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Protracted Pandemic Crisis = Risk of Great Collapse for weak states?

An opportunity for reassessing EU's development aid to promote good governance

Summing up: Could the pandemic crisis be the outpost of an unprecedented structural shock on already weak countries? It 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 economies had pre-existing vulnerabilities, which are now intensifying, representing potential headwinds to any sustainable and inclusive recovery. The irony is that globalization, a sort of echo chamber, triggered a pernicious spillover effect. But in the meantime, the crisis makes that globalization is reaching its end. In a world of lower volumes of trade, capital and migration flows, and cultural integration, protectionism and nationalism can accelerate the process of state failure. Identifying which weak states are prone to fail might 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 crisis and the risk of crystallization

Cognitive biases prevent grasping the chain reaction between various interconnected systems, 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 crisis 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 inclusive recovery. The World Bank announced in the beginning of 2022 that various downside risks cloud the outlook for developing countries.[1] 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 per capita income trends is set to remain larger than for other countries"[2]. In the meantime, income inequality is rising as well as socio-political turmoil.

A brutal 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 2022, 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, Ivory Coast, and Bolivia?

The crisis took policymakers off-guard after a decade-long myopia of analysts, managers and governments who ignored repeated warnings. The pandemic does not belong to the black swan category, i.e., is a brutal shock whose timing is unpredictable (e.g., the twin towers in NY). It belongs to a second category of crises, brutal, unprecedented, but with probable occurrence. Today, the pandemic threatens to be the outpost of an unprecedented structural shock that will unfold for years. Globalization, a sort of echo chamber, leaves no place to hide. The global pandemic politicizes trade, supply chains, travel, and migration. Self-reliance becomes a strategic objective. Geopolitical instability worsens.

The COVID-19 crisis is a game changer.

Why is this crisis different? How can a globalized virus precipitate a systemic shock? One needs to redefine our understanding of the spill-over effect of an ex-

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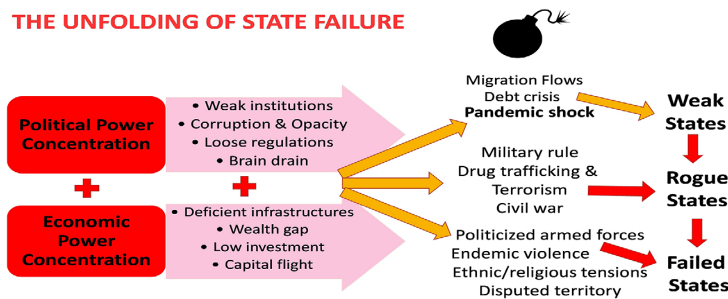
ternal shock on a weak institutional system, and its internal ramifications on socio-political stability. Defining what a failed state means helps pinpointing which of the weakest countries are prone to fail in the next few years. One thus needs definitions, thresholds and indicators, but we surely need 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 tends to destabilize 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, Zimbabwe, Congo, 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, and 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, Vietnam, 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 not be matched by flexible institutions capable of managing the stress of change. And depending on socio-political structures, turmoil leads to frustration, strikes, 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 social frustration and demands, hence rising tensions. Where institutions may not gather and channel the citizens' demands, the resulting deficit of social transmission belts leads people to go to the streets and violence emerges. 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 and Greece, as well as hunger protests in Chile…

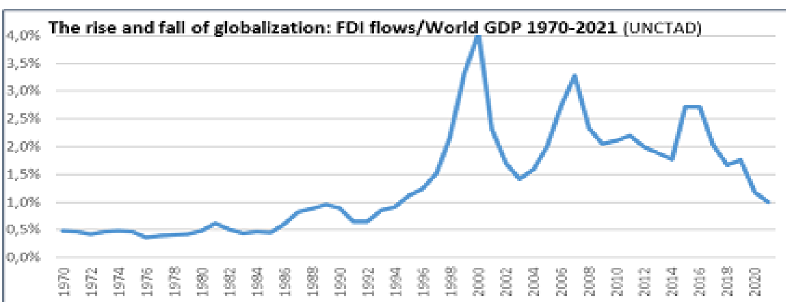
The following table attempts to summarize the salient features of the state failure process:

WEAK STATES	FAILED STATES	ROGUE STATES
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	closed economy/disputed borders
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
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 a sharp decline in trade, tourism, capital, and foreign investment flows. The pandemic shock emerged in a long-term trend of declining growth and large indebted-

ness, accompanied by weak investment. Since the late 1990s, headwinds stem from structural factors, including demography slowdown, technological innovations, larger savings in the OECD, and rising public and private debt. The pandemic accelerates that trend of sluggish growth, the so-called secular stagnation. Hyperfinance, i.e., globalized and unregulated financial networks, amplifies the risk of recession due to large volatility in capital flows and currency overvaluation. In addition, rising inflation increases the risk of stop & go policies, with negative consequences on development prospects. The pandemic crisis erupted in an environment of decreasing globalization that culminated between the aftermath of China's WTO membership and ahead of the financial crisis. An exceptional, but relatively anecdotal, period of 150 years of increasing volumes of goods, capital, and migration flows, as well as cultural integration on a global scale, is coming to end. The irony is that globalization, a sort of echo chamber, leaves no place to hide and triggered a pernicious spillover effect during the pandemic crisis, I.e., the so-called "butterfly defect" of globalization[3]. In the meantime, the crisis reintroduced territories and borders, as well as sharpening protectionism and nationalism. There are many converging signs of a collapse of international travel and tourism, but also of capital and trade flows. One clear 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 sign is a downturn in foreign direct investment flows that today are back to their 1989 level.

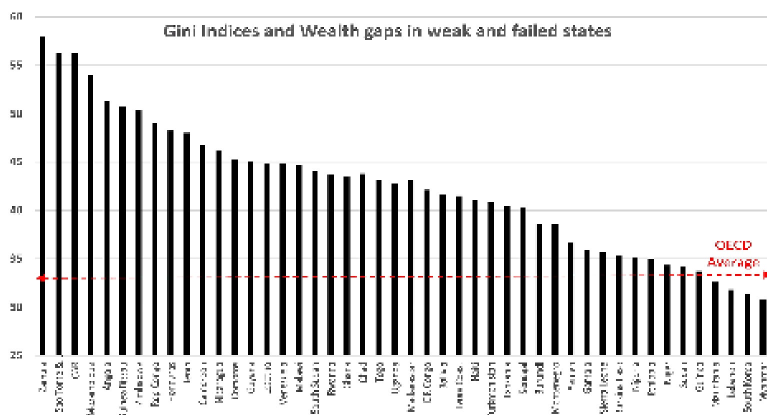


Most of the weak states suffer from a decline in foreign direct investment, including raw materials and hydrocarbon producers, due to risk aversion and unabated corruption. For those trade and foreign capital dependent countries, rising protectionism and commodity price volatility can accelerate the transition from weak to failed states. Weak states indeed boast large trade openness ratios, roughly 65% of GDP. In addition, their balance of payments deficits require ongoing capital inflows, to offset meager savings coupled with rising debt servicing costs.

b) The second driver is looming debt crises. Most developing countries have faced rising external debt since the global financial crisis. However, the situation is more severe for the 45 sub-Saharan African countries. 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 dropping 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. High debt levels constrain, in most cases, the ability of governments to support the recovery and the capacity of the private sector to invest in the medium term"[4]. Weak countries have benefited from central banks' quantitative easing following the global financial crisis of 2007–08, and again in response to the COVID-19 pandemic. They have launched massive hard-currency bond issues that they need to amortize in 2022-25 at a time of depreciating local currencies and heavier debt service. A number of weak countries will sink into sovereign bankruptcy due to a combination of risk aversion in capital markets, higher rate of interests, and volatile export receipts. Venezuela, Puerto Rico, Argentina, Ecuador, Lebanon, Belize, Suriname, and Zambia are already in default.

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 people 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. One way to measure income equality is the GINI index, the higher the worse. Weak and failed countries, and obviously rogue states, have all very high GINI indices in the range of 35 (Lebanon, Bolivia, Congo, Mada-

gascar) up to 50 (Zimbabwe, Angola, Mozambique) and even close to 60 (Zambia, Sao Tome, and CAR).

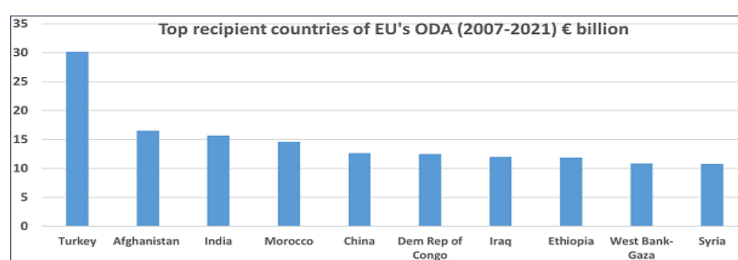


d) **And the fourth driver of state collapse is endemic corruption.** Though dynamic economic growth and bad governance can be combined, corruption prevents transforming economic growth into sustainable and inclusive development. Prerequisites include sanitary systems, environmental responsibility, education, social peace, and unabated fight against corruption. The vast majority of weak countries, and obviously all failed countries, are below the median score of the corruption index of Transparency International. The covid-19 has exposed deeply-rooted deficit of governance in Africa and Central America. That deficit is striking in oil-driven countries. One can observe a correlation between large 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 unabated despite decades of official development aid (ODA) programs. In 2022 and beyond, a number of already weak countries will fall in deep economic and social distress. In the frontline, those which suffer from a massive 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 coupled with state bankruptcy will lead to destabilization. The most visible impact of the pandemic will be a number of debt crises in fragile countries due to a toxic combination of limited fiscal space, depreciating currencies, and large deficits. The IMF's involvement will be indispensable to help restructure public debts with the Paris Club. The IMF has already committed nearly $100 billion, but eventually, the IMF will tighten the lending conditions, hence mounting social tensions.

However, the key question is the inefficiency of official development aid coupled with debt relief to pull countries out of poverty when bad governance is endemic. That raises the issue of EU's ODA disbursements and debt reduction support for weak and failed states. In response to the unprecedented challenges posed by the pandemic and at the urging of the IFIs, in April 2020, the G20 launched the Debt Service Suspension Initiative (DSSI) to provide liquidity support for low-income countries. Meanwhile, developed counties boosted their ODA programs toward low-income countries. In 2020, ODA rose to $158 billion thanks to donor countries' efforts to combat the impact of the pandemic, including $39 billion of net bilateral ODA flows to Africa[5]. The EU and its 27 Member States provided €67 billion in ODA in 2020, which target 17 sustainable development goals, ranging from water and education, to clean energy and strong institutions, with the altruistic objective of strengthening weak states[6]. The following table casts light on EU's ODA recipient countries[7]. These countries are typically among those that combine poverty, large wealth gaps, weak institutions, authoritarian regimes, and bad governance.



Conclusion

Toward an EU's international guardianship? After WWII, 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.

Far from any post-colonization subordination, guardianship would entail close concertation 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. 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.

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7 *https://euaidexplorer.ec.europa.eu/index_en (largest recipients also include Nigeria and Pakistan)*

Please find on the following page a graph comparing weak states, fragile states and rogue states CPI, source Michel-Henry Bouchet.

			1	2	3	4	5	6	7	8	9	10	11	12
			TI	TI	Global Risk Prof.	UN	UNDP	EIU	Fund for Peace	VDEM Institute	Freedom House	Heritage Found	Internal Violence	US SD WMEAT
			CPI	Bribery rate	Corruption	Life expectancy	HDI	Democracy	Fragile state	Liberal Demo	Polit. Freedom	Econ. Freedom	Homicide rate	Military budget
			Ranking/189	Rate%	Ranking/196	Years	Ranking/189	Ranking/167	Ranking/179	Ranking/179	Index/100	Ranking/184	rate/100,000	% annual budget
	1	Ghana	73	24%	77	70	138	59	67	48	82	101	11	0,3%
	2	Guyana	87	27%	121	68	123	75	74	84	73	116	36	1,2%
	3	Turkmenistan	169	30%	175	70	111	162	83	175	2	167	4,3	1,8%
	4	São Tomé	64	15%	132	70	135	90	96	50	84	129	8	0,3%
	5	Benin	78	23%	150	62	158	102	102	103	65	100	16,5	0,5%
	6	Senegal	73	13%	117	68	168	86	104	51	71	111	4	1,5%
WEAK	7	Bolivia	124	36%	144	70	107	94	107	121	66	172	20	1,4%
STATES	8	Nicaragua	159	20%	155	70	128	120	115	168	30	125	26	0,7%
high corruption	9	Tanzania	96	15%	129	65	163	93	118	99	34	93	7	1,0%
low HDI	10	Honduras	157	28%	126	63	132	88	120	122	44	98	100	1,6%
ntralized authority	11	Guatemala	149	25%	95	74	127	97	121	83	52	75	91	0,5%
low econ freedom	12	Madagascar	147	21%	163	67	164	85	122	112	60	112	22,4	0,6%
large wealth gaps	13	Gambia	96	18%	104	62	172	103	124	105	46	104	20	0,8%
	14	Cambodia	157	37%	173	70	154	130	126	167	24	118	12	1,7%
	15	Comoros	164	15%	178	64	156	132	132	134	16	132	20	0,5%
	16	Malawi	110	25%	107	64	174	82	134	72	66	145	5	0,7%
	17	Sierra Leone	115	48%	166	55	182	99	135	77	65	150	4	0,3%
	18	Zambia	117	16%	127	64	146	99	138	111	52	159	22	1,2%
	19	Rwanda	52	13%	69	67	160	130	139	150	21	47	48	1,4%
	20	Togo	128	24%	157	61	167	141	142	128	43	113	21	1,7%
	21	Burkina Faso	78	13%	138	62	182	116	144	57	23	124	16	1,0%
	22	Angola	136	35%	156	61	148	117	146	126	31	140	20	1,6%
	23	Equat. Guinea	172	25%	186	63	145	160	136	169	5	163	40,4	1,1%
	24	Lebanon	149	54%	162	68	92	108	145	106	43	154	5,5	4,6%
	25	Mauritania	134	35%	171	65	157	112	147	131	35	128	9	2,5%
FAILED	26	Liberia	136	47%	167	64	175	140	149	67	60	164	6,5	1,3%
STATES	27	Pakistan	140	34%	147	70	154	105	151	116	37	165	15	3,8%
Ongoing turmoil	28	Côte d'Ivoire	105	24%	146	57	162	109	152	101	44	91	28	1,5%
internal violence	29	Guinea-Bissau	162	30%	181	58	175	147	153	93	44	139	17	2,2%
thoritarian regime	30	Rep. Congo	162	30%	174	55	149	129	154	148	20	156	26	3,4%
civil war	31	Venezuela	177	50%	188	71	113	143	155	164	14	177	100	2,0%
rowing wealth gaps	32	Uganda	144	43%	159	63	159	98	156	123	34	106	20	2,6%
	33	Myanmar	140	20%	161	67	147	135	157	110	28	173	31	5,4%
	34	Mozambique	147	35%	165	61	181	122	158	114	43	153	25	1,1%
	35	Cameroon	149	48%	177	59	153	142	165	145	16	163	15	1,5%
	36	Guinea	150	36%	169	62	178	133	166	142	38	123	18	2,5%
	37	Haiti	164	25%	184	64	170	106	167	120	37	155	20	0,2%
	38	Zimbabwe	157	22%	143	61	150	127	170	130	28	174	21	2,6%
	39	Chad	164	30%	182	53	187	163	173	157	17	158	14	3,1%
	40	North Korea	174	.-.	196	72	185	167	150	178	3	178	9	23,0%
	41	Niger	124	23%	160	62	189	125	159	86	48	117	8	2,5%
ROGUE	42	Mali	136	16%	168	59	184	111	161	100	33	133	15	3,3%
STATES	43	Erithrea	160	30%	187	66	180	153	162	179	2	173	14	5,1%
Military regimes	44	Libya	172	62%	194	71	105	157	163	138	9	171	20	6,8%
repression	45	Burundi	169	30%	189	62	185	154	164	170	14	161	16	2,3%
Terrorism & drugs	46	Nigeria	154	34%	154	54	161	110	168	91	45	105	42	0,6%
external disruptor	47	Ethiopia	87	44%	128	66	173	123	169	136	22	176	15	1,0%
very low HDI	48	Afghanistan	174	46%	185	65	169	139	171	129	27	178	12	1,4%
Civil war	49	Sudan	164	24%	164	65	170	165	172	161	17	175	23	3,5%
coups d'état	50	CAR	154	35%	183	54	188	165	174	125	9	166	24	1,9%
	51	Dem. Congo	169	71%	192	61	175	166	175	137	20	165	15	1,0%
	52	South Sudan	180	39%	191	58	185	165	176	167	2	174	29	3,7%
	53	Syria	178	50%	195	72	151	164	177	176	1	183	20	6,8%
	54	Somalia	178	60%	190	57	185	165	178	155	7	182	20	1,3%
	55	Yemen	174	74%	193	65	179	157	179	177	11	184	12	4,0%

SOURCES:

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