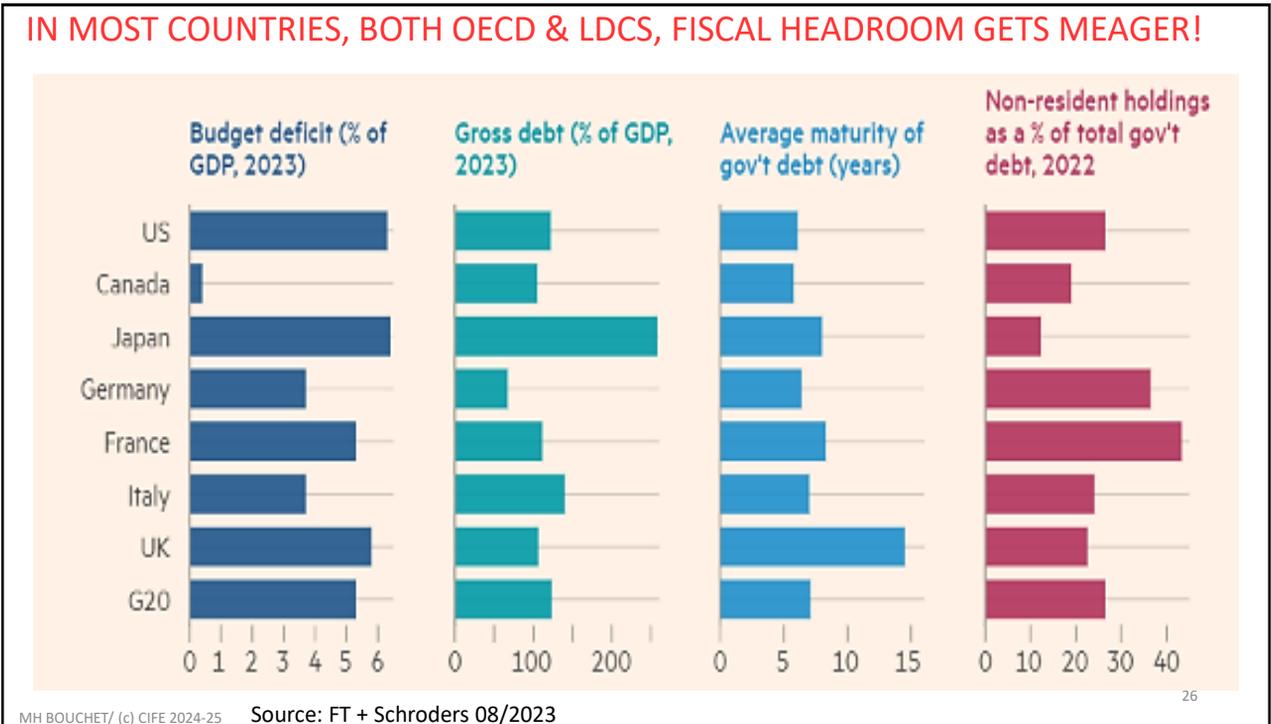
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## THE CONUNDRUM: HOW TO SPEND MORE?

AT A TIME OF MEDIOCRE ECONOMIC GROWTH AND TIGHTER FINANCIAL CONDITIONS?

### Limited number of policy options!

1. Cutting defense spending (unlikely!)
2. Cutting public services (politically risky!)
3. US plan to enlarge the World Bank's lending capacity for LDCs by \$25bn (>\$100bn if other nations make similar pledges)
4. G20 to provide "meaningful debt relief" for struggling economies
5. Governments to turn to more environmental taxes (carbon taxation for speeding up green transition)
6. Loose monetary policy to fund budget deficits?
7. Reverting to the trend seen before WWII and tax wealth & property (Piketty)

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« AFTER WWII, THE COLD WAR SIMPLIFIED THE GLOBAL SYSTEM. TODAY, AUTOCRATS ARE MORE SOPHISTICATED, ALLOWING PARLIAMENTARY ELECTIONS BUT UNDERMINING DEMOCRATIC INSTITUTIONS. THEY RELY ON MARKET-BASED ECONOMY WHILE FAVORING CRONY CAPITALISM, CORRUPTION, OPACITY, AND AUTOCRATIZATION. GOOD GOVERNANCE IS DECLINING! RISKS ARE EVERYWHERE! »

VACLAV HAVEL IN MEETING WITH OBAMA 2020

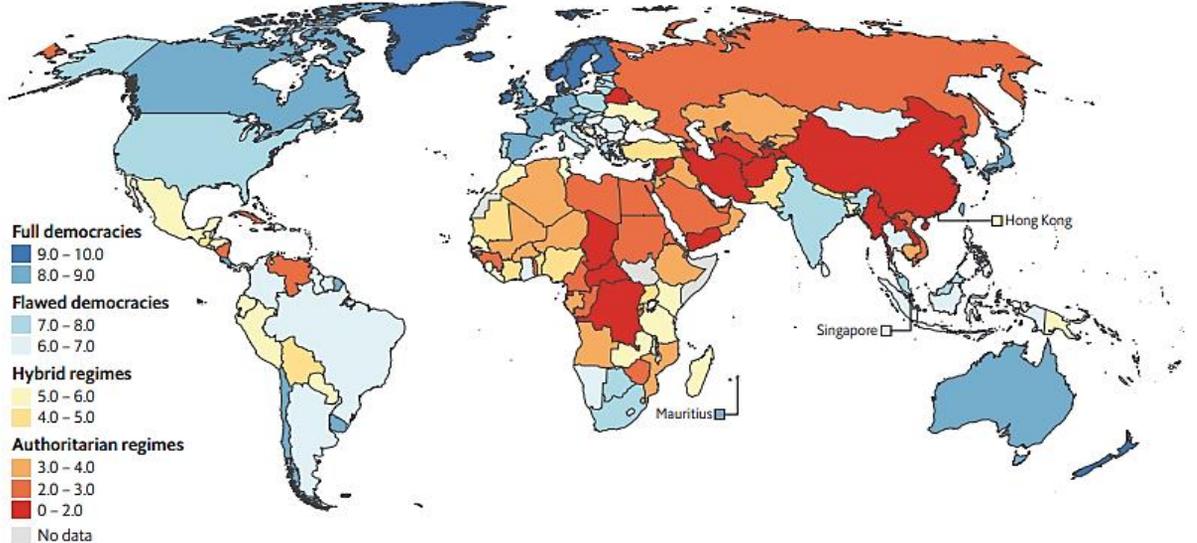


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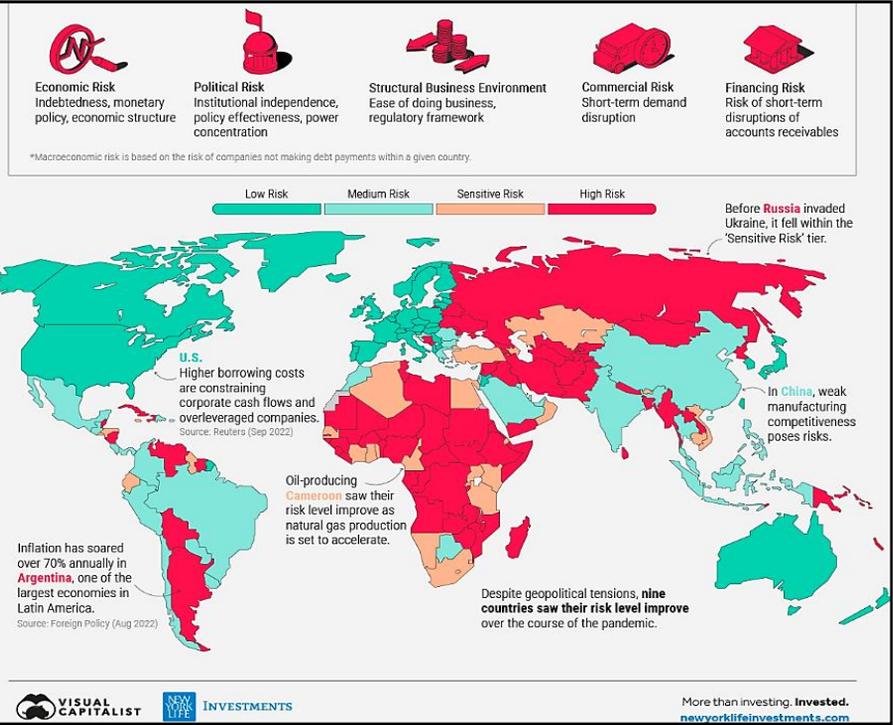
# DEMOCRACY KEEPS ERODING SINCE THE 1990'S

Democracy Index 2022, global map by regime type



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Country risk stems from a complex mix of institutional, socio-political, and economic inputs where **governance** plays a key role!



# Country Risk Map

IN 2023

Which countries have the highest investment risk amid a changing geopolitical landscape?

The country risk premium shows the extra risk in a given market.

A range of factors affect country risk, including:

- Political Risk:** Level of government stability and corruption
- Economic Structure:** Diversification of economy
- Legal Risk:** Enforcement of property and contract rights

Country	Premium (%)
Venezuela	24.8%
Poland	24.8%
China	24.8%
U.S.	0.0%
Canada	0.0%
Norway	0.0%
UK	0.0%
DE	0.0%
France	0.0%
Japan	1.1%
S. Korea	0.8%
Taiwan	0.9%
U.S.	0.0%
Canada	0.0%
Norway	0.0%
UK	0.9%
DE	0.0%
France	0.8%
Japan	1.1%
S. Korea	0.8%
Taiwan	0.9%
U.S.	0.0%
Canada	0.0%
Norway	0.0%
UK	0.9%
DE	0.0%
France	0.8%
Japan	1.1%
S. Korea	0.8%
Taiwan	0.9%

**Venezuela** has some of the highest risk globally due to a history of sovereign defaults.

**Singapore** is one of 13 countries with a Moody's AAA credit rating.

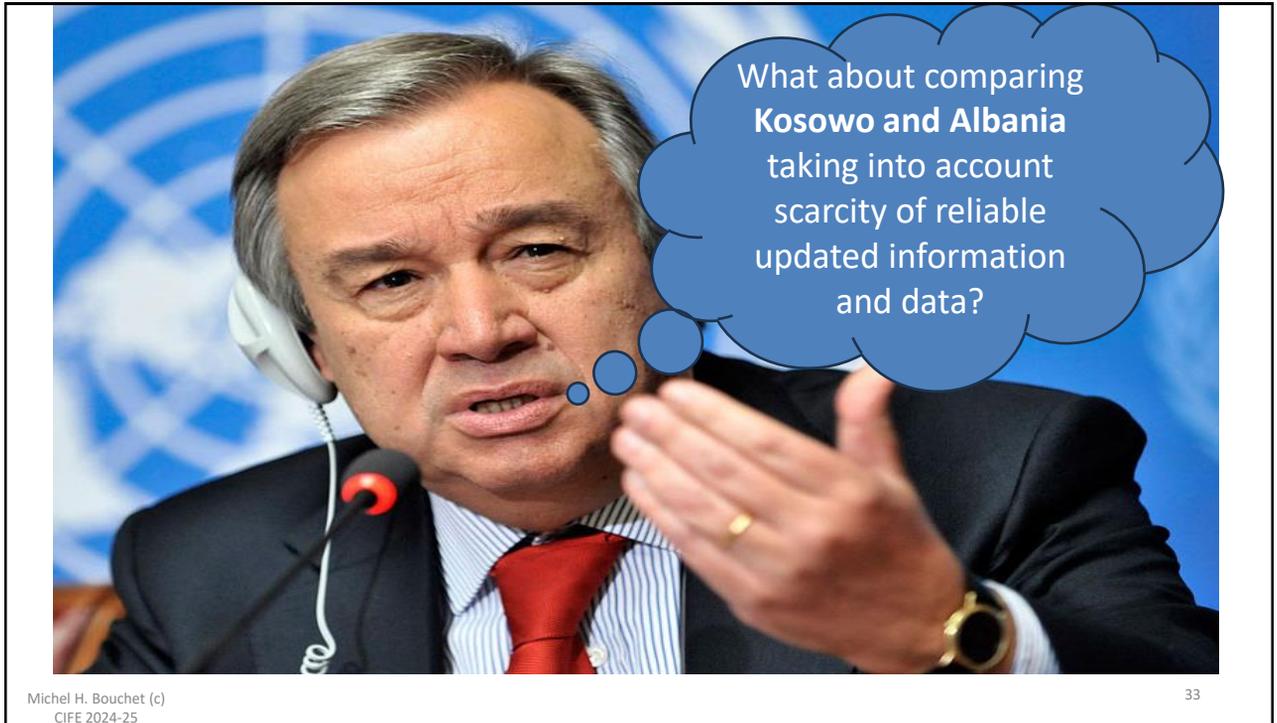
When investing in other countries, investors may realize higher returns but also be exposed to more risk.

Source: Damodaran, A. NYU Stern School of Business. Data as of July 2023.

Country Risk must be assessed, anticipated, and measured regarding its current and upcoming cost!

Hello GEGPA Students!  
Which developing countries are good examples of sustainable and inclusive development?

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## SUCCINCT CROSS-COUNTRY COMPARISON

 KOSOVO	 ALBANIA
Population: 1,8 million GDP=€10 b	Population: 2,7 million GDP: €23 b
GDP growth: 3,8% CAD -7,7%	GDP growth: 3,3% Unemployment: 11%
Large trade deficit -30% gdp R/M= 2,5 months	Public debt: 60% gdp CAD: -4,5%
IMF SBA (\$20 m) large <b>E&amp;Os</b>	Trade deficit: -10% gdp
Unemployment 15% Ext. debt: 40%gdp	External debt: 50% gdp R/M: 6 months
UNDP HDI= 0,7 GINI= 0,30	UNDP HDI= 0,78 GINI= 0,32
Corruption: 83/180 (between South Africa and Macedonia)	Corruption: <b>98</b> (same as Belarus and Argentina)

in June 1999 Kosovo under the rule of an interim international administration.  
New phase of reconstruction, recovery and development

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## WORLD BANK GLOBAL GOVERNANCE INDICATORS 2024



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