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Geo-economics: a tectonic shift

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Semestrial Panoramas are special issues of the **MacroDev** series written by analysts from the Agence Française de Développement (AFD, French Development Agency). They present a synthesis of macroeconomic and socioeconomic analyses of emerging and developing countries (EDCs). A thematic section accompanies the country focus and sheds light on the economic and structural issues of developing countries.

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Editorial

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> "Uncertainty is still hope"
> Alexandre Dumas, *The Count of Monte Cristo* (1844)

In 2014, in his book entitled "World Order: Reflections on the Character of Nations and the Course of History", Henry Kissinger wrote: "Every international order must sooner or later face the impact of two tendencies challenging its cohesion: either a redefinition of legitimacy or a significant shift in the balance of power. […] the result is not simply a multipolarity of power but a world of increasingly contradictory realities."

As we move into 2025, the legitimacy of the world order inherited from the fall of the Iron Curtain is confronted more than ever with the "ambivalent superpower" of the United States, already described by H. Kissinger in his book, but also with accusations of "double standards" between the North and South. This concerns both respect for human rights and freedoms and the consideration of CO_2 emissions. In terms of the distribution of power, over the same period between 1990 and 2023, the weight of the United States in world GDP stagnated, even falling slightly from 27% to 26%, while the weight of China grew about tenfold, from 1.7% to 16.9%. Combined with the increasing weight of middle powers, such as the BRICS, we can clearly see that the geopolitical equation has changed dramatically, but we may not have been aware of the impact that this would have on "geo-economic" dynamics.

The election of Donald Trump for a second term, the reconfiguration of the balance of power in the Middle East at an unprecedented pace, from the Palestinian Territories to Syria, China's increasingly apparent power in the China Sea and around Taiwan, and the almost unheeded internationalization of the Russia-Ukraine conflict (in particular through the sending of North Korean and Yemeni troops and the authorization of more varied weapons by NATO countries) are all changes resulting in new power relations and, evidently, new risks and changes for the economy and world trade.

This new situation raises a number of questions for those interested in emerging and developing economies: How to take geopolitical factors into account in economic models? What resilience mechanisms can cushion the geopolitical shocks? And, especially, how to promote a bilateral and multilateral dialogue able to mitigate the risks of fragmentation?

Once again, this MacroDev Semestrial Panorama does not claim to answer all these questions, but seeks to provide insight, so that the uncertainty we are experiencing does not prevent us from considering more peaceful futures.

International economy

Has growth stabilized, really?

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Despite the extremely uncertain geopolitical environment, the focus of this issue, global economic growth could, according to the IMF's latest projections and analyst consensus, remain at around 3.2% for the entire 2023-2025 period.

The distribution between advanced economies and emerging and developing countries (EDCs) is also expected to remain stable over the same three years, at around 1.8% (for both 2024 and the 2025 projection), and at 4.2% for the latter (again for both years).

This stability should not obscure two risk factors: the vulnerability to external shocks which are always possible (conflicts, protectionist measures or inappropriate policy mixes, climate hazards), and the structural trend towards slower growth (see our last issue).

In 2024, the United States and the euro area continued on their respective growth paths, at levels that remain significantly different: growth estimated at 2.8% for the United States, against 0.8% for the euro area, contributing to maintaining the prevailing gap. EDCs would appear to be experiencing a slowdown, with average growth of 4.2%.

While growth has slowed further in Asia, it remains the engine of the group at 5.3% (5.7% in 2023). In particular, China is expected to end up below the 5% mark (4.8% in 2024, against 5.3% in 2023). India, with in all likelihood a rate of 7.0% in 2024, will exceed a decade with average growth

Table 1 - Global growth projections

IMF projections, real GDP growth as a %
WEO Oct. 2024 (vs. April 2024)

	2023	2024 (April 2024)	**2024 (Oct. 2024)**	2025 (April 2024)	**2025 (Oct. 2024)**
World	3.3	3.2	**3.2**	3.2	**3.2**
Advanced economies	1.7	1.7	**1.8**	1.8	**1.8**
United States	2.9	2.7	**2.8**	1.9	**2.2**
Euro area	0.4	0.8	**0.8**	1.5	**1.2**
Emerging and developing countries (EDCs)	4.4	4.2	**4.2**	4.2	**4.2**
EDCs Asia	5.7	5.2	**5.3**	4.9	**5.0**
China	5.3	4.6	**4.8**	4.1	**4.5**
India	8.2	6.8	**7.0**	6.5	**6.5**
EDCs Latin America	2.2	2.0	**2.1**	2.5	**2.5**
Brazil	2.9	2.2	**3.0**	2.1	**2.2**
Mexico	3.2	2.4	**1.5**	1.4	**1.3**
Colombia	0.6	1.1	**1.6**	2.5	**2.5**
Middle East, Africa, Central Asia	2.1	2.8	**2.4**	4.2	**3.9**
Turkey	5.1	3.1	**3.0**	3.2	**2.7**
Morocco	3.4	3.1	**2.8**	3.3	**3.6**
Egypt	3.8	3.0	**2.7**	4.4	**4.1**
Sub-Saharan Africa	3.6	3.8	**3.6**	4.0	**4.2**
Nigeria	2.9	3.3	**2.9**	3.0	**3.2**
South Africa	0.7	0.9	**1.1**	1.2	**1.5**
Kenya	5.6	5.0	**5.0**	5.3	**5.0**

Source: IMF

above 7% (excluding 2020). Sub-Saharan Africa, supported by a (very gradually) recovering South African economy is expected to have remained at 3.6% for the second consecutive year in 2024. Latin America is also expected to have maintained a relatively stable continental average, as a result of strong Brazilian performance (3.0%) and the incipient recovery in Colombia (1.6%, against 0.6% in 2023). But it is Mexico, whose growth has more than halved at 1.5%, which penalized the region in 2024. Argentina's recession seems confirmed, but should come to an end in 2024 (-3.5%). The Middle East, North Africa and Central Asia area is one of the few to have experienced slight growth (2.4%, against 2.1%), mainly driven by the partial and fragile recovery in Pakistan (2.4% following a year of recession) and certain oil economies. However, the area remains very fragile: both Turkey (3%) and Egypt (2.7%) are experiencing a slowdown. Tunisia is expected to have recorded a positive growth rate once again, albeit low (1.6%), following a standstill in 2023, while Lebanon has plunged into crisis (no data for 2024).

In 2025, it is in EDCs that paths are expected to differ, despite a continued average trend (4.2%): Asia, which is highly dependent on China (4.1%) and India (6.5%), is tending towards a slight slowdown, while remaining the most dynamic region, with a level of growth anticipated at 5.0%, still above all the other areas. Latin America is expected to record half as much growth (at around 2.5%), but thus with quite positive dynamics, if Brazil stabilizes at around 2.2% as anticipated and Colombia continues to recover (2.5%). However, there are contrasted situations on the continent, and it is particularly exposed to the risks arising from the future U.S. presidency. In the absence of positive domestic dynamics triggered by the new presidency, Mexico is expected to experience a further slowdown at 1.3%. Africa could be close behind Asia and experience positive growth dynamics in 2025 at 4.2% in 2025, especially if South Africa continues to recover (1.5% anticipated). If there are no major shocks, Nigeria and Kenya should maintain their current growth rates, at around 3% and 5%, respectively. Depending on the outcome of the transition in Syria and the clashes between Israel and its neighbors, the Middle East, Central Asia and North Africa area could see a significant rebound in its growth at 3.9%, driven in particular by Egypt (4.1%), Iraq (4.1%), and the continued gradual recovery in Pakistan (3.2%).

Since our last issue, disinflation has broadly continued, triggering a cycle of key interest rate cuts, in the euro area in 2024, then in the United States in September, both with the same cumulative decline of 100 basis points in 2024. The trajectories in 2025 may differ, with a greater reduction in the euro area than in the United States, depending on the effects of the policies implemented by Donald Trump with regard to the fiscal deficit, tariffs, and immigration. Indeed, they may prove to be inflationary, requiring the Fed to slow its rate-cutting cycle, as implied by the last Fed Committee in mid-December.

This could lead to central banks in emerging economies taking positions to protect themselves against dollar flows drying up, in particular in Latin America (Brazil, Colombia, Mexico) and Asia (Cambodia, Philippines, Vietnam), irrespective of the assessments of local inflation. In any event, the combined recent key interest rate cuts and increase in certain risk premiums have so far led to a slight reduction in both sovereign and private real financing costs since mid-2023, in both advanced economies and EDCs. These real rates are not conducive to growth and may ultimately remain relatively high. They reflect the level of uncertainty and increase vulnerabilities to shocks.

Indeed, the sources of financial volatility remain: the share of the outstanding loans of non-bank financial institutions (less regulated) which account for about 47% of global financial assets, the reduced balance sheets of central banks, and a level of asset valuation that may generate sharp adjustments, as was the case with the mini crash on the Japanese stock market on 12 August 2024 (-12% in one day for the Nikkei index).

The Chinese economy is slowing very gradually, following a marked recovery in 2023 at 5.2%. The expected sequence is thus now 4.8% in 2024, then 4.5% in 2025. In the last four months of 2024, the authorities gradually and increasingly mobilized the budgetary and monetary levers in an effort to offset the following headwinds: i) cyclical – mainly the excessive debt of local authorities and the real estate crisis, ii) structural – population decline since 2022, along with its aging and the slowdown in labor productivity gains, combined with the decline in capital productivity, and iii) exogenous factors, such as geo-economic rivalries and climate events.

However, at the present time, the measures have not generated any significant rebound, due to the lack of more structural reforms that would enable a deeper transformation of the growth model based on services and consumption. While the retirement age has been raised, strengthening social protection (and, undoubtedly, raising taxes) would appear to be a step that the authorities do not yet wish to take. The control over freedoms and information (including financial) also undermines economic initiative. But the economy remains robust and highly competitive in certain key sectors, and the centralization of decision-making has, for example, enabled a rapid redirection of credit from real estate to industry.

In this context, the return of Donald Trump will pose a new challenge for the Chinese economy. Indeed, in four years, the Chinese economic model has become even more dependent on foreign trade, which serves as a buffer for the weak domestic market and an outlet for production overcapacity.

In conclusion, the overview of the main macroeconomic risks, which are generally on the downside for 2025, can be summarized as follows: while they remain largely the same as at the end of 2023, their relative weight has indeed changed. The U.S. and European monetary policies are on the way to winning the battle against inflation, which paves the way for a neutral policy by mid-2025 in Europe and mid- 2026 in the United States. However, the measures taken by the new U.S. President, coupled with the inflation inertia already apparent in certain components of inflation, could change the outcome of the central scenario. Renewed inflation in the United States could mean a slowdown or pause in monetary easing, which would have an impact on the financing conditions for EDCs, even if they are immune to inflation at the local level. It should in particular be noted that the IMF's central scenario for the U.S. deficit is for approximately 6% in 2029 (prior to the election of Trump), with a public debt at 131.7% of GDP. It cannot be ruled out that this path (or if it deteriorates) may have consequences on the financing rates for EDCs.

Financial markets remain the second source of risks, both through the spikes in volatility, as was the case last August, and the lack of regulation in certain segments. Overall, financial assets are currently valued at historically high levels, which do not appear to reflect the present economic and geopolitical uncertainties.

Sovereign debt also remains a key issue, albeit less systemic, and will be particularly critical for certain regions (notably Africa).

The conflicts (Ukraine, Middle East) obviously remain risk factors, although they are difficult to quantify, even if 2025 could also be the year heralding the start of an exit from the crisis in either or both cases. Tensions around Taiwan cannot be ruled out.

The Chinese real estate crisis is leading to a deeper questioning of the growth model, and continues to create great uncertainty over a number of emerging economies that are integrated in Chinese value chains or export raw materials to China, a market maker for agricultural products, minerals, and even hydrocarbons.

These risk factors also come with a final risk which is clearly apparent, but the scale of which remains uncertain: the acceleration and intensification of climatic disasters.

The end of 2024 finally and especially brought the geopolitical dimension to the forefront: from the election of Donald Trump to the fall of Bashar al-Assad, geopolitics are at work superficially and deep down, over both the short and long term.

Geo-economics

A major shift in a world of deals

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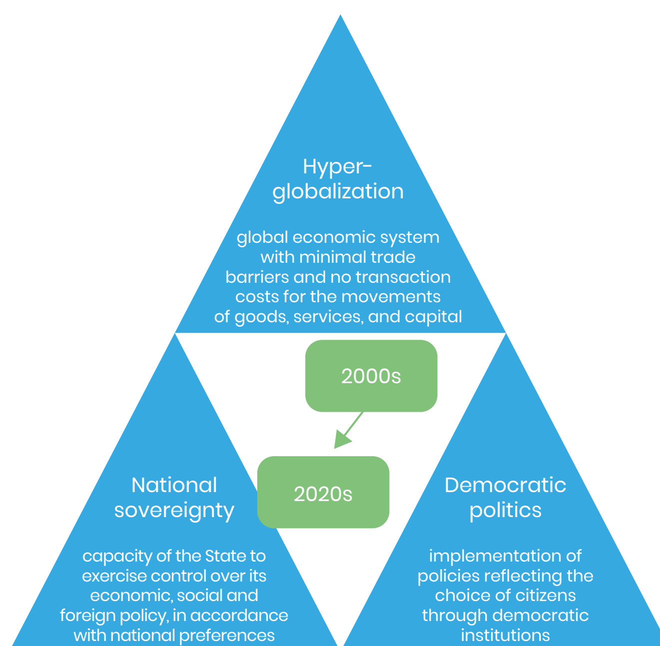
Now, more than ever, geo-economics[1] and transactionalism[2] guide international relations and national strategies in the area of foreign policy. This trend has been ongoing since the first term of office of Donald Trump, undermining certain traditional alliances. It has continued since the Covid-19 pandemic, the Russia-Ukraine conflict, and the conflict in the Middle East. This succession of shocks has compounded geopolitical fault lines. The latter had begun to emerge over the last two decades with the rise of China and other emerging countries, and the neo-warmongering by Russia, officially in response to growing pressure from NATO, as well as the European aspirations of Ukraine, Moldova and Georgia.

China's accession to the World Trade Organization (WTO) in 2001 accelerated economic globalization, without resulting in the emergence of a unified world based on universal values. The capitalism of the Chinese State appears as both pragmatic and immutable in the face of the market economy advocated by liberal democracies undermined by deindustrialization, downward social mobility and rampant populism. Faced with the major global challenges of climate change, pandemics and migration, multilateralism is faltering.

The fragmentation of the world appears to be at work, and transatlantic unity would even appear to be faltering, in particular with the Indo Pacific repositioning carried out since the Obama administration. For example, the WTO was weakened when the United States largely incapacitated its Dispute Settlement Body (DSB) on trade issues.[3] Furthermore, the extraterritoriality of American law, from which European companies have not been spared, and the omnipotence of the dollar, upon which it relies, are increasingly challenged by a number of countries, beyond the BRICS+. The international sanctions against Russia, which have not only been taken by the United States, are also challenged and circumvented by certain powers such as China, India, Turkey and Central Asian countries. This concerns both hydrocarbons and dual-use goods (for example, electrical household appliances misused for military purposes). While China is currently rethinking its influence strategy, it has deployed its soft power, in particular since 2013 with the Belt & Road Initiative. It has thus become a major bilateral donor in a number of Asian, African and Latin American countries. India, Turkey and the Gulf countries have also sought to extend their influence, in particular in Africa, where Russia has also increased its presence (Central African Republic, Sahel countries).

Graph 1 – The Rodrik trilemma as a framework to interpret the shift in the world



Source: Dani Rodrik[4], AFD.

[1] According to Edward Luttwak, "From Geopolitics to Geo-Economics" (1990), in the post-Cold War context, geo-economics combines an economic dimension through the use of economic tools (trade, investment, sanctions) to achieve political objectives with a geopolitical dimension and logic in order to serve interests of power and influence at international level.

[2] According to the article in the Washington Post "Sen. James Risch is set to be the referee between Trump and the GOP" (17 January 2019), transactionalism, applied as a principle for foreign policy by the Trump I administration, is "not isolationism or withdrawal from world affairs but an effort to shift the basis of U.S. engagement and to define a series of quid pro quos for U.S. involvement."

[3] The U.S. administration blocked, sometimes temporarily, the renewal of three judges between 2011 and 2016. This de facto prevented the DSB from functioning properly in the following years.

[4] Dani Rodrik, The Globalization Paradox: Democracy and the Future of the World Economy, 2011.

The course of the world economy remains dominated by the increasingly antagonistic relationship between the two hegemonic powers. The United States and China have a complex relationship of "coopetition", combining cooperation and confrontation. Their line of cooperation and communication is maintained, in particular in view of their economic interdependence (11% of Chinese exports go to the United States) and financial interdependence (more than $800 billion of U.S. Treasury bonds held by China). For the moment, the confrontation remains at the economic level, and especially crystallizes around issues regarding technology (including a ban on U.S. companies on investing in information technology and artificial intelligence in China) and the energy transition (see box on critical minerals). In the meantime, the European Union is still working on coordinating an industrial, technological and green policy, despite its clear leadership in terms of green taxonomy and energy transition policy, illustrated by the establishment of the Carbon Border Adjustment Mechanism (CBAM). In its search for an alternative source to Russian gas, the EU is increasingly dependent on the United States (in particular for liquefied natural gas). Similarly, at a time when the U.S. military umbrella is no longer an "all-risk insurance", the common defense policy remains a challenge for the 27 EU Member States.

According to Grataloup (2023),[5] "the countries best positioned to avoid global constraints are today the United States and China". They are also the most likely to impose their choices and constraints on other societies. While certain major emerging economies appear to be less exposed (lesser degree of trade openness and financial dependence) and vulnerable (better macro-financial stability) than developing countries to geopolitical developments (see Graph 2), there could be major negatives impacts for others, such as Mexico and Vietnam. As "second-rank" powers, the EU and emerging countries continue to have a voice in the geo-economic reconfiguration. In any case, emerging and developing countries (EDCs) pay extremely close attention to developments in the confrontation between the United States and China. This is also the case for the EU, which champions a free competition which is increasingly distorted by the temptation of protectionism.

Graph 2 – Trade openness and international "financial dependence"[6]

Gross external liabilities vis-à-vis non-residents (% of GDP)

Trade openness rate (% of GDP)

Source: IMF (BOPS), World Bank (WDI), AFD calculations.
ISO code correspondence list in appendix.

[5] C. Grataloup, *Géohistoire de la mondialisation : le temps long du monde*, Armand Colin, 3rd edition, August 2023.

[6] Financial dependence is approximated by the gross debt position compared to the rest of the world, meaning all external commitments (FDI, portfolio investments and all other debt-creating financing).

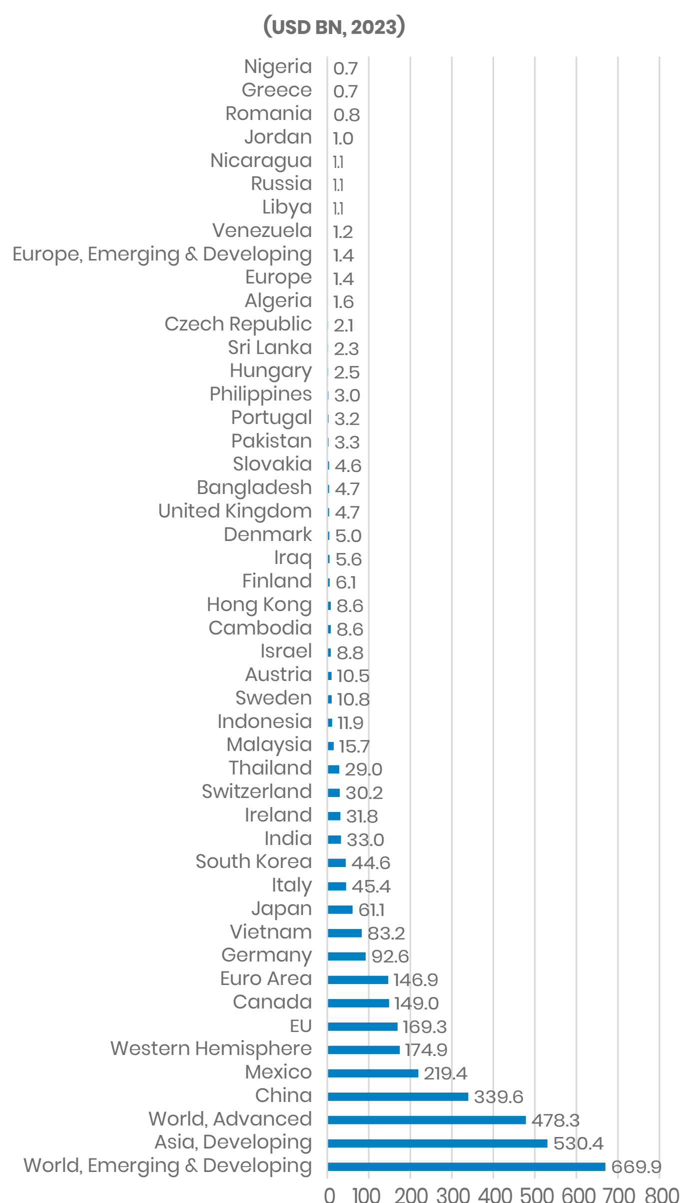
Threat of a large-scale "trade war"

Initiated in 2018 by the Trump administration, not called into question by the Biden administration,[7] and now extended to Europe, Canada and certain emerging countries, the "trade war" towards China is likely to escalate under Trump II. These threats also directly affect the United States's key partners, namely Canada, Mexico and the EU,[8] and therefore indirectly all EDCs. The extent of the tightening of protectionist measures (increase in tariffs, ban on imports or exports of certain intermediate or final goods) and the retaliatory measures to be expected from China, or other U.S. partners, remains one of the great unknowns for 2025.

The "disruptive" announcements made by Donald Trump in the context of his re-election[9] fit in with his policy to support national industry and employment, rebalance the bilateral trade deficit (see Graph 3), and reduce national taxation which would, theoretically and a priori only partially, offset the increase in tariffs.

In China, the strategy for domestic self-sufficiency results in protectionist measures in certain sectors where there are not yet any significant comparative advantages (pharmaceuticals, cosmetics, semi-conductors, aeronautics). At the same time, the targeting of high-potential sectors in which China benefits from a cost-competitive and technological advantage, shaped by State capitalism (strong competition coupled with huge subsidies, or even export dumping), supports export revenues. The chemical, machine-tool and automotive sectors hold high potential for China, which now directly competes with Germany and Japan, for example. Conversely, China is a market maker for raw materials, as an importer, producer and processor, and has imposed restrictions on exports of critical metals for semi-conductors, telecommunications and electric vehicles since the end of 2023, demonstrating, if it had to, the geopolitical and strategic dimension of its foreign trade.

Graph 3 – Bilateral trade surpluses with the United States



Source: IMF (DOTS)

[7] Inflation Reduction Act, increase in tariffs on Chinese electric vehicles.

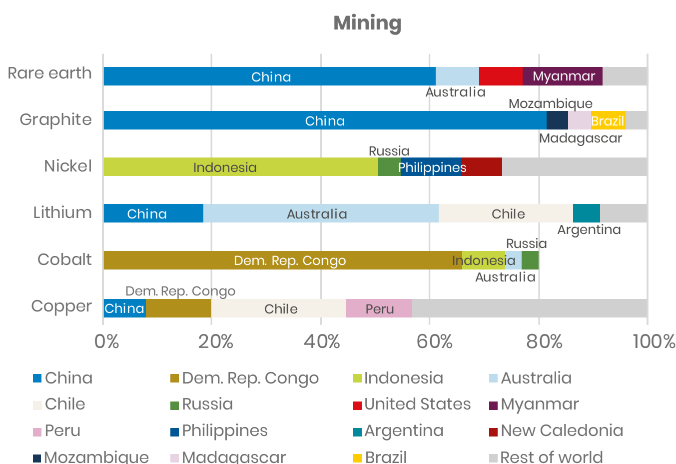
[8] In 2012, a "Buy American" preferential clause was included in Barack Obama's recovery plan. In 2018, the United States imposed tariffs on steel and aluminum imports from the EU, Canada and Mexico, early signs of the renegotiation of the NAFTA in 2019. The EU applied "symbolic" retaliatory measures on certain U.S. products or brands.

[9] During the 2024 electoral campaign, D. Trump announced a 25% increase in tariffs on all goods imported from Canada and Mexico, and an additional 10% on goods from China, or a general increase of 60% on Chinese products.

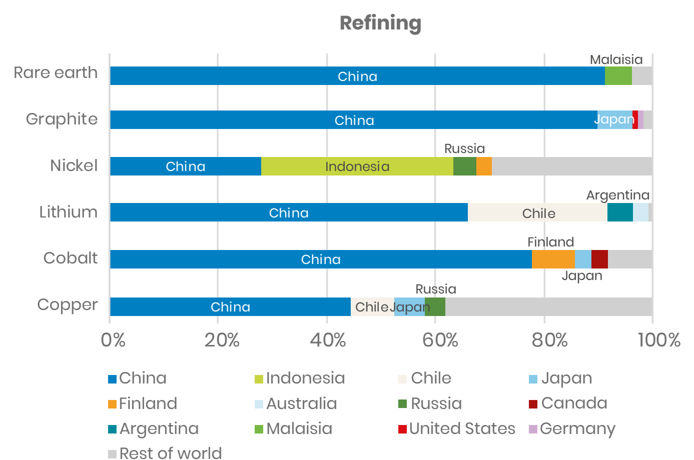
Critical minerals

Critical minerals for the energy transition are an example of products and value chains involving supply issues which result in strategic alliances. The International Energy Agency (IEA) annually publishes the global supply-demand situation for critical minerals. The projected trends for demand for minerals for clean energy technologies show that it should at least double by 2030. In terms of production, the geographical concentration of both mining sites and processing sites compounds issues related to securing their supply. Graphs 4 and 5 show, for six transition minerals, the main countries where the mining is conducted and those where the minerals are processed. With the exception of copper, for each of the five other minerals, the three leading producer countries alone account for 70% or more of global production. The geographical concentration is even more marked for mineral processing, where China holds a dominant position for five of the six minerals (Graph 5).

Graph 4 – Main producing countries for critical minerals



Graph 5 – Main processing countries for critical minerals



Source: IEA (2024)

Beyond the geographical concentration of mining sites, the study by Lapeyronie *et al.* (2024)[10] analyzes the capitalistic structures and geographical origin of the shareholders of the companies operating these mines. It highlights that only a handful of countries control the industry for these critical minerals, as they house the headquarters of mining companies (Australia, Canada, China, Russia, South Africa, United Kingdom, United States). Countries where demand for minerals is experiencing strong growth are seeking to diversify their sources of supply to reduce their exposure to geopolitical risk. In 2023, the EU, which is almost entirely dependent on imports for these critical raw materials, thus adopted a Regulation (N°2023/0079) establishing objectives to ensure a secure and sustainable supply of critical raw materials (by 2030, 10% of consumption should come from mining within the EU and 40% from processing in the EU). At the same time, to capitalize on growing demand for critical minerals, some resource-rich EDCs are attracting investments to develop the operation of new mines and position themselves within this value chain.

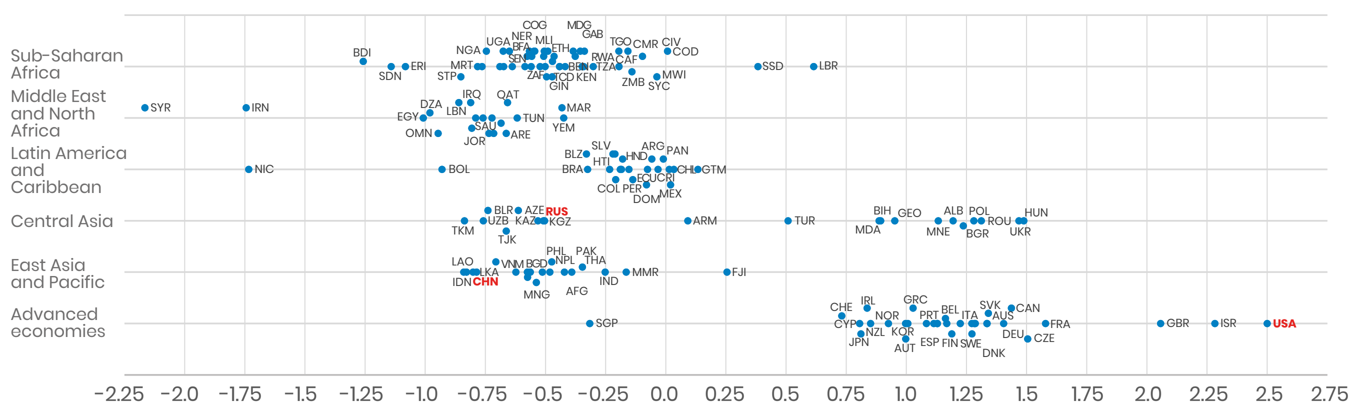
[10] H. Lapeyronie, E. Espagne, G. Semieniuk (2024), "Concentration of Critical Mining Assets and the Geoeconomic Fragmentation", Working Paper. https://www.epog.eu/?sdm_process_download=1&download_id=9088

EDCs revolving around the orbits of China and the United States

The economic, financial, political and historical ties between the other countries and the United States and China are often a reminder of realpolitik. The world is thus neither binary nor bipolar, and the pure and perfect alignment of developed, emerging and developing countries with either of the world's two systemic economies is not a given. Economic pragmatism, emancipation, self-determination and national sovereignty constitute the basic principles. They shape non-aligned and balanced, or even multi-aligned, geopolitical postures, and of variable geometry for regional powers, pivotal countries[11] (Brazil, India, Saudi Arabia, South Africa, Turkey), or even Trojan horses to access U.S. markets (Mexico) and European markets (Hungary, Serbia, Turkey).

In terms of geopolitical positioning, the analysis of the voting behavior of countries around the world at the UN provides partial but interesting insight into the current patterns of proximity and distancing towards the United States and the China/Russia axis (see Graph 6). While China and Russia today show strong similarities in their votes at the United Nations, the situation was different ten years ago, as in terms of votes, Russia was in a midway position between China and European countries. Unsurprisingly, in 2023, advanced economies appear to be more aligned with the United States, as is the case with Central and Eastern European countries. As a consequence of their withdrawal from the Commonwealth of Independent States (CIS), Georgia (in 2009), Ukraine (in 2018) and Moldova (in 2023) have distanced themselves from Russia in terms of votes, and have moved much closer towards European countries and the United States. Turkey has a midway position, while Armenia remains closer to Russia and Central Asian countries. The position of countries in Africa, the Middle East and Latin America is generally aligned with China and Russia.

Graph 6 – Distribution of voting behavior at the United Nations in 2023



Source: Bailey *et al.* (2017)[12] and Aiyar and Ohnsorge (2024).[13]
N.B.: The figure shows the Ideal Point index in 2023, a measurement of the geopolitical positioning of each country based on their voting behavior at the United Nations. A correspondence list for the ISO codes is given in the Appendix.

[11] According to Javin Aryan *et al.*, in "The Role of Pivot States in The Competition Between the United States & China" (Columbia University, May 2024), pivot States are defined as countries with "significant leverage in geopolitics that are nonaligned, highly transactional, self-interested, and semi-autonomous." https://www.sipa.columbia.edu/sites/default/files/2024-06/For_Publication_EurasiaGroup_Jaeger.pdf

[12] Bailey *et al.* "Estimating Dynamic State Preferences from United Nations Voting Data", Journal of Conflict Resolution, Vol. 61, N° 2 (2017).

[13] S. Aiyar and F. Ohnsorge (2024), "DP19352 Geoeconomic Fragmentation and 'Connector' Countries", CEPR Discussion Paper N° 19352.

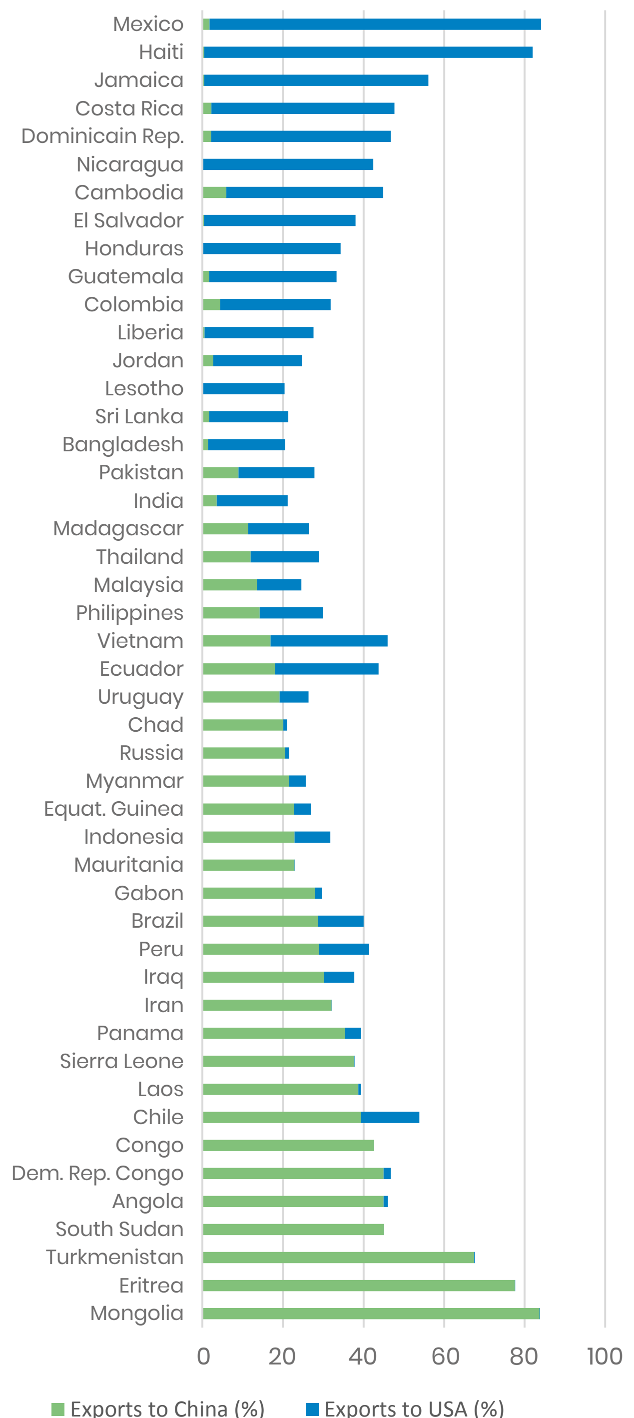
The analysis of bilateral economic flows (trade) and financial flows (FDI, debt-creating financing and migrant remittances) also makes it possible to map the special relations and alliances existing between EDCs and the world's major economic powers.

In terms of international trade, the EU is the largest market of destination for exports at the aggregate level of EDCs (19.2% of exports), followed by the United States (15.4%) and China (8.2%). However, some countries are particularly exposed to at least one of these three markets as a destination for their exports. Graph 7 shows EDCs with more than 20% of their exports going to the Chinese and U.S. markets. The exports of six Latin American countries (Costa Rica, Dominican Republic, Haiti, Jamaica, Mexico and Nicaragua) are strongly oriented towards the United States and are thus particularly exposed to developments in its trade policy (for tariffs, for example). They also differ in that they have few or no exports to China. In contrast, a few countries (Ecuador, Madagascar, Philippines, Vietnam) stand out for their more balanced position between these two export markets.

With respect to China, the trade ties of Mongolia and Turkmenistan are particularly strong, as it is the destination for more than 60% of their exports. Beyond these two Asian countries, it is mainly countries in Sub-Saharan Africa that have China as the main export market (Angola, Congo, Democratic Republic of the Congo, Eritrea and South Sudan). These countries evidently mainly export raw materials (minerals, hydrocarbons), for which China is the world's largest importer for many of them.

The EU is the world's second largest market after the United States (in terms of nominal GDP in USD). It remains a prime destination for the exports of numerous EDCs. In the Africa and Middle East region, the EU accounts for more than 45% of the exports of Algeria, Libya, Morocco, Niger, Sao Tome and Principe, and Tunisia. In Eastern Europe and Central Asia, by descending order of exposure, more than 45% of the exports of Bosnia, Albania, Moldova, Ukraine, Azerbaijan and Serbia go to the EU.

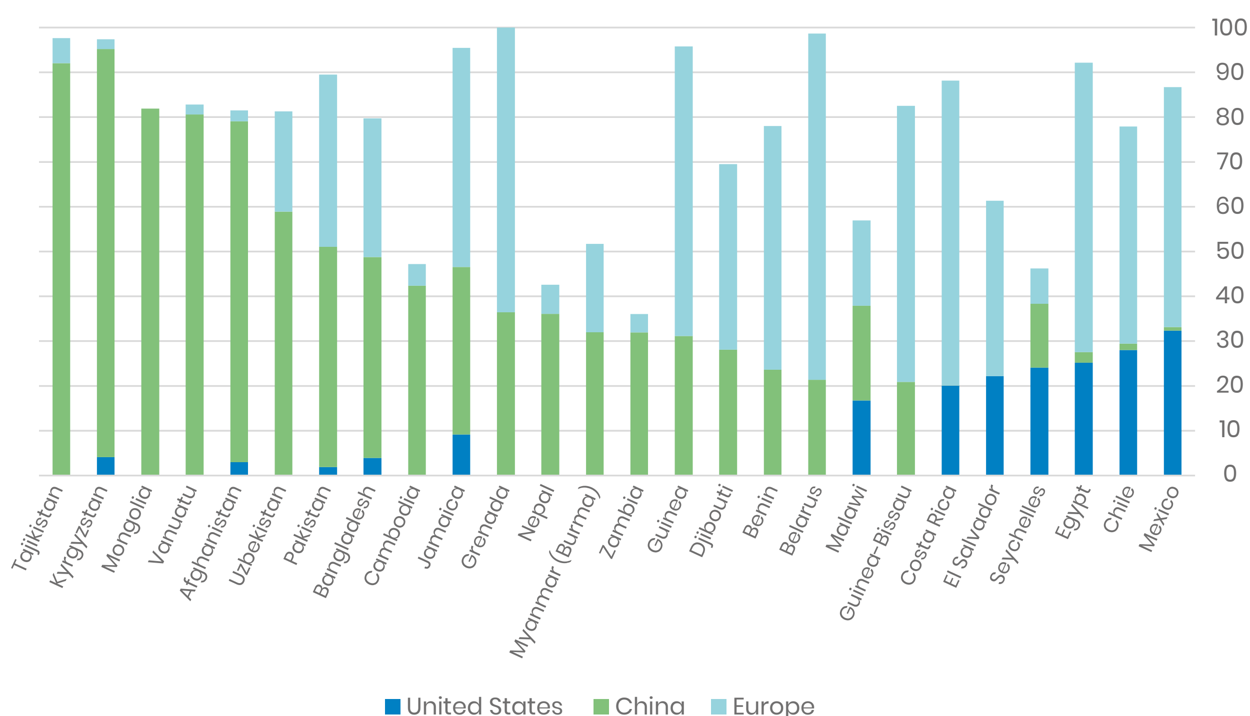
Graph 7 – Share of exports to China and the United States, average 2022-2023



Source: IMF (DOTS), AFD calculations

Graph 8 shows the EDCs the most dependent on FDI from U.S. and/or Chinese companies (threshold at 10% of the total stock for 90 countries). FDI from Europe for the same countries is also indicated, as it accounts for an average of 46% of the total stock for the sample of EDCs in 2023. Chinese companies are estimated to account for 17% of FDI and U.S. companies only 6%, according to the restated IMF data, which should be interpreted with caution. It would appear that the United States accounts for more than 20% of the total FDI stock in only six countries (Chile, Costa Rica, Egypt, El Salvador, Mexico and Seychelles). This includes four Latin American countries where it is estimated that FDI predominantly comes from Europe and very marginally from China. Chinese companies have a strong presence in Asian countries and certain African countries, with a share of FDI of more than 30% in about 15 countries.

Graph 8 – Share of Chinese, U.S. and European FDI (stocks, % of total)

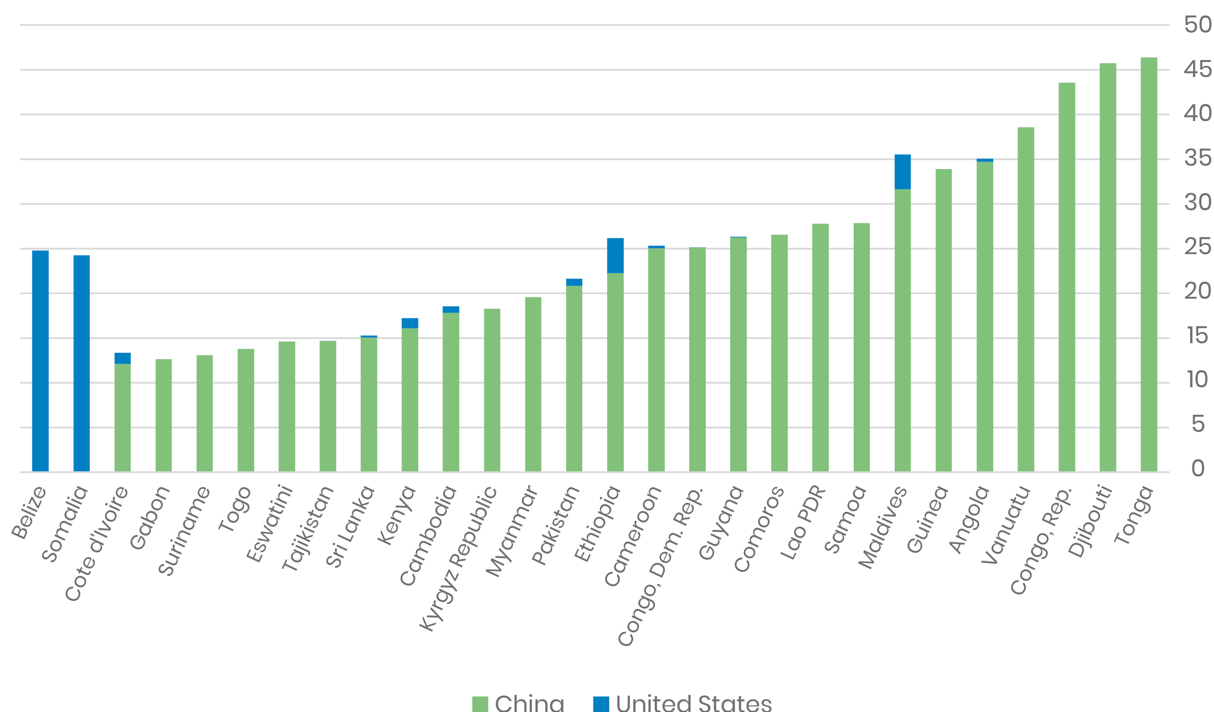


Source: IMF (CDIS), AFD calculations.

The third dimension used to analyze the exposure of EDCs to the major world powers is debt-creating financing (Graph 9). In this respect, China has undoubtedly become the largest bilateral donor for EDCs over the last 15 years. According to World Bank data, Chinese financing, mainly carried out through policy banks (China Development Bank and China Exim Bank), accounts for more than 10% of the total external debt stock of 26 EDCs, mainly in Africa, Asia, and among the small island States in the Indian Ocean and Pacific. However, it should be noted that following a peak between 2016 and 2018, new Chinese financing towards EDCs has significantly decreased since 2020 and, due to the reverse flows of the debt service to China from these countries, is currently negative towards low-income countries (LICs) and middle-income countries (MICs).[14]

The United States, for its part, is only heavily involved in Belize and Somalia through bilateral financing. However, it continues to play a major role in the orientation of policies for development finance and macro-financial stability in EDCs as the largest shareholder of the World Bank and IMF.

Graph 9 – Share of external debt contracted from China and the United States (% of total external debt)



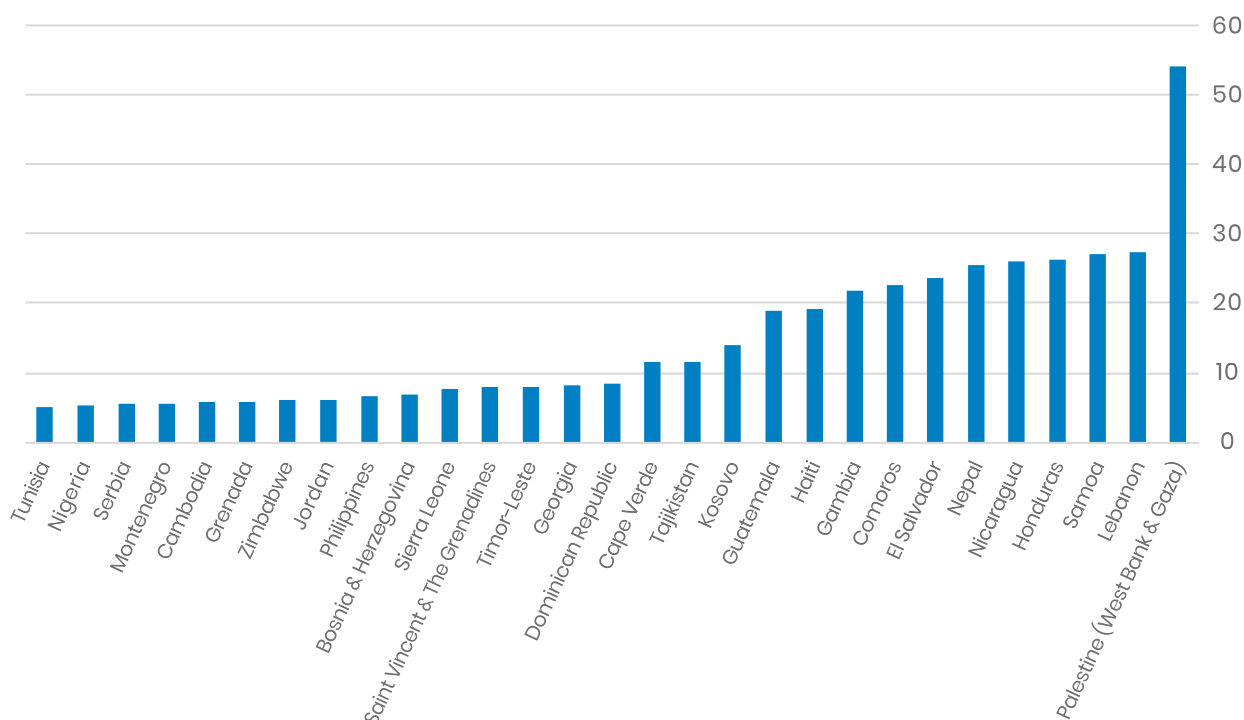
Source: World Bank (WDI), AFD calculations.

[14] World Bank, "International Debt Report 2024". For LICs and MICs, the negative net balance of Chinese public financing is estimated at -$2.5 billion in 2023 by the World Bank. However, this does not include all the financing of the Chinese policy banks.

Finally, the structuring dimension of migrant remittances for the economies of many EDCs and their critical importance in supporting the standard of living of the local population also means that there is a strong dependence on the countries of origin of these financial flows. While the discontinuation of the World Bank harmonized database on cross-transfers limits the scope of analysis, IMF data on 112 countries (Graph 10) do highlight the countries most exposed to the drying up of diaspora remittances. For a number of countries, national data provide additional information on the origin of the remittances. Unsurprisingly, the vast majority of Central American countries are dependent on flows from the United States (see the country focus on Mexico), while CIS countries remain highly dependent on Russia in this respect. As China is not a land of immigration (apart from internal migration between provinces), it is not a source of current remittances for the other EDCs, but it is a recipient through the vast Chinese diaspora.

2025 could thus open a new era of uncertainty and instability in international relations. This could weaken EDCs, due to their exposure to geopolitical uncertainties or to economic retaliation by the two hegemonic powers (or even Europe), or, on the contrary, strengthen the countries that benefit from a geopolitical rent or an advantageous strategic position.

Graph 10 – Diaspora remittances (% of GDP, 2023)



Source: IMF (BOPS, WEO), AFD calculations.

Country focus

South Africa
Ghana
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Ukraine

South Africa: A gradual recovery, under fire from international projections

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In 2024, South Africa regained the symbolic position it lost in 2012 as the largest African economy (GDP in current USD), just ahead of Egypt, followed by Algeria and Nigeria. The country's outreach would appear to extend even beyond its economic weight, by becoming the first African country to assume the Presidency of the G20 in 2025, reaffirming its place among the leaders of the BRICS+ bloc and, more broadly, emerging and developing countries, and standing as an advocate of a moderate stance towards (de)structuring international conflicts (Ukraine/Russia, war in the Middle East). Furthermore, it has been strengthened by the general elections held on 29 May 2024, which resulted in the formation of a Government of National Unity (GNU), composed of the African National Congress (ANC), which lost its majority for the first time since the end of Apartheid, and the main centrist parties. This has sent out a positive signal on its political stability and for the macro-financial stability of South Africa. Yet the domestic situation continues to deteriorate and the economy is struggling to regain momentum, suffering in particular from chronic under-investment over the last three decades and the situation of large public enterprises (Eskom, Transnet) which affects economic activity and the State budget, a sign of the slowness of the reform process.

In the general elections held in May 2024, the ANC lost its majority for the first time, but managed to form a GNU, holding more than 70% of legislative seats. This reconfiguration theoretically makes it possible for the ANC's reform program to continue, as continuity should prevail. However, there is still a strong fear of disagreement between the parties in the GNU and gridlock, in particular on the key issues of economic reforms and foreign policy.

A symbolic weight in the international geopolitical landscape

The international community is paying close attention to the foreign policy of South Africa's coalition government. South Africa widely voices its opinion and has recently demonstrated its influence through its marked opposition to the State of Israel, by referring to the International Court of Justice (ICJ) twice over allegations of Israel's violations of its obligations under the Convention against Genocide with regard to Palestinians in the Gaza Strip. The country is a member of the BRICS group and remains a major regional power in Africa. It is also particularly attractive to investors through the depth of its financial markets. Furthermore, the country stands out for its ability to act as a balancing force between the various global blocs which are tending to emerge. Indeed, it has strong economic relations with the European Union, in particular Germany, its third main economic partner (6% of exports), just behind the United States (7%), but also with China, which remains by far its main trade partner with 12.5% of exports, totaling $18.5 billion according to the United Nations Conference on Trade and Development (UNCTAD). However, this dual orientation, with important economic relations with the West and a policy of neutrality or even strengthening affinities with countries like Russia, could cause tensions within the fragile national coalition. While the ANC's foreign policy is increasingly pro-BRICS, some diametrically opposed opinions are being expressed, in particular within the Democratic Alliance (DA). This especially concerns sensitive issues, such as Ukraine and Gaza. These ideological differences may prove to be breaking points, threatening the stability of the coalition in a changing international environment.

The fight against climate change is one of the main priorities for its G20 Presidency this year. South Africa, which has a high-carbon energy mix, is highly exposed to the risk of the transition towards a low-carbon economy. Indeed, South Africa accounts for 1.2% of global GHG emissions and is among the top quarter of the countries with the highest emissions in the world (overall and per capita). The country is highly dependent on sectors exposed to the transition risk, in particular mining and coal. These sectors alone account for 7.7% of employment, 17% of its GDP, 20% of FDI inflows and 46% of exports. South Africa's engagement in the

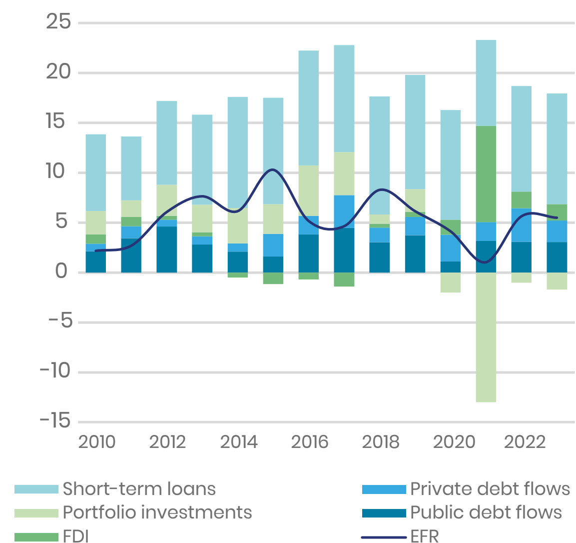
JETP (Just Energy Transition Partnership) program demonstrates its proactiveness in support of decarbonization at the international level. On the energy front, the end of power outages since April 2024 reflects a context of far-reaching structural reforms in the sector. It is mainly due to the strengthening of technical capacity, but also the increase in the energy distributed with the commissioning of two coal-fired power plants. This does, however, raise issues over the country's commitment towards energy transition. The sector is tending to open up, with the development of independent power producers and the recent signing of private power purchase agreements. The unbundling of Eskom is continuing and aims to split the generation, transportation and distribution activities into separate entities. This strategy aims to improve operating efficiency, attract new investment, and promote greater competition in the sector. To ensure its financial discipline, the interdiction of debt issuance by Eskom has been extended until 2026. This measure aims to focus the available resources on strategic investments.

These reforms come at the cost of a sharp increase in public debt: the materialization of contingent liabilities (Eskom, Transnet, South African National Roads Agency, South African Special Risks Insurance Association, South African Airways), which has increased since 2019-2020, places a heavy burden on the country's debt path. The IMF thus forecasts an increase in the debt ratio, which will exceed 80% of GDP in 2027.

Its public and external accounts vulnerable to developments in the global scenario

The public debt sustainability indicators have deteriorated in recent years in a context of a tightening of financing conditions, on both the domestic and external markets. This is due to the monetary tightening by the South African Reserve Bank (SARB) between 2021 and 2024 and an increase in risk premiums. However, the monetary cycle has been easing since September as a result of the slowdown in inflation (2.8% in November 2024). On the external front, the assurance of political continuity by the GNU has also resulted in a significant reduction in the EMBI spread (287 bp at 6 January 2025). This has prompted S&P to upgrade the outlook associated with South Africa's sovereign rating (BB-) from stable to positive. In its DSA of June 2023, the IMF continued to assess the risk of sovereign debt distress as moderate, in particular as a result of the favorable composition of public debt. Indeed, only 12% of the total is denominated in foreign currency (mainly USD), which limits the foreign exchange risk amid a depreciation of the rand. The average portfolio maturity is also relatively long (12.9 years). However, in view of the persistently difficult financial situation of public enterprises, the risk of a further materialization of contingent liabilities, even after the latest debt plan operation of the electricity operator Eskom ($13.7 billion, or 3.6% of GDP) in 2023, remains a crucial point of concern.

Graph 11 – External financing needs (EFN) covered by highly volatile debt-creating flows



Source: IMF (WEO, BOPS), World Bank (IDS).
N.B.: The external financing requirement (EFR) is composed of the amortization of total external debt and the current account balance.

South Africa is particularly dependent on foreign financing, which is essential to cover its external financing requirement. FDI has recently taken over from the negative portfolio flows since 2020. The particularly volatile nature of the debt-creating flows it depends on is exacerbated by changes in investor confidence in South Africa's political-economic situation. Progress in the reforms driven by the GNU, in particular in the energy sector, will have a decisive impact on the perception of the South African country risk.

Ghana: Debt relief, followed by a rocky road towards economic recovery

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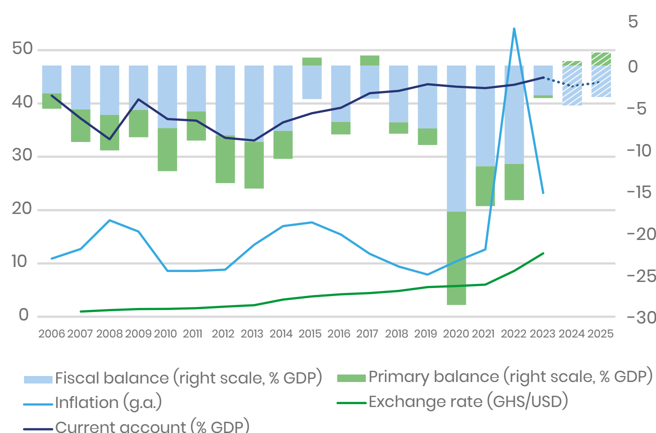
Ghana, once a model country, stable and attractive to investors, was caught up in 2022 by a debt that had become unsustainable. Two years after the debt default and supported by an IMF program, there has been a marked improvement in its economic situation. Following a restructuring of almost all of its public debt, the country is experiencing strong growth, driven by commodity prices. But Ghana is not out of the woods yet, with a level of inflation that still remains above 20%, major social challenges, and the unresolved difficulties in the energy sector. In addition, the current geopolitical situation could pose challenges for the new President, John Mahama, who is recovering the keys to Jubilee House,[15] eight years after handing them over to Nana Akufo-Addo. And just like him, the tenant of the White House is returning to power, with the management of U.S.-African relations by the Trump I administration and the even more protectionist program of Trump II raising fears of a more difficult recovery for the Ghanaian economy.

Ghana is well integrated in the international economy and, up until the health crisis, was the most attractive West African country for international investors. In a world where returns on financial investments were low, this dynamic and politically stable English-speaking country offered an attractive risk-return trade-off for foreign direct investment, portfolio investments, and Eurobonds.

The speed with which the debt crisis broke out and the announcement of the debt default at the end of 2022 caught investors by surprise. Two years on, the country has finalized the restructuring of almost all of its internal and external public debt. The economic situation is also improving, but remains fragile.

Graph 12 – Twin deficits are falling, but inflation remains high and the cedi has plunged



Source: IMF, Bank of Ghana.

Debt crisis: the country has turned the page

After completing a domestic debt exchange program in six months, in mid-2024, the government, supported by the IMF, finalized an agreement in principle with its bilateral creditors under the Common Framework. Furthermore, the negotiations with international Eurobond holders ($13 billion) were completed in mid-October 2024: 90% of them accepted a 37% nominal haircut, the highest ever for an African debt. The alleviation expected from the restructuring on the external public debt ($10.1 billion, 14% of GDP) between 2023 and 2026, and the annual payment ceilings for 2024 and 2025, should enable the country to return to a moderate risk of public debt distress for the IMF in 2026.

Despite an inflation rate of above 20%, and a runaway depreciation of the cedi (19% against the dollar in 2024) due to the Central Bank's limited margins for intervention on the foreign exchange market (limited international reserves), 2024 got off to a strong start: 5.9% of real GDP growth in the first half of the year, driven by all sectors of the economy, mainly by the mining subsector, with gold prices increasing by 18% over the period. The IMF estimates that growth for the year could reach 4%, or even 5% to 6% according to the Economist Intelligence Unit (EIU) and Oxford Economics, meaning a potential growth rate that was not expected until 2026.

[15] Jubilee House is Ghana's presidential palace in Accra.

The strength of the economy has contributed to the reduction of the twin deficits. Consequently, with the support of the IMF program, the suspension of debt service payments and the action taken to increase revenues, public accounts improved in 2023, whereas they had slipped since 2020 with a deficit still at 12% of GDP in 2022. Ghana should even show a positive primary balance (0.5% of GDP) in 2024. The situation is also improving for the external sector. The current account balance, for which the deficit had been reduced to 1.4% of GDP at the end of 2023, was positive in mid-2024 due to the strong performance of gold and oil exports and the level of transfers. This is despite a level of imports that remains high and an extremely poor cocoa season. Consequently, international reserves are being replenished more quickly than expected. They are estimated to have reached almost 2 months of imports of goods and services in June 2024.

Robust growth does not resolve persistent economic difficulties

However, the public finance situation has not been completely stabilized and the end of last year's elections could still prove the forecasts wrong. The drought at the end of the summer in the grain-producing north has had an impact on public spending due to the spending to support farmers (cash transfers and financing of imports of fertilizer and cereals). The economic situation of the energy sector, the Achilles heel of Ghanaian public finances, has also deteriorated, with a higher than expected deficit to cover in 2024.

The financial sector, for its part, has not yet recovered following the restructuring of domestic debt which has resulted in substantial losses. While most banks have returned to an adequate level of capitalization, portfolio quality deteriorated significantly in the course of the year: almost a quarter of the credit portfolio is in default, and non-performing loans net of provisions account for a fifth of bank capital. In addition, the banking sector's support to the State, through extremely dynamic activity on the commercial paper market, comes at the expense of financing for the private sector for which the credit provided by banks is less than 10% of GDP and is expected to remain low in the medium term.

Finally, with regard to inflation, it will be an uphill battle. To tackle galloping inflation (54.1% in December 2022), the Central Bank dramatically tightened its key interest rates (+1,650 basis points) between the end of 2021 and mid-2023. The situation has improved, but since the beginning of 2024, prices have remained high, with inflation rising after each rate cut. With an inflation rate at 23.8% year-on-year (yoy) in December 2024, household purchasing power remains limited.

The return to power of Donald Trump could complicate the recovery of the Ghanaian economy

The new team in power has thus inherited an economic situation in the process of consolidation with a completed debt restructuring, but also major challenges. The change of administration in the United States is among them. While the country is not Ghana's main trade partner, it is its fifth largest client for crude oil (10% of its exports) and the second main destination for its cocoa (13% of exports). It is also its fifth largest supplier. The reintroduction of tariff barriers and/or the restriction of access to U.S. markets through an amendment or non-renewal of the African Growth and Opportunity Act (AGOA) after its expiry at the end of 2025 could have an impact on the Ghanaian economy.

Many Ghanaians live in the United States or go there to study (Ghana is among the top 20 countries in the world that send foreign students to the United States), or for business. They could also bear the brunt of the return of an anti-immigration policy targeting African countries, as was the case during Donald Trump's first term of office.

Finally, the United States is Ghana's largest bilateral donor in terms of Official Development Assistance. Yet during the first term of office of Donald Trump, U.S. aid to Ghana had declined every year, until it increased under the Biden administration. A further reduction in U.S. grants could freeze important social programs, while the country's current economic crisis is affecting the most vulnerable.

Cuba: Caught up in geopolitical winds, the course is uncertain

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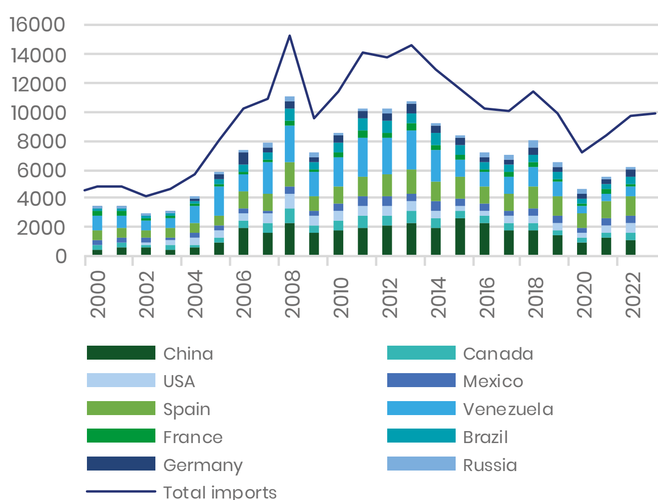
Since 2019, Cuba has been in the grips of an unprecedented multi-dimensional crisis, with a major socio-economic impact. While the Biden Administration had announced in early 2025 its intention to remove Cuba from the list of state sponsors of terrorism, the arrival of Donald Trump in the White House for a second term of office does, however, makes it less likely that the maximum pressure exerted by the United States on the island since 1961 will be eased. The reconfiguration of U.S. policy is expected to have a major impact on Cuban immigration, at a critical time when almost one million Cubans have decided to leave the country since 2020. This could further isolate the island from trade and tourism flows, as well as diaspora remittances, the main source of foreign exchange. In the meantime, the pace of the reforms driven by the regime towards a mixed economy are slow.

Located at less than 150 km to the south of Florida, Cuba has historically been at the center of a shifting of alliances with foreign countries. Since its independence in 1902 following the Spanish-American War, the first half of the 20th century was marked by a deepening of financial ties between the island and the United States. Following the Revolution of 1959, Fidel Castro broke off relations with his Northern neighbor. In response to the wave of nationalizations, in sectors in which the United States had particularly powerful interests, in 1961, the Kennedy administration imposed a trade embargo on Cuba. The USSR thus became its new key economic and energy partner, through numerous preferential agreements. Cuba in particular joined the Council of Mutual Economic Assistance (COMECON), a mutual aid organization based in Moscow, in 1972.

After 1991 and the "Special Period in a Time of Peace", which was characterized by a deep economic recession, Cuba's political and economic relations were mainly rooted with countries of the former Communist bloc (China, Russia) and countries of the Bolivarian Alliance for the Peoples of Our America (ALBA), cofounded by Cuba and Venezuela in 2004. The PetroCaribe agreement, concluded under the presidency of Hugo Chavez in 2005, made it possible to send skilled workers, such as doctors and teachers, in exchange for cheap Venezuelan oil. The deep economic crisis in Venezuela from 2014 onwards prompted Cuba to deepen its trade relations with other economic partners, turning further towards Russia (wheat, steel, sugar, tourism), but also Iran, Algeria, as well as Gulf countries. However, the payment difficulties of the Cuban State constrain its diplomatic and financial position.

Graph 13 – Dramatic decline in imports (current USD) and geo-commercial diversification



Source: UNCTAD, WTO.

A marked deterioration of socio-economic indicators

Due to the significant lag in physical capital accumulation and strong production constraints, Cuba's economic model has historically been very weak, recording an average annual economic growth of 2.6% between 2007 and 2019. Since 2019, the country has been plunged into a major economic, social and energy crisis. The series of external shocks, including the collapse of Venezuela, the Covid-19 pandemic in 2020 (resulting in a halt in tourism, exports of medical services and diaspora remittances), as well as the war in Ukraine in 2022 (which has driven up the price of imported raw

materials), has exacerbated the internal and external vulnerabilities of the country. The fact that there is no statistical coverage by the IMF or World Bank makes the macroeconomic monitoring of the country difficult. The economy experienced a new recession in 2023 (-1.9% according to EIU) and for 2024, Fitch anticipates a continuation of the recession (-2%). The U.S. embargo and financial sanctions complicate the situation, increasing the legal, economic and financial costs of any foreign trade. Faced with a lack of foreign exchange, the State is forced to adjust imports. Furthermore, it has lost much of its capacity to provide essential public services for education and health, in a context of a public finance crisis.

The shortages of food, medicines and fuel have worsened, while there are now frequent power cuts. In October 2024, the country ended up with a national outage, plunging it into darkness for three consecutive days. The wave of emigration in the country primarily concerns skilled occupations (medical professions, education), which contributes to a sharp deterioration of human capital. The dramatic erosion of real wages for the vast majority of the population, in particular caused by the fall in value of the Cuban peso which has fueled a double-digit inflation rate since 2020, contributes to its impoverishment.

The continued strong antagonism with the United States and the sanctions regime have damaging effects

The recent election of Donald Trump further diminishes the prospect of a normalization of relations between the United States and Cuba.

The Biden administration introduced a package of measures under the new policy to "support the Cuban people" (2022), comprising the reintroduction of visas for family reunification, the removal of the limit of $1,000 per quarter for remittances, the resumption of flight connections and, in 2024, the authorization to access U.S. bank accounts for micro, small and medium-sized enterprises (MSMEs). In his final days in office, President Joe Biden proposed removing Cuba from the list of state sponsors of terrorism, a decision that should have led to the release of political prisoners by the Cuban administration.

However, Donald Trump immediately reinstated the entire sanctions regime upon his arrival.

Beyond the reinstatement of sanctions, it is the impact on Cuban emigration of the return of Donald Trump to the White House which gives cause for concern. Estimated at 10% of the population since 2020, this outlet helps maintain the regime, by reducing the risk of social protest. Donald Trump has notably been elected on the promise of drastically reducing immigration in the United States, directly targeting the termination of the humanitarian parole program which has enabled some 850,000 Cubans to arrive in the United States since December 2021.

Without substantial external financial support, the prospect of an end to the crisis for Cuba is gradually becoming more remote.

Mexico: Gauging the "Trump 2.0" risk

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Mexico is always on the front line when it comes to benefiting or suffering as a result of economic or political changes in the USA. Trump's rhetoric aggressively attacks Mexico over the issues of migration and drug trafficking, and accuses it of being a Trojan horse for Chinese imports. While Donald Trump's previous term of office suggests that we should not overreact to his threats towards his neighbor, some consider him to be more determined in 2025 than in 2017. The United States is surely set to restart the "trade war", sparing neither Europe nor Asia in view of the substantial bilateral trade deficits, and always based on a transactional approach. In a context conducive to nearshoring, Mexico could reap the benefits through its geo-economic rent.

The continuation of the model based on a linkage with the United States and strict economic policies ensure a certain macroeconomic stability, but without any great endogenous dynamics and limited potential growth (around 2%), which is also volatile depending on the U.S. cycle (moderate recession in 2001-2002, strong in 2009 and 2020). In particular, there are few signs of convergence with advanced countries in terms of standard of living and socioeconomic development, which is notably due to the deficiencies of the welfare state. The poverty rate remains high, at 20.2% at the threshold of upper-middle-income countries (UMICs) in 2023. However, inequality (Gini index of 43.5) has been reduced during the six years in office of the left-wing President, Andrés Manuel Lopez Obrador (AMLO), in a country where social demands are traditionally moderate.

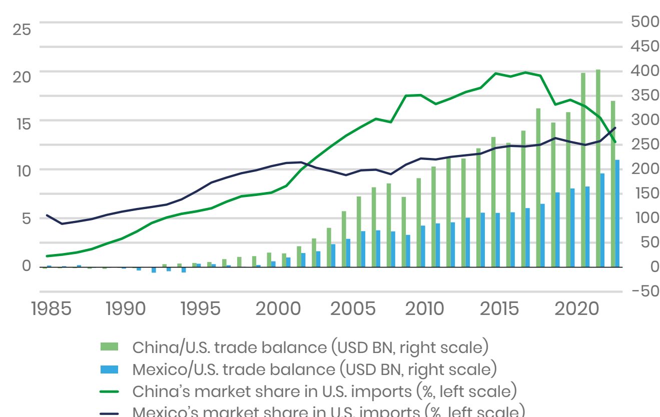
Claudia Sheinbaum, successor to President AMLO and the first woman president, was sworn in on 1 October 2024. One of her priorities will certainly be to protect national interests by maintaining the geo-economic rent gained through industrial integration under the agreement between Mexico, the United States and Canada (T-MEC). The renegotiation of this trade agreement with the United States and Canada over the next 18 months could be tough and tighten the rules of origin. The diversification of trade towards Europe, Asia and South America could remain a dead letter.

A Latin American country rooted in North America

Initiated in 2018 by the Trump I administration and not called into question by the Biden administration, the "trade war" with China has until now benefited Mexico. Canada and Mexico, like the European Union, did of course see an increase in U.S. trade tariffs in 2018 (+25% on steel and +10% on aluminum), an early sign of the renegotiation of the North American Free Trade Agreement (NAFTA) in 2019, which became T-MEC in May 2019. China is in direct competition with Mexico over access to the U.S. market and has started to invest in Mexico to circumvent the tariff barriers. In July 2024, the United States reacted by establishing tariffs on Chinese steel and aluminum transiting through Mexico.

Mexico has taken advantage of the trade frictions between China and the United States and has become the United States' largest supplier with a market share of 15.5% in 2024, against 13.5% for China (21.6% in 2017). The share of Mexican exports to the United States increased from 79.5% in 2018 to 83.1% in 2024. This mainly concerns manufactured and semi-finished goods, which account for 89.2% of total Mexican exports (5.6% for oil, 3.7% for agricultural products and 1.5% for mining products). The bilateral trade surplus with the United States is one of the reasons for Donald Trump's wrath. It has increased continuously since 2009 and reached $219 billion in 2023. At the same time, China's surplus with the United States was contained in 2019-2020, before peaking at $404 billion in 2022 and falling to $340 billion in 2023.

Graph 14 – Growing bilateral trade surplus for the United States' largest supplier



Source: U.S. Census Bureau, IMF, AFD calculations.

With the ongoing reconfiguration of global value chains, a decree issued by the Mexican government in October 2023 promotes nearshoring through tax incentives targeting semi-conductors, the automotive industry, electricity and electronics, the medical and pharmaceutical sector, and the agribusiness and food industry. By promoting local production in the United States and integrating regional partners, the Inflation Reduction Act (IRA) adopted by the Biden administration in August 2022 has increased demand for Mexican manufactured goods, in particular those related to green technologies (electric vehicles and renewable energies, especially solar panels). Massive investment by manufacturers such as General Motors, Tesla, Volkswagen and BMW has boosted the national production of electric vehicles (+179% in 2023) which is mainly intended for export.

FDI inflows remained very dynamic in 2024 and reached a historical high over the first nine months ($35.7 billion, or 2.7% of GDP over 12 months). The downside is that the share of new investments (greenfield) is tending to decline, with 86% of FDI flows composed of reinvestments. Since 2018, 40% of FDI has been from the United States, 29% from Europe and 1% from China.

The current account deficit is structurally moderate and covered by FDI flows. It results from Mexico's difficulties in generating sustainable trade surpluses. This is due to the size of imports of intermediate goods (77% of total imports on average since 2010), which limits net value added, and imports of oil products since 2015, mainly from the United States.

The current account continues to be supported by the windfall from tourism revenues (1.7% of GDP in 2023, higher in 2024) and diaspora remittances (3.5% of GDP in 2023 and a record level in 2024 of $54.1 billion from January to October), mainly from the United States. According to the Pew Research Center,[16] about 11 million people born in Mexico live in the United States and make up a quarter of the country's immigrants. Mexicans are still the largest group of illegal immigrants (a third of the total). However, their number and proportion have fallen significantly, from about 7 million to 4 million since 2007 (57% of the total in that year), with an increase in the number of nationals from other Central and South American countries transiting through Mexico, or of Asian origin.

Legitimate vigilance and reasonable concern

The "Trump risk", which is partly the cause of the depreciation of the peso by 19% against the U.S. dollar between April and December 2024, should be moderated. The announcement of a 25% tariff on all imports from Mexico is in all likelihood tactical with a view to negotiations to stem migration flows and drug trafficking (of fentanyl in particular). The stigmatized sectors of Chinese aluminum, steel and electric vehicles now only account for about 3% of Mexican exports. Furthermore, thousands of U.S. companies are established in Mexico, or are involved in cross-border value chains, and such measures would have an impact on their performance.

In a scenario of "punitive" U.S. protectionist measures towards China, or even "universal" ones (Europe, Asia) with retaliatory measures, Mexico could even be one of the main beneficiaries of the redeployment of international trade, strengthening its competitive advantage for access to the U.S. market. According to a study by CEPII,[17] by 2030, Mexico's GDP could increase by more than 6 pp compared to a scenario with no "trade war", and its exports by more than 25 pp. The objective of attracting $80 billion of FDI per year by 2030, in particular in high-potential sectors with strong local added value, could thus be adversely or positively affected by future U.S. protectionist measures. This capacity to be attractive, which primarily depends on internal reforms, will be paramount in supporting economic growth, employment and external accounts in the medium term.

[16] Mohamad Moslimani & Jeffrey S. Passel, "What the data says about immigrants in the U.S.", Pew Research Center, 27 September 2024.

[17] Antoine Bouët, Leysa Maty Sall & Yu Zheng, « Le prix du protectionnisme de Donald Trump », Lettre du CEPII, n° 450, November 2024

Dominican Republic: Getting around the elephant in the room

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The Dominican Republic has seen an improvement in its macroeconomic fundamentals since 2023, with accelerating growth, monetary easing and fiscal space, which has improved after difficult years with successive shocks. The return of Donald Trump as President of the United States poses multi-dimensional risks for Latin America, including the return of aggressive trade and migration policies. While the Dominican Republic would, on the face of things, appear to be economically exposed to these risks, it could avoid the worst of Trump 2.0 through the strong historical ties between the two countries. It could even benefit from this new geostrategic situation.

It is 20 May 2024 and the future looks promising for President Luis Abinader who has just run for a second term, winning in the first round with almost 60% of votes and with clear majorities in both houses of Congress. The economic outlook is good and there would seem to be a clear way forward for the implementation of his government program focused on modernizing the economy, strengthening institutions, and tackling (sometimes virulently) insecurity and Haitian immigration. Six months later, Donald Trump's victory and the likely return of his antagonistic policies towards certain Latin American countries would not appear to pose a major threat to the Dominican Republic, a historical partner of the United States.

General improvement in fundamentals

Following the successive exogenous shocks between 2020 and 2022, the Dominican economy has returned to macroeconomic stability and dynamic growth. There has been a marked slowdown in inflation since the peak of 9.6% in April 2022 and it has returned to the Central Bank's target zone (4% +/-1 pp). The Central Bank has thus begun its monetary easing cycle and has cut its key interest rate by 200 bp since May 2023. The rate cut, combined with the increase in migrant remittances, has boosted consumption and private investment. After 2.4% in 2023, growth is expected to accelerate to 5.1% in 2024 and, with average growth projected at more than 5% for 2024-2029, it would be the highest in Latin America after Guyana.

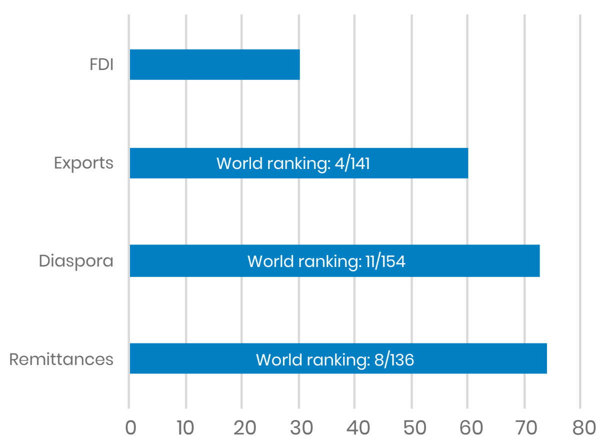
Public finances are also improving, supported by economic dynamism and reaffirmed fiscal prudence. After deteriorating between 2021 and 2022 due to measures to address widespread inflation, the deficit was stable at 3.3% of GDP in 2023, as a result of certain subsidies being maintained. The consolidation of public finances has since begun. The authorities adopted a new law on fiscal responsibility in July 2024. It aims to bring public debt down to below 40% of GDP by 2035 and limit the increase in public spending. The IMF expects the public deficit to remain at 3.1% of GDP in 2024-2025 and converge towards 2% of GDP in the medium term through expenditure control. However, the withdrawal of the tax reform in October in response to public protest makes the path more complicated. The low level of fiscal revenue (~16% of GDP) will remain a constraint for the government's leeway. The public debt ratio (60% of GDP in 2023) will continue to decline and is expected to reach 51% of GDP in 2029, well below the peak of 72% of GDP in 2020.

Beyond the economic improvements, the government has set out to strengthen institutions, tackling one of the country's structural weaknesses: corruption. During his first term of office, President Abinader strengthened the independence of the Attorney General and launched a series of high-level investigations which led to recriminations against officials linked to the former President, Danilo Medina. According to Transparency International, the Dominican Republic is the only Latin American country to have made real progress in the fight against corruption since 2020, the year in which the President took office. He has pledged to continue his efforts during his second term, but there is still a long way to go before this young democracy can rid itself of endemic corruption.

The Dominican Republic once again awaiting the arrival of Donald Trump

While it is still difficult to have a clear picture of Donald Trump's second tenure, two campaign commitments are unequivocal: an aggressive and protectionist trade policy and a hardline migration policy, promising "the largest deportation operation in American history", underpinned by a potentially confrontational position with regard to the rest of the American continent.

Graph 15 – A strong and multi-dimensional dependence on the USA (%)



Source: UN Comtrade, World Bank, UNDESA, BCRD, AFD calculations.

On the face of things, the Dominican Republic would appear to be economically exposed. A small outward-looking economy, characterized by its proximity and strong historical ties with the United States, the country has become one of the most dependent on the American giant. The latter now accounts for 30% of FDI inflows, 60% of exports, 73% of the diaspora, and 74% of migrant remittances. These flows play a major role in the economic model of the Dominican Republic, supporting its consumption, its investments, as well as its transformation and industrialization ambitions. Any drastic measures by the United States to restrict trade between the two countries could dim or undermine growth prospects in the short, medium and long term.

But the Dominican Republic will not be the main target of the wrath of President Trump. Firstly, the United States already has a trade surplus with the Dominican Republic, which largely reduces the risk of tariffs. Similarly, most of the Dominican immigrants in the United States (~85%) are legal immigrants and would thus not be subject to the announced deportations.

Conversely, Donald Trump's return to the White House could offer opportunities to the Dominican Republic. Indeed, the introduction of tariffs, if it only targeted certain cases, could expand market opportunities for Dominican products and make the Dominican Republic more attractive to foreign investors. Notwithstanding the consequences for the climate and the natural disaster risks in Caribbean countries, the flooding of markets with U.S. oil and shale gas could bring down global energy prices. This would benefit countries that import fossil fuels, which include the Dominican Republic.

In addition, the Dominican Republic will be able to exploit its geostrategic advantages and its strong historical ties with the United States. It plays a key role in affairs on the continent due to its central position in the Caribbean, its stable and relatively powerful economy, and its good relations with the Caribbean Community (CARICOM) and Central America. The partnership with the United States, based on common democratic values and a shared interest in the security and prosperity of the Caribbean, is strong and was not challenged during Donald Trump's first tenure. It remains to be seen whether the two countries will be able to continue to strengthen their ties on this basis or see a more transactional relationship develop.

Bangladesh: Caught between an economic-political crisis and a geopolitical dilemma

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The balance of risks has deteriorated in recent months for Bangladesh. The latent economic crisis of the last two years has been compounded by a major political crisis. The Prime Minister, Sheikh Hasina, fled the country in August 2024, ousted by street protests amid exasperation over her authoritarianism and slowing socioeconomic progress. The formation of an interim government has restored calm, but there are many uncertainties. This political turmoil could offer a window of opportunity for China to increase its role in Bangladesh, a key issue of regional domination against India and the United States. Caught between a (Chinese) rock and an (Indian) hard place, the new authorities will, in all likelihood, seek above all to maintain their historical geopolitical neutrality.

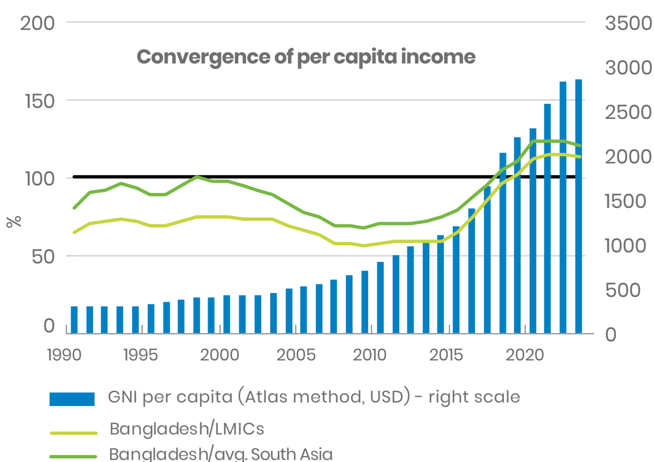
"Friendship to all, malice towards none". Such has been the motto of Bangladesh's foreign policy since its independence in 1971. Can this balancing act be maintained in the coming months to avoid a geopolitical crisis which would come on top of the ongoing political and economic crises?

Fall of the regime and transitional government

On 5 August 2024, Sheikh Hasina, Prime Minister of Bangladesh for more than 15 years, fled to India. Ousted by street protests, she was unable to withstand public exasperation over her authoritarianism and slowing socioeconomic progress (loss of purchasing power, increase in poverty). Yet her party, the Awami League (AL), had strengthened its grip on power over the years, with four consecutive victories in the general elections since 2007. Building on good economic results, local patronage, control over the armed forces, and the weakness of the Bangladesh Nationalist Party (BNP) (its main political rival) and other opposition parties, the AL had won the elections again in January 2024 with an overwhelming majority, giving the illusion of widespread public support. But for several years, the government had also been backsliding towards a strong form of authoritarianism, marked by repression and an attack on individual freedom (165th out of 180 in the 2024 World Press Freedom Index of Reporters Without Borders). This situation backfired on the AL: in the summer of 2024, the brutal repression of student protests, which were initially peaceful, against the reinstatement of quotas in the civil service (considered too discriminatory for a youth in search of employment) degenerated into a broader movement of popular protest, driving Sheikh Hasina out of office.

An interim government, composed of technocrats and members of civil society, supported by the army and led by Muhammad Yunus, the Nobel Peace Prize laureate in 2006, has restored calm. A roadmap has been announced, including the reform of the electoral system, and Mr. Yunus is expected to prioritize maintaining law and order, institutional reforms, and improving purchasing power. However, pending fresh elections (currently scheduled for early 2026), the political situation will remain fragile in the short term.

Graph 16 – The political crisis comes on top of the economic crisis over the last two years



Source: World Bank (WDI), AFD calculations.

In addition to public exasperation over authoritarianism, the fall of the regime was also due to the deteriorated economic situation. While 30 years of strong economic growth (5.6% a year on average since 1990) had enabled Bangladesh to be firmly established as a lower-middle-income country (LMICs, with a per capita income at $2,860 in 2023) and significantly reduce extreme poverty (from 34% in 2000 to 10.5% in 2019, at the $2.15 a day threshold), the economy has lost momentum since 2022. A collateral damage of the war in Ukraine, Bangladesh has seen its energy bill skyrocket, deteriorating its current account balance (-3.5% of GDP on average over 2021-2022, compared to a balance in the 2010s), despite the strength of garment exports and record remittances. The simultaneous decline in external financing and the defense of a quasi-fixed exchange rate regime with the dollar caused foreign exchange reserves to plummet by almost 60% in two years (8 months of imports in mid--2021, 3.2 months by mid-2023, stable at this level since then).

In response, the authorities have called on the IMF (total financing of $4.7 billion), devalued the taka several times (-28% in total), and established a flexible exchange rate regime. But they have also implemented an import compression strategy, resulting in numerous power cuts affecting business. In addition, the foreign exchange shortage and the energy crisis have been accompanied by an inflation rate of around 10% on average for the last two years, and it is not falling (10.9% in December 2024). Driven by the increase in food and energy prices, it has an impact on the purchasing power of the population, which has also seen a partial removal of subsidies since 2023.

Will the turmoil actually reconfigure regional geopolitics?

An Indo-Pacific country at the crossroads between South Asia and Southeast Asia, Bangladesh is structurally at the heart of regional geopolitical tensions, mainly between India and China. For India, a historical ally which had supported its independence, Bangladesh especially poses a security challenge at its north-east border, a refuge for anti-Indian Muslim rebels. Sheikh Hasina's regime fought against these rebels, driving them towards India, thus preventing them from turning Bangladesh into their rear base. It has, by extension, served U.S. interests in its war on Islamic terror since the end of the 2000s.

But India only maintained relations with the AL, with no concern for the opposition parties. With the fall of Mrs. Hasina, anti-Indian sentiment appears much more uninhibited today, especially at a time when Narendra Modi's Hindu nationalism in India clashes with a Bangladeshi population that is 90% Muslim.

Conversely, China, which is now Bangladesh's largest trade partner, could see the balance of power tip in its favor. Beijing has committed almost $60 billion in energy and infrastructure projects (bridges, railways, ports, power plants), in particular under the Belt and Road Initiative. It supplies 70% of Bangladesh's weapons and has made its rivalry with the informal Quad group (United States, India, Japan, Australia) a central issue for domination in the Indo-Pacific region. When the United States invited Bangladesh to join the alliance in 2021, as part of its strategy to contain China, China gave a strong warning to Hasina's regime.[18] The latter respectfully abstained, true to its non-alignment policy.

While the balance was more in favor of India, the deck could thus be reshuffled with the recent political turmoil. China, which has not alienated any party in Bangladesh and is not accused of interfering in domestic affairs, has been quick to support the interim government. It could be called upon even more to avoid a balance of payments crisis in Bangladesh. But voices are already being heard warning against an excessive indebtedness towards China, which would lead to a Sri Lankan scenario.[19] It is therefore safe to bet that Mr. Yunus and his successors will continue to prioritize their motto: neutrality above all.

[18] The Times of India "'We decide our foreign policy': Bangladesh reacts to Chinese warning over joining Quad", 11 May 2021.

[19] China is sometimes accused of having largely contributed to the excessive debt of Sri Lanka which defaulted on its external public debt in 2022.

Jordan: A pole of stability in a troubled middle east

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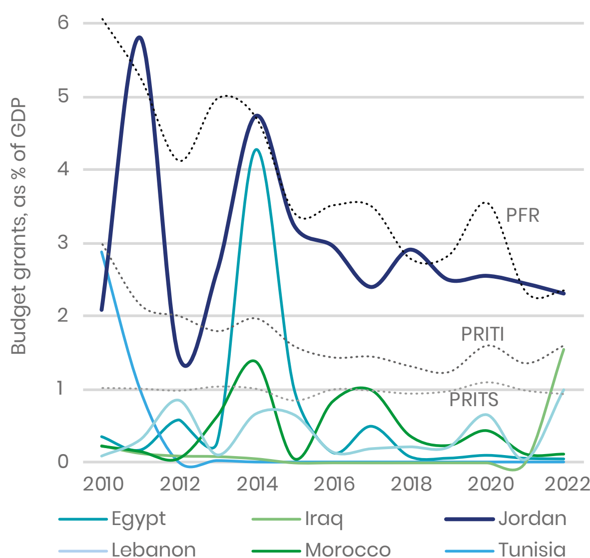
Jordan is situated in a complex geopolitical environment, but stands out as one of the most stable countries in the Middle East. Building on its strategic geographical position, the country is a "pivot" State, which ensures strong support from its allies and profoundly influences the structure of its economy. Economic activity has shown resilience, but has nevertheless been affected by developments in the regional situation. This can be seen with the economic slowdown over the last 15 years, which is largely attributable to a series of shocks in neighboring countries. While there has been a further marked deterioration in the regional situation since 7 October 2023, the macroeconomic impact of these conflicts appears to be relatively moderate for now.

Bordered by Syria in the north, Iraq in the north-east, Saudi Arabia in the east and south, as well as Israel and the West Bank in the west, Jordan is situated in a complex geopolitical environment, marked by a string of conflicts between countries, civil wars, and military coups in recent years. Yet the country stands out as one of the most stable in the Middle East. This can be seen with the continuity of the Hashemite dynasty, in power since 1921, few major conflicts since independence, and governance indicators far better than the regional average. Building on a strategic geographical position, Jordan can also be considered as a "pivot" State in the Middle East. This unique role is built on several pillars, including a pragmatic foreign policy, a recognized status as an international mediator, active security cooperation, and its role as a host country for the successive waves of refugees from the region.

A role as a pivot State in the Middle East

Consequently, Jordan benefits from a certain "geopolitical rent", as shown by the financial support provided by ally countries (primarily the United States) and international donors (including the $1.2 billion IMF four-year program approved in January 2024). In addition to the substantial concessional loans allocated, Jordan benefits from a flow of grants of more than 2% of GDP every year, a level similar to the average for low-income countries (whereas it ranks as a middle-income country, see Graph 17). They enable it to implement State priorities and provide financing for a high level of public spending. With regard to security, international cooperation and the hosting of foreign forces on its territory provide Jordan with substantial military assistance and act as a deterrent to potentially hostile groups or States. Coupled with the effectiveness of its security services and one of the most professional armies in the region, the country thus remains largely spared from conflicts and terrorist attacks, with only one attack killing civilians over the last 20 years (2016 Al-Karak attack). Finally, its diplomatic influence enables it to heighten its visibility at international level. Indeed, the country benefits from a positive image among tourists (6.5 million arrivals in 2023) and foreign investors, while internally, the monarchy is largely perceived as the guarantor of security for Jordanians against the unrest in the region.

Graph 17 – A level of grants similar to low-income countries



Source: IMF.

This status as a pivot State has far-reaching effects on the structure of the Jordanian economy, which is far more outward-looking than the average in the Middle East. Indeed, many business sectors are dependent on foreign investment, tourism flows, international aid and exports, including the hotel and catering industry, textiles, finance, real estate, mining, and pharmaceuticals. Compared to other countries in the region, Jordan thus has a significant level of trade openness (80% of GDP in 2022), FDI stock (78% of GDP in 2023), and diaspora remittances (about 4% of GDP a year). Despite geographical constraints—being almost landlocked, lacking significant natural resources, and facing an arid climate—Jordan's openness has enabled it to achieve notable successes. Building on a literacy rate of 98%, a life expectancy of 74 years, and the near elimination of extreme poverty, Jordan's Human Development Index ranking was 99th worldwide out of 192 countries in 2022, ahead of its main regional peers: Tunisia (101st), Egypt (105th), Lebanon (109th), Morocco (120th), and Iraq (128th).

Regional situation has an impact on the economy

Following a period of strong growth in the 2000s (annual average of +6.6%), Jordan has experienced a downturn in the economy over the last 15 years. Indeed, annual real GDP growth only averaged 2.3% between 2010 and 2024. While Jordan's geostrategic position is a strength, the country does remain affected by developments in the situation in the Middle East. Indeed, the post-2010 slowdown would mainly appear to be due to a series of shocks in neighboring countries, in particular the Syrian civil war (starting in 2011), the austerity policies in Gulf countries related to the fall in oil prices (2014-2018), and the emergence of the self-proclaimed "caliphate" of Daesh in part of the Syria-Iraq territory (2014-2019). These factors external to Jordan have contributed to eroding the confidence of economic actors, as seen with the fall in Jordan's investment rate, from 42% to 18% of GDP between 2005 and 2023. The population has also increased at a markedly higher rate than real GDP since 2010, due to the influx of Syrian and Iraqi refugees, but also a high domestic fertility rate (almost 2.8 children per woman). Consequently, the standard of living of Jordanians is tending to decline. Per capita GDP (in constant USD at purchasing power parity) and the human development indicators are also stagnating.

Since 7 October 2023, the Jordanian authorities have strived to maintain a relatively neutral position, forced to walk a tightrope between the expectations of public opinion (almost two-thirds of the population is of Palestinian origin) and the need to maintain good relations with its Israeli neighbor (agreements on security, water and energy). They have thus reaffirmed their support for the Palestinian cause and provided humanitarian assistance to populations, while taking part in the interception of Iranian missiles and drones targeting Israel in April and October 2024. This further deterioration in the regional geopolitical situation has an impact on the Jordanian economy, which is affected by the fall in international tourism, a decline in investor confidence, and disruptions to supply chains (attacks by Houthi rebels in the Red Sea). However, the macroeconomic impact has so far remained moderate. Indeed, the IMF estimates that the regional conflicts resulted in a decline of "only" 0.4 GDP points in 2024 (growth at 2.3%, against 2.7% projected by the IMF before the conflicts). Similarly, the rise in inflation related to the ship hijackings in the Red Sea remained concentrated in the first months of 2024. Referring to the strong resilience of the economy in recent years and the efforts made under the 2024-2028 IMF program, the rating agencies Moody's and S&P upgraded Jordan's sovereign credit ratings in 2024, to an equivalent BB-.

Pakistan: Economic stability supported by the international community and regional powers

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In its recent history, Pakistan's economy has experienced several balance of payments and public finance crises, symptoms of a fragile economic model vulnerable to exogenous shocks. Macroeconomic imbalances have increased since 2022 as a result of a succession of crises, but the situation would appear to have stabilized since the beginning of 2024. Since September 2024, this economic recovery has been coupled with a new IMF program, signaling the international community's strong commitment towards Pakistan, a key economy in the region. The country also benefits from financial support from global and regional powers (China and Gulf countries in particular), whose economic relations with Pakistan are driven by well-defined geopolitical interests. In a changing global environment, the continuation of this support remains essential for a sustainable recovery of Pakistan's economy.

At the end of September 2024, the Pakistani authorities engaged in a new economic and financial program with the IMF, the 23rd in the country's history. Since 2022, the macroeconomic imbalances have been particularly marked and require deep structural reforms combined with substantial financial support. Pakistan currently benefits from the support of several global economic powers (often with diverging interests) through its pivotal role in the region. While this support does not currently appear to be jeopardized by the recent and future reorganization of international relations, it remains a critical factor to consider in Pakistan's macroeconomic outlook.

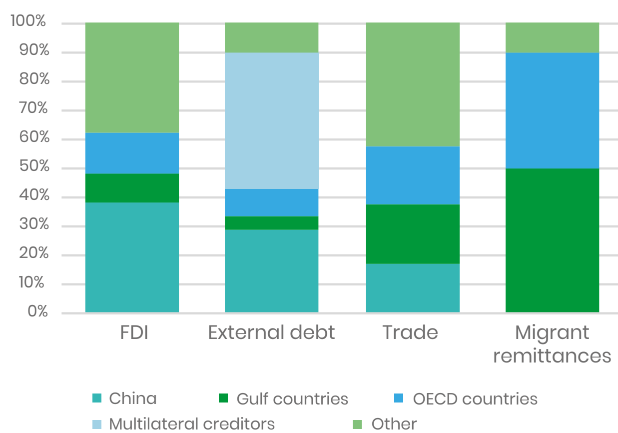
Under strong pressure since 2022, the macroeconomic situation of Pakistan is stabilizing

The macroeconomic situation of Pakistan has been seriously weakened since 2022, following a combination of several major shocks. First, the no-confidence motion against the government of Imran Khan in April 2022 triggered a political and institutional crisis, undermining the confidence of economic actors. This crisis only came to an end with the February 2024 elections, although the November 2024 protests highlight the persistent fragility of the political environment. Second, the country has experienced extreme climatic events (heat wave in the spring, followed by catastrophic flooding at the end of the summer), with a cost estimated at nearly 9% of GDP. Finally, the increase in commodity prices throughout 2022, in particular for energy, has seriously affected the trade deficit and inflation in Pakistan. This has led to import restrictions and capital controls. These crises resulted in a recession in the country of -0.2% for the fiscal year 2022-2023, an inflation rate of more than 20% on average for 2022-2024, and a sharp depreciation of the rupee (-40% against the dollar in two years). Meanwhile, the fiscal deficit has widened, from 6% of GDP for the fiscal year 2021 to an average of 7.8% over the next two years, increasing the government's financing needs.

The situation has improved slightly since the beginning of 2024, with the political stabilization allowing certain measures to be implemented under the short-term agreement signed with the IMF at the end of 2023, followed by a new program in September 2024. Economic growth reached 2.4% for the fiscal year 2023-2024 (and is expected to stand at 3.2% this year). The fiscal deficit has narrowed slightly (-6.7% of GDP last year) and foreign exchange reserves, which were under strong pressure at the end of 2022 and the beginning of 2023, have been replenished, although they still only cover 2 months of imports of goods and services. Finally, the rupee remained stable against the dollar in 2024, and inflation has dropped below the symbolic threshold of 10% (year-on-year) since August 2024. The new IMF program is expected to help stabilize the macroeconomic situation, which does remain very fragile due to exposure to potential future shocks that could once again affect financing requirements. Financial support from partner countries and the international

community therefore remains essential to support economic recovery. This is demonstrated by the financing assurances from China and Gulf countries (primarily Saudi Arabia) under the IMF program.

Graph 18 – Weight of the main foreign actors in Pakistan's balance of payments



Source: IMF, SBP, World Bank, AFD calculations.

Pakistan benefits from extensive financial support due to its role as a regional pivot

As a central geographical hub of China's Belt and Road Initiative, a Sunni counterweight to Shiite Iran for Gulf countries, a historical yet ambivalent ally of the United States in the context of the Cold War, then the war in Afghanistan, Pakistan is a pivot country for several economic powers and gains major commercial and financial benefits from this position. However, the rapid reconfiguration of international relations raises questions over the future modalities of the support of the various actors, on which Pakistan still remains highly dependent.

China plays a prominent role in this geopolitical environment through the China-Pakistan Economic Corridor (CPEC). This project seeks to develop a network of infrastructure across the country, connecting Western China to Gwadar Port in the south of Pakistan, thereby providing China with direct access to the Strait of Hormuz and the Gulf of Oman. Chinese financing under this project makes it the largest external creditor for the Government of Pakistan, with a debt stock estimated at more than $30 billion at the end of 2024.

The Gulf countries (Qatar, Saudi Arabia, United Arab Emirates) also provide significant support to Pakistan, the second most populous Muslim country in the world and the main Sunni neighbor of Iran. Their financial support includes investments in infrastructures, foreign currency loans and deposits at the Central Bank of Pakistan to strengthen the country's external position. Additionally, Pakistan is the second largest exposure of the Islamic Development Bank. Finally, the Pakistani diaspora living in Gulf countries makes a major contribution to migrant remittances, one of Pakistan's main foreign exchange inflows (at a level equivalent to exports of goods).

Finally, Pakistan still benefits from strong support from Western economies and international financial institutions. The United States, in particular, should remain committed to the stability of Pakistan due to its geographical proximity to Afghanistan and Iran. Pakistan's demographic weight (the world's fifth most populous country) and economic weight (the third largest economy in South Asia) also make it a country "too big to fail" for international financial institutions. This explains the renewed support of the IMF, despite the mixed historical track record of the previous programs, and the strong engagement of multilateral institutions, with Pakistan ranking as the third-largest global exposure for the World Bank.

Georgia: Growing polarization

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A small and very outward-looking economy, Georgia has shown a strong financial performance since 2021, with dynamic economic activity and stable fiscal and external balances. Through its geographical position and its history, it is caught between Europe and Russia and is showing growing internal political polarization. While the country has openly expressed its pro-European aspirations since the 1990s, they have been marking time in recent months.

Georgia has experienced several political upheavals since its independence in 1991: civil war until 1995, Rose Revolution in 2003, war with Russia in the summer of 2008. Despite this turbulent environment, Georgia has managed to establish relatively robust institutions. It has also established a liberal economic framework through numerous reforms which has created an enabling environment for business and foreign investment. This progress led to the country becoming an upper-middle-income country (UMIC) in 2018, whereas it was still a low-income country (LIC) (two categories below UMICs) in the early 2000s.

Economic dynamism since 2021

Fears over the negative economic impact for Georgia of the conflict in Ukraine have not materialized and growth in the country remained very dynamic in 2022 (+11.0%, against -3.2% anticipated in the World Economic Outlook published by the IMF in April 2022). Economic activity has in particular benefited from the explosion in migration flows from Russia (more than 100,000 people in 2022, or 2.8% of the Georgian population) and its positive impact on financial transfers. As a large proportion of these migrants work in the field of information and communication technologies, the activity of this sector experienced particularly strong growth as of 2022. In 2023, the GDP growth dynamics slowed due to the reduction in these flows: it is estimated that the number of Russian migrants living in Georgia has fallen by 30,000. However, it has remained well above its potential (estimated at about 5% by the IMF), at 7.5%. It is estimated to have remained at a similar level in 2024 (7.6% according to the IMF).

These financial flows have also contributed to reducing the current account deficit. The current account is structurally in deficit, with the positive balances in services and revenues not sufficient to offset the substantial trade deficit. The current account deficit thus stood at -9.4% of GDP on average in the 2010s. It fell sharply in 2022 (-4.5% of GDP) and 2023 (-4.3%), reflecting the inflow of revenues from tourism and transfers. This moderation continued in 2024, with a current account deficit estimated at 5.8% of GDP.

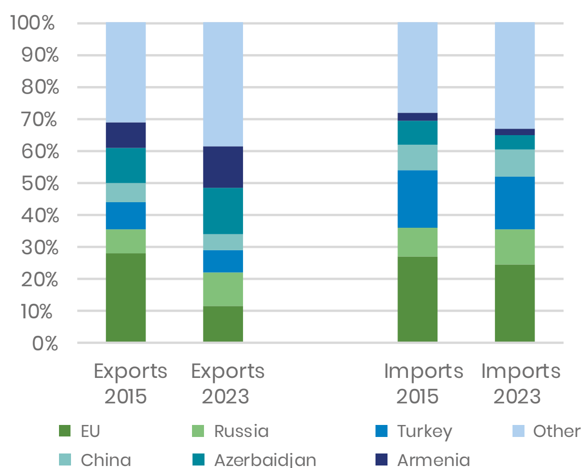
With regard to fiscal balances, Georgia established a solid public finance management framework in 2014 (fiscal rule based on the European Union model, with a target deficit of 3% of GDP and a debt ceiling of 60% of GDP). During the 2010s, the authorities consolidated their public finances, but the health crisis reversed the trend: the public deficit increased to -9.2% of GDP in 2020 and -6% in 2021. The deficit has been financed through support from donors and by drawing on the government's stock of precautionary deposits. Since 2022, the fiscal deficit has fallen below the target of 3% of GDP and the public financing requirement remains stable, at 6% of GDP.

The fiscal consolidation has been supported by an IMF program (3-year Stand-By Arrangement for $280 million signed in June 2022). However, the second program review (initially scheduled in June 2023) has been postponed until further notice, after the Parliament adopted amendments to the Organic Law on the National Bank of Georgia (NBG) to change the composition of its Board of Directors. These amendments were adopted despite the IMF's warnings about the risk they pose for the credibility and independence of the NBG.

Search for a geopolitical positioning

Through its geographical position and its history, Georgia is caught between Europe and Russia. In recent years, its government has nurtured an ambiguity over its European aspirations, but would now appear to be taking a more assertive stance. In 2018, the European and Atlanticist aspirations were set out in the Georgian Constitution. Article 78 of the Constitution thus states: "The constitutional bodies shall take all measures within the scope of their competences to ensure the full integration of Georgia into the European Union and the North Atlantic Treaty Organization". In March 2022, in the aftermath of the outbreak of the war in Ukraine and at the same time as Ukraine and Moldova, Georgia submitted an application for EU membership. It subsequently obtained the status of official candidate in December 2023. While the adoption in 2024 of several controversial measures (law on "foreign influence" in May 2024, law on "family values" in September 2024) had blocked the accession process, in November 2024, the Georgian Prime Minister officially announced that he wished to postpone putting the issue of EU membership on the agenda until at least the end of 2028. This distancing from Europe triggered major protests in the country, with a segment of the population reaffirming its pro-European aspirations.

Graph 19 – Trends in the share of Georgia's main trade partners



Source: Geostats, AFD calculations.

On the economic front, Georgia and the European Union have extensive relations, but they have been faltering over the last ten years. In terms of trade, while 28% of Georgia's exports went to a European country in 2015, this destination only accounted for a total of 11.6% of exports in 2023. The majority of Georgia's exports are to countries of the Commonwealth of Independent States (CIS). In 2023, they amounted to 66%, with Russia accounting for a total of 10.8% of Georgia's exports (a slight increase over the last ten years). For its imports, Georgia continues to be mainly supplied by the European Union (24.5% in 2023), ahead of CIS countries which account for 21% of imports. In terms of foreign direct investment, in 2022, three European countries were among the country's five main investors (UK, Netherlands and Cyprus) for a cumulative amount of $6.3 billion, or 30% of the total FDI stock in the country.

Moldova: A high-voltage environment

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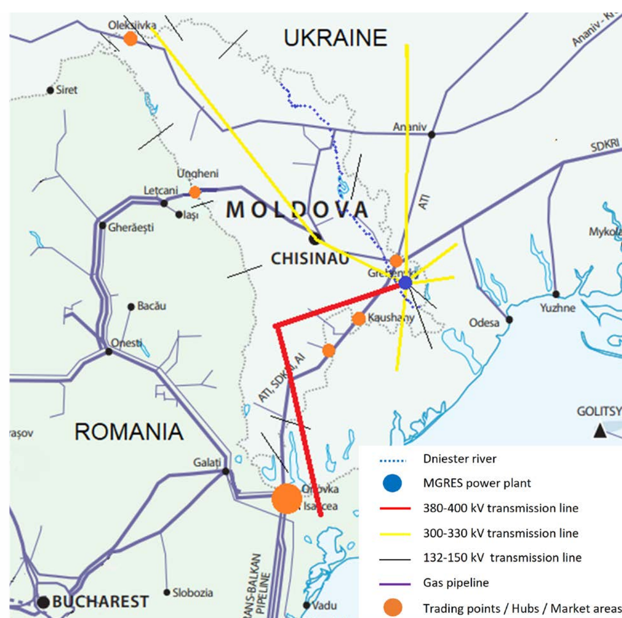
At the crossroads of legacies from several empires and faced with strong rivalries over influence, since its independence, Moldova has maintained the position of neutrality set out in its Constitution. It has also stayed on course towards the European Union, alongside multifaceted relations with Russia. Russia's war of aggression against Ukraine has led to a sudden reconfiguration of these relations. Energy independence, which is closely linked to control over territories and borders, is a key concern.

While geopolitics studies rivalries between powers over areas, Moldova is undoubtedly a textbook case, as it has often and continues to be at the center of conflicts between major powers. Already a vassal of the Ottoman Empire in the 16th century, its eastern part was annexed to the Russian Empire in 1812. Almost entirely included in "Greater Romania" between the two world wars, it became the Soviet Socialist Republic of Moldova at the end of the Second World War, with Transnistria, the small 4,000 km² strip to the east of the Dniester River, but without the southern part which gave it access to the Black Sea, which was attached to Ukraine. This is the Moldova, with Soviet borders and a flag with the colors of Romania, which became independent in 1991. Fearing a reunification with Romania, and to protect certain interests gained during the Soviet era, separatist factions proclaimed the secession of Transnistria. Supported by the Soviet army, in 1992 they won a war which killed 3,500 people. The frozen conflict has still not been resolved, while no State of the international community recognizes the State of Transnistria. This territory and its infrastructure continue to remain strategic in the current geopolitical situation.

"The Offshore Republic"

This is the title of the first report of the Independent Anti-Corruption Advisory Committee, which in particular describes the "theft of a billion" in 2014, when 12% of GDP disappeared from three banks into offshore accounts. According to the investigation of the Organized Crime and Corruption Reporting Project, the "theft of the century" was only the visible part of a system established in the early 2000s under the government led by the Moldavian Communist Party, which intensified as of 2010, in connection with the "Russian Laundromat". Beyond the impact of endemic and internationalized corruption, the metaphor of the offshore Republic is used to illustrate the fact that Moldova is indeed affected by "extra-territorial" dynamics, and to an extent beyond the scope of the interdependencies generally facing small countries. At the geopolitical level, for example, the two terms of office of President Vladimir Voronin (from the Communist Party) were characterized by frequent pro-Russian *versus* pro-European turnarounds, which were in themselves symbolized by the last-minute refusal to sign the "Kozak Memorandum" in 2003, a solution to the Transnistrian conflict proposed by Russia. Its abandonment has become emblematic of the struggles for influence between Russian and U.S.-European diplomacies.

Map 1 – Moldova's gas and electricity interconnections



Source: Simplified adaptation based on ENTSOG and ENTSOE.

At the socioeconomic level, Moldova stands out for the size of its diaspora (38.4% of the population aged over 15 was working abroad in 2018) and migrant remittances (averaging 17% of GDP over the last ten years). In terms of energy, with no fossil fuel resources of its own and less than 17% of its energy mix produced with renewables, Moldova is dependent on the outside world for its gas and electricity supply, and almost exclusively on Russia for gas until 2022. This is a major source of vulnerability in the event of geopolitical tensions.

Between winds from the East and a course towards the West, a balancing act period

Despite the identity-related[20] and geopolitical divisions affecting Moldova, the course towards the European Union, while remaining closely linked to Russia, remained constant until 2022. Consequently, few governments, whether or not branded as pro-Russian, challenged the process of rapprochement with the EU[21]. It started in 1995 with its accession to the Council of Europe, was reaffirmed between 2009 and 2014, despite great parliamentary instability and the extended absence of the President of the Republic, and resulted in the signing of a Deep and Comprehensive Free Trade Area agreement with the EU in 2014. Furthermore, the position towards Transnistria has remained relatively stable, with a step-by-step reintegration being the only feasible approach.

At the socioeconomic level, the dependence on Russia for gas coexisted with an increase in trade with the EU, where the share of Moldova's exports rose from 44% on average between 2003 and 2007 to 64% between 2017 and 2021, with the share for Russia falling from 28% to 9% over the same period. However, Russia still accounted for 17% of FDI in 2022, and was the main destination for emigration in 2023.

Russia's war against Ukraine, energy blackmail and European anchoring

In 2020, the resolutely pro-European Maia Sandu was elected President of the Republic. Her party, the PAS (Party of Action and Solidarity), won the general elections of 2021. In a context of tensions related to the energy crisis at the end of 2021[22], which led to supply shortages and a rise in inflation and poverty, Russia's invasion of Ukraine in February 2022 radicalized political positions and intensified the battles for influence. In terms of Europe, it accelerated the process for EU membership: on 3 March 2022, Moldova applied for membership, which was followed by its access to the status of candidate on 23 June 2022. The negotiations effectively started two years later. On the Eastern front, a 30% reduction in gas supplies in October 2022 by way of energy blackmail, then the intensification of destabilization operations (including vote buying) prior to the presidential election and the referendum on EU membership on 20 October 2024, have been widely documented.

The energy factor plays a crucial role in Moldavian geopolitics and the country's European path. Following the commissioning of the Romania-Moldova gas pipeline, Moldova was able to reorient the bulk of its imports by getting its supplies from the EU. Consequently, since 2023, only imports from the left bank of the Dniester, supplying the Transnistria power plant (Moldavskaya GRES) via Ukraine, came from Russia. But this dynamic of untying was incomplete: the MGRES power plant produced between 60% and 80% of the power consumption of the right bank and the flows of Russian gas were crucial for the country's electricity supply until the commissioning of a new high-voltage interconnection with Romania at the end of 2025. The end to gas deliveries to Transnistria by Gazprom on 1 January 2025 thus plunged Moldova into an energy crisis with major socioeconomic and political risks, all the more so as Transnistria has refused help from its European partners and Chisinau. Indeed, the population has suffered from years of inflation, and the European course was seriously challenged by the double referendum and presidential election of the autumn of 2024. With general elections scheduled in the autumn, 2025 is going to be crucial for the European future of Moldova. The support from its European and international partners will once again be decisive in enabling the country to "get through the winter" and strengthening its ability to make energy, and therefore economic, choices… as well as political choices.

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[21] Parmentier, F. (2023). « Moldavie : un système politique sous tension Entre aspirations européennes et guerre en Ukraine ». Notes de l'IFRI, mai 2023.

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Ukraine: Portrait of a war economy

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The large-scale invasion launched in February 2022 gave a new dimension to Russia's war of aggression in Ukraine since the annexation of Crimea in 2014. While the front has become relatively stable in the east, the country is subject to Russian air strikes, resulting in major population displacements, human losses, and physical destructions. The economy has been hard hit, but has not collapsed. The war effort results in massive public spending, leading to substantial twin deficits. As domestic revenue mobilization capacities are limited, the financing requirements are covered by the international community, mainly with loans, based on a framework developed by the IMF. Ukraine has also negotiated debt rescheduling until 2027, which will in all likelihood be extended by additional restructuring to reduce public debt to a sustainable level. The general financial picture remains highly uncertain, as it is based on particularly fragile assumptions. The start of negotiations for EU membership and the supervision of the program with the IMF have accelerated measures to strengthen governance, which was identified as highly deficient before the conflict.

Regaining its independence in 1991 with the dismantling of the USSR, up until 2013, Ukraine had alternated between pro-Russian and pro-European governments. Ten years after the Orange Revolution, during which the population protested to defend democratic principles, the Maidan Revolution (February 2014) put Ukraine firmly on the path towards Europe, an anchoring confirmed by the election of Volodymyr Zelenski as President in 2019. In response, Russia annexed Crimea in March 2014 and supported an armed separatist uprising in Donbas. In February 2022, Russia launched a large-scale invasion, with Russian troops advancing to just a few kilometers away from Kyiv, before the front finally stabilized in the east, with an occupation of more than 20% of Ukrainian territory.

As many former Soviet bloc countries, Ukraine's demographic dynamics were already negative even before Russia's aggression, with a fertility rate of 1.2 children per woman in 2021. Ukraine's resident population thus fell by 10 million (from 51 million to 41 million) between 1995 and 2021. In addition to this decline, there were 6.7 million refugees (including 1.2 million in Russia) and 3.7 million internally displaced people due to the conflict (UNHCR data, August 2024). In terms of the human cost of the war, hundreds of thousands of people have been killed or injured on the front, and tens of thousands of civilians have been killed or injured.

An economy bruised, but not collapsed

At the economic level, the war damage is estimated at more than $150 billion between February 2022 and December 2023, and the reconstruction needs at almost $500 billion over ten years (World Bank assessment), to be compared with the country's GDP, which stood at $200 billion in 2021. Energy infrastructure has been particularly hard hit, as it is systematically targeted by Russian air strikes. Russia's aggression has dealt a heavy blow to the Ukrainian economy, which experienced a recession of 30% in 2022. The agriculture sector is a driving force of the economy, accounting for 12% of GDP and 15% of employment in 2021, with major knock-on effects in the manufacturing and service sectors. Maintaining export outlets for agri-food products is a key issue for the Ukrainian economy, but also for the stability of certain international prices and food security. Europe's opening up to Ukrainian exports has also caused tensions with neighboring countries, such as Poland.

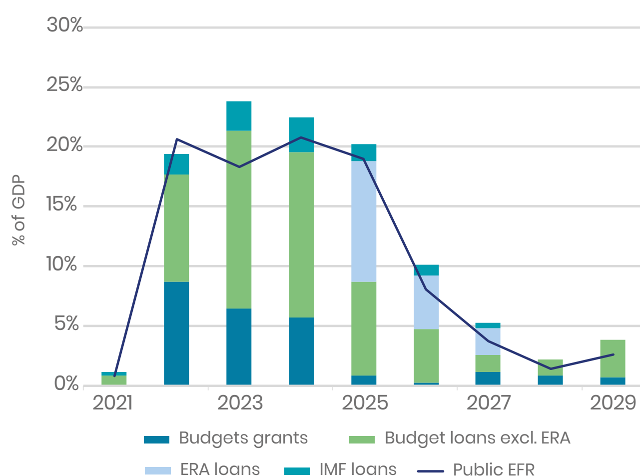
The authorities have established a "war economy", which primarily aims to address security issues. There was an upturn in growth in 2023 (5.5%) and a slight deceleration in 2024 (4%), in particular due to energy constraints. The outlook for 2025 and beyond obviously depends on developments in the conflict, for which the scenarios are extremely fragile, in particular following Donald Trump's victory in the United States elections. The baseline scenario of the IMF's ongoing program assumes the war will end in the fourth quarter of 2025, pointing to a growth rate of 2.5% in 2025, then a path at

around 4-5% per year. The IMF also envisages a negative scenario, with the war intensifying in 2025 and a continuation until the first half of 2026, resulting in a recession of 2.5% in 2025 and a stagnation in 2026, followed by a weaker path to recovery (3.5-4% per year).

The cost of the war and its financing

Public finances are fully focused on the war effort, while maintaining a minimum level of social protection. Public spending increased from 41% of GDP in 2021 to 65% in 2022 and 74% in 2023. The "salaries and pensions" expenditure items have skyrocketed (+16 GDP points in 2022, followed by a stabilization) for the mobilization on the front, as well as expenditure for "goods and services" (+7 and +9 GDP percentage points in 2022 and 2023) for the supply of arms. Despite internal fiscal efforts (+5 GDP percentage points expected between 2021 and 2027), huge fiscal deficits were recorded in 2022/2023 and are expected for 2024/2025 (between -15 and -20% of GDP each year), and well above in the event of an intensification and/or prolongation of the war. In view of the scale of the expenditure and the limited domestic mobilization revenue capacities, the bulk of the financing is expected from the international community, hence the importance of providing a macro-financial framework through the IMF program ($16 billion) which is subject to quarterly reviews.

Graph 20 – Modalities for the coverage of the substantial external financing requirements



Source: IMF.

The coverage of Ukraine's external financing requirements (EFR) is multifaceted. Ukraine is unable to make its debt repayments and has negotiated a suspension until 2027 with its official creditors, then a restructuring with its international bondholders. It now needs to negotiate the restructuring of specific debts, such as GDP-linked warrants. In terms of new financing, the international community has pledged a package of about $250 billion for 2022/2026. The share financed with grants, which was initially high, has been reduced and replaced by loans (which will undoubtedly need to be restructured at the end of the war), as well as by the implementation of the ERA (Extraordinary Revenue Acceleration) initiative, approved by the G7 on 25 October 2024. ERA consists of a $50 billion package of loans for which the repayments are guaranteed by the revenues generated by Russian seized assets. In this respect, ERA financing is not recorded in Ukrainian public debt. The first ERA disbursements are being made, in particular by the United States and the EU.

The war's impact on internal reforms

The support from the international community, through the adoption of the status of EU candidate (June 2022) and the IMF Extended Credit Facility (March 2023), has defined a very demanding framework for reforms for Ukraine. The prospect of membership, the required pre-accession reforms, and the IMF program have thus had an accelerator effect on the improvement of governance and the fight against corruption. These reforms concern very diverse aspects and are subject to close supervision. Despite the particularly difficult situation, the authorities are showing a major commitment. This has resulted in a significant improvement in Ukraine's ranking in the Corruption Perceptions Index of Transparency International (from 152nd to 104th between 2011 and 2023).

List of acronyms and abbreviations

AGOA	African Growth and Opportunity Act
AL	Awami League (Bangladeshi political party)
ALBA	Bolivarian Alliance for the Peoples of Our America
ANC	African National Congress (South African political party)
BNP	BNP: Bangladesh Nationalist Party
CARICOM	Caribbean Community
CSI	Commonwealth of Independent States
CMEA	Council for Mutual Economic Assistance
CPEC	China-Pakistan Economic Corridor
DA	Democratic Alliance (South African political party)
EIU	Economist Intelligence Unit
GNU	Government of National Unity
ICJ	International Court of Justice
IRA	Inflation Reduction Act
JETP	Just Energy Transition Partnership
LIC	Low-income country
LMIC	Lower-middle-income country
NAFTA	North American Free Trade Agreement
NBG	National Bank of Georgia
SARB	South African Reserve Bank
T-MEC	Treaty between Mexico, the United States and Canada
UMIC	Upper-middle-income country
UNCTAD	United Nations Conference on Trade and Development
yoy	yoy: year-on-year

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Correspondence list for ISO codes

ISO-3 code	Country
AFG	Afghanistan
AGO	Angola
ALB	Albania
ARG	Argentina
ARM	Armenia
ATG	Antigua and Barbuda
AZE	Azerbaijan
BDI	Burundi
BEN	Benin
BFA	Burkina Faso
BGD	Bangladesh
BHS	Bahamas
BIH	Bosnia
BLR	Belarus
BLZ	Belize
BOL	Bolivia
BRA	Brazil
BRB	Barbados
BTN	Bhutan
BWA	Botswana
CAF	Central African Republic
CHN	Chile
CHN	China
CIV	Côte d'Ivoire
CMR	Cameroon
COD	Democratic Republic of the Congo
COG	Congo
COK	Cook Islands
COL	Colombia
COM	Comoros
CPV	Cape Verde
CRI	Costa Rica

ISO-3 code	Country
CUW	Cuba
DJI	Djibouti
DMA	Dominica
DOM	Dominican Republic
DZA	Algeria
ECU	Ecuador
EGY	Egypt
ERI	Eritrea
ETH	Ethiopia
FJI	Fiji
FSM	Micronesia
GAB	Gabon
GEO	Georgia
GHA	Ghana
GIN	Guinea
GMB	Gambia
GNB	Guinea-Bissau
GNQ	Equatorial Guinea
GRD	Granada
GTM	Guatemala
GUY	Guyana
HND	Honduras
HTI	Haiti
IDN	Indonesia
IND	India
IRN	Iran
IRQ	Iraq
JAM	Jamaica
JOR	Jordan
KAZ	Kazakhstan
KEN	Kenya
KGZ	Kyrgyzstan
KHM	Cambodia

Correspondence list for ISO codes

ISO-3 code	Country
KIR	Kiribati
KSV	Kosovo
LAO	Laos
LBN	Lebanon
LBR	Liberia
LBY	Libya
LCA	Saint Lucia
LKA	Sri Lanka
LSO	Lesotho
MAR	Morocco
MDA	Moldova
MDG	Madagascar
MDV	Maldives
MEX	Mexico
MHL	Marshall Islands
MKD	North Macedonia
MLI	Mali
MMR	Myanmar
MNE	Montenegro
MNG	Mongolia
MOZ	Mozambique
MRT	Mauritania
MUS	Mauritius
MWI	Malawi
MYS	Malaysia
NAM	Namibia
NER	Niger
NGA	Nigeria
NIC	Nicaragua
NPL	Nepal
NRU	Nauru
PAK	Pakistan
PAN	Panama

ISO-3 code	Country
PER	Peru
PHL	Philippines
PLW	Palau
PNG	Papua New Guinea
PRY	Paraguay
PSE	Palestine
RWA	Rwanda
SDN	Sudan
SEN	Senegal
SGP	Singapore
SLB	Solomon Islands
SLE	Sierra Leone
SLV	El Salvador
SOM	Somalia
SRB	Serbia
SSD	South Sudan
STP	Sao Tomé and Principe
SUR	Suriname
SWZ	Eswatini
SYC	Seychelles
SYR	Syria
TCD	Chad
TGO	Togo
THA	Thailand
TJK	Tajikistan
TLS	Timor-Leste
TON	Tonga
TTO	Trinidad and Tobago
TUN	Tunisia
TUR	Turkey
TUV	Tuvalu
TZA	Tanzania
UGA	Uganda

Correspondence list for ISO codes

ISO-3 code	Country
UKR	Ukraine
URY	Uruguay
UZB	Uzbekistan
VCT	Saint Vincent and the Grenadines
VEN	Venezuela
VNM	Vietnam
VUT	Vanuatu
WSM	Samoa
YEM	Yemen
ZAF	South Africa
ZMB	Zambia
ZWE	Zimbabwe

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