

BBVA

RESEARCH

AAFBR Conference
Bucharest
15 November

2016

Geopolitics

Issues in an Uncertain World
AAFBR Conference, Bucharest

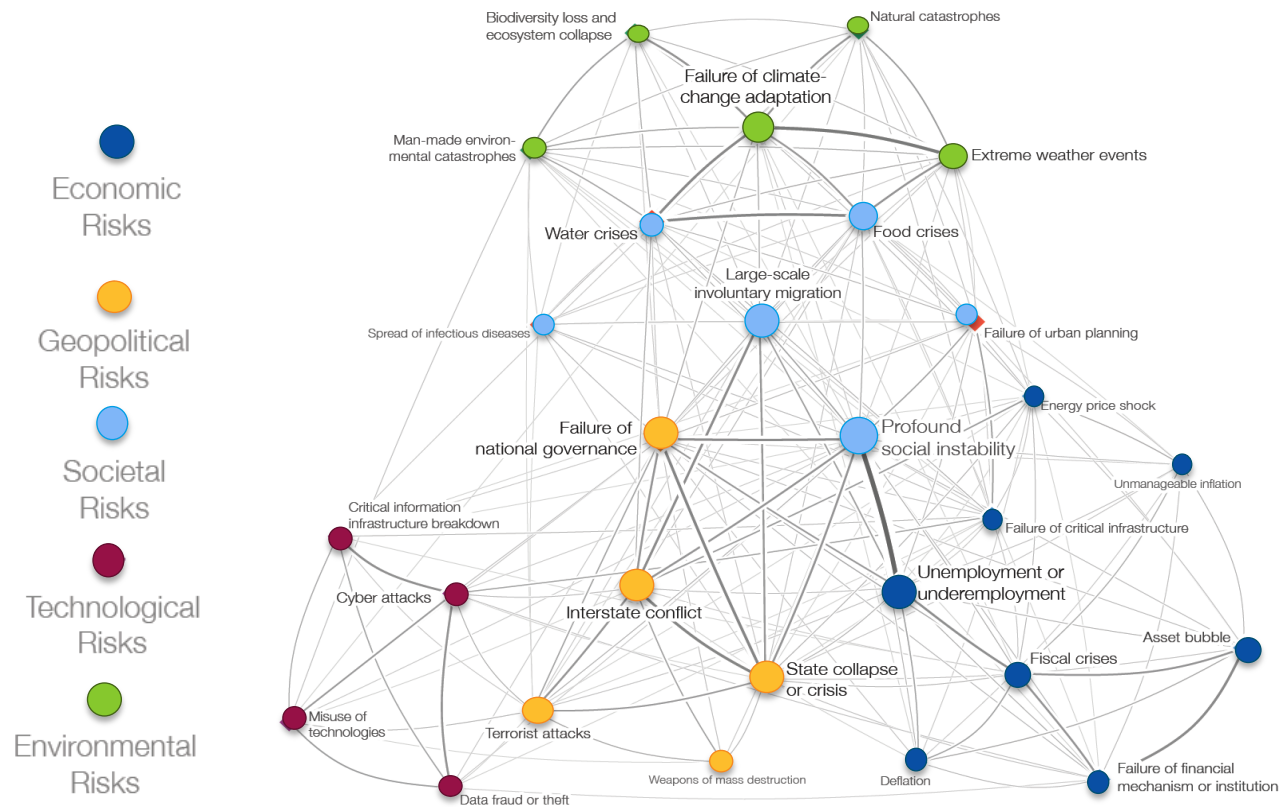
Alvaro Ortiz PhD

Chief Economist China, Turkey & Geostrategy, BBVA Research

Why is geostrategic analysis so important?

Geopolitical risks are highly interconnected

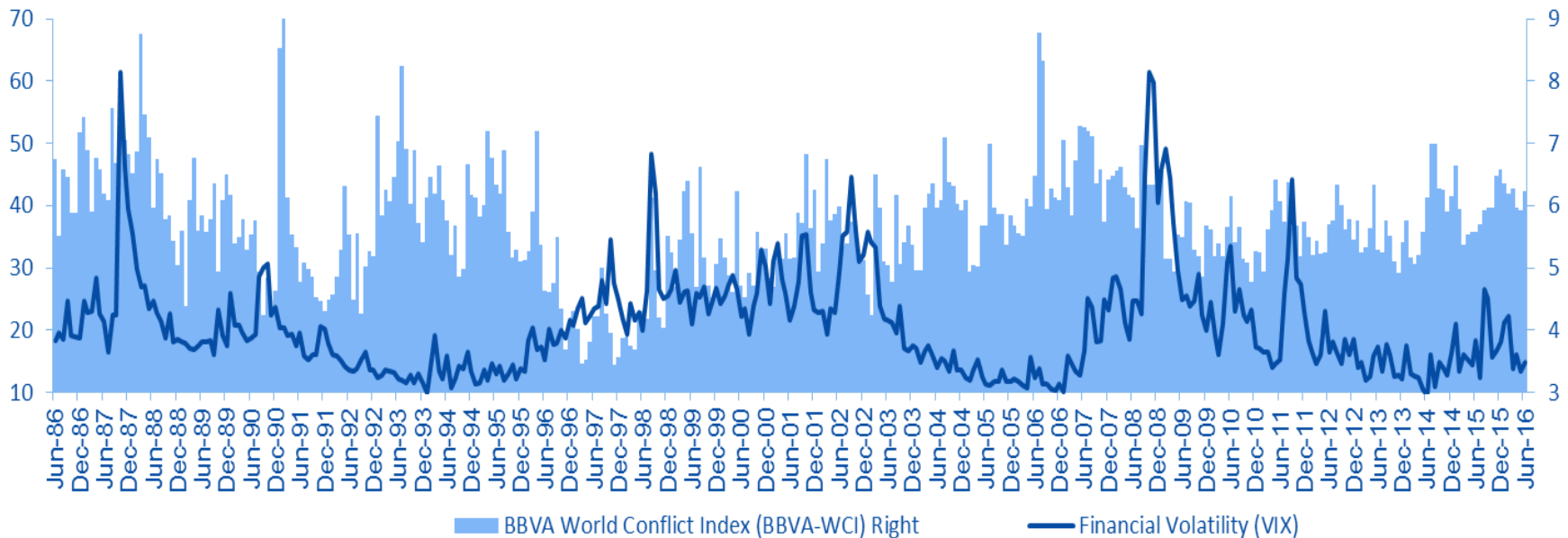
Source: The Global Risk Report, WEO 2014



Geopolitics is one of them and not always affect markets. Contrary to Financial Markets “Mean-Reversion”, can exhibit “Path Dependence”

Financial volatility and Geopolitics 1986-2016

(Number of conflicts in the world / Total events in the world, according to the Goldstein Scale)



“It was the rise of Athens, and the fear that this inspired in Sparta, that made war inevitable.” (Thucydides trap)

There are several Geopolitics “Hot Spots” nowadays...

BBVA Conflict Heatmap in 2016

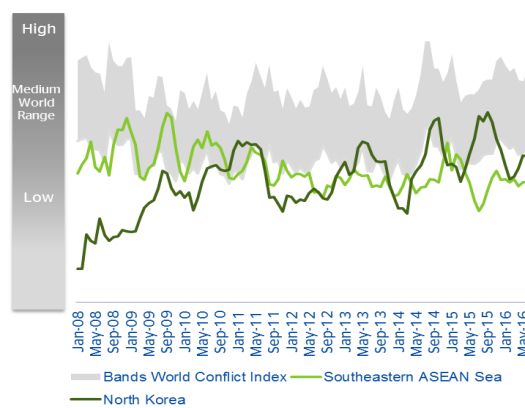
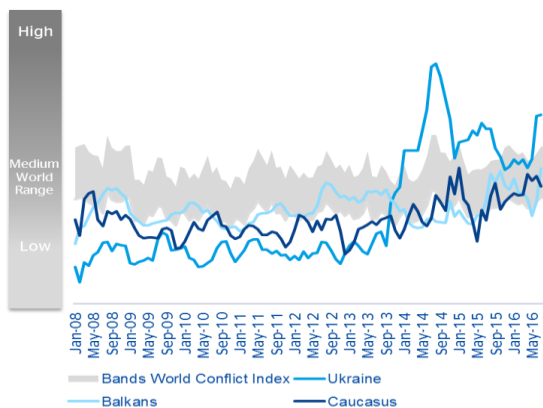
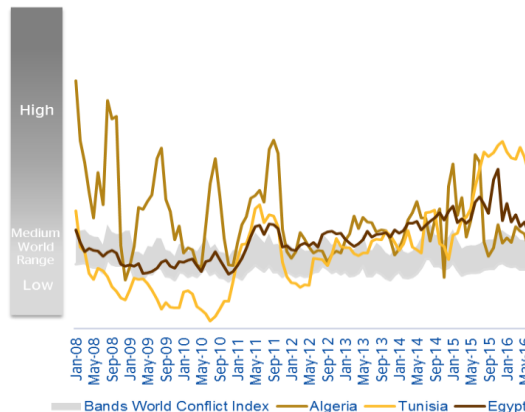
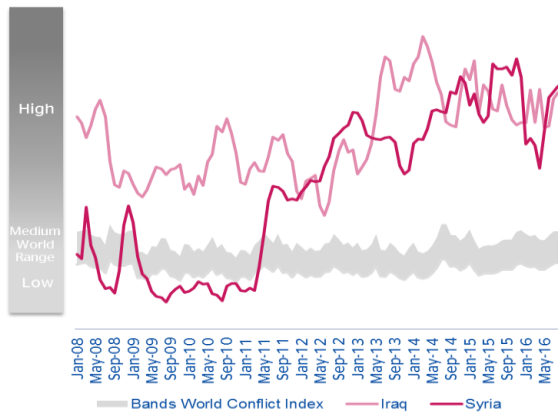
(Number of conflicts / Total events)



In some of the areas the current instability is reaching levels not seen before...

BBVA Research Key Conflict Intensity Indices 2008-16

(Conflicts / total events)

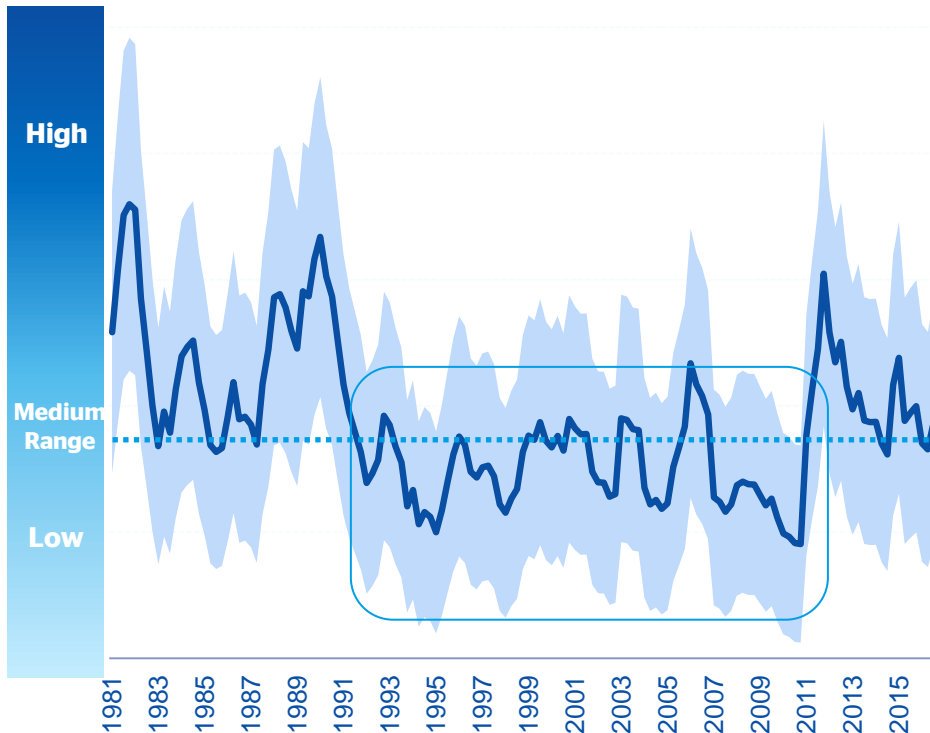


- Conflict intensity in Syria and Iraq continues at critical levels
- Worrisome signals are observed in Tunisia
- Ukraine conflict still unsolved and Caucasus situation is deteriorating
- North Korea conflict on the rise but still below the world average
- Further attention must be paid to South China Sea tensions

...but Geopolitical risks are “not new” although they come after a long period of calm (“The post cold war”) & the big financial crisis

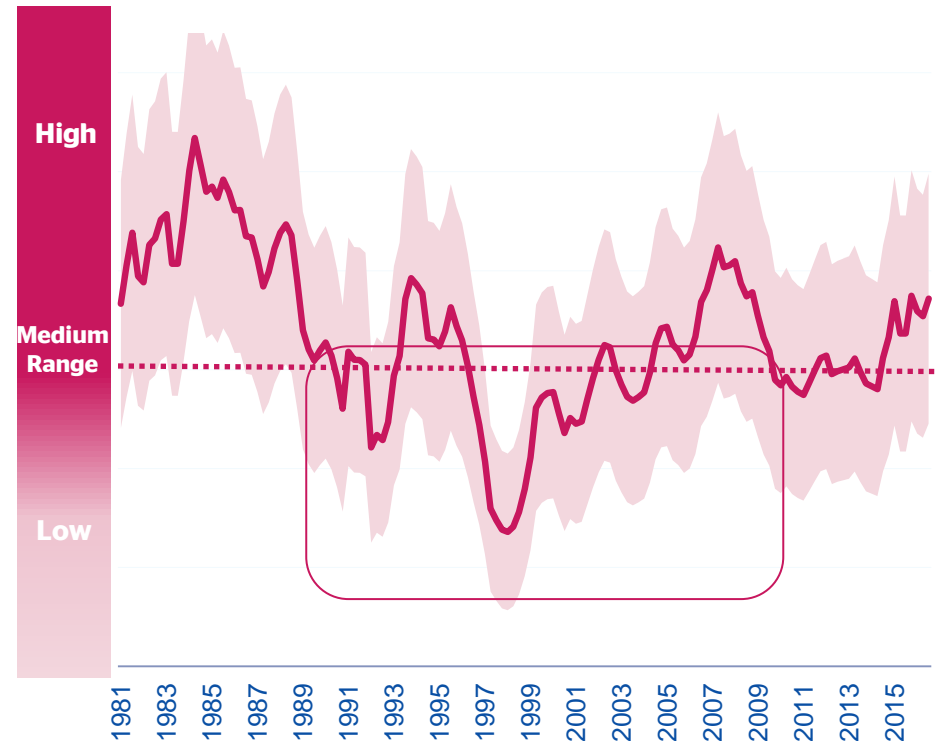
BBVA Research World Protest Intensity Index 1980-2016

(Number of protests in the world / Total events in the world)



BBVA Research World Conflict Intensity Index 1980-2016

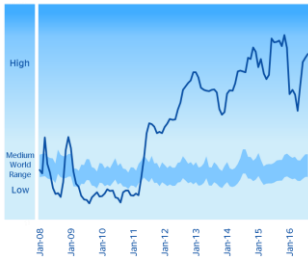
(Number of conflicts in the world / Total events in the world)



The big hot spots are in the Middle East, North Africa and East Europe (“Europe’s Ring of fire”)

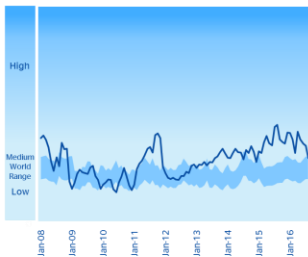
Syria

The Syrian war remains complex with no transition plan



North Africa

ISIS tries to destabilize failed states in some regions



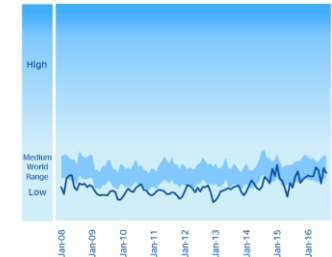
BBVA Conflict Heatmap in 2016

(Number of conflicts / Total events)



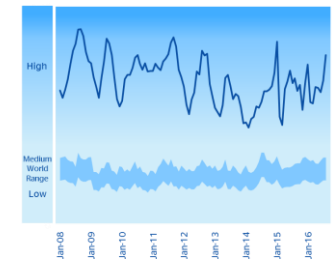
Caucasus

The Russian-Turkey tension escalates Iraq is still in a fragile situation



Afghanistan

A complicated set of issues at play



Romania is somehow isolated of conflicts but the neighborhood is somehow risky

BBVA Conflict Heatmap in 2016
(Number of conflicts / Total events)

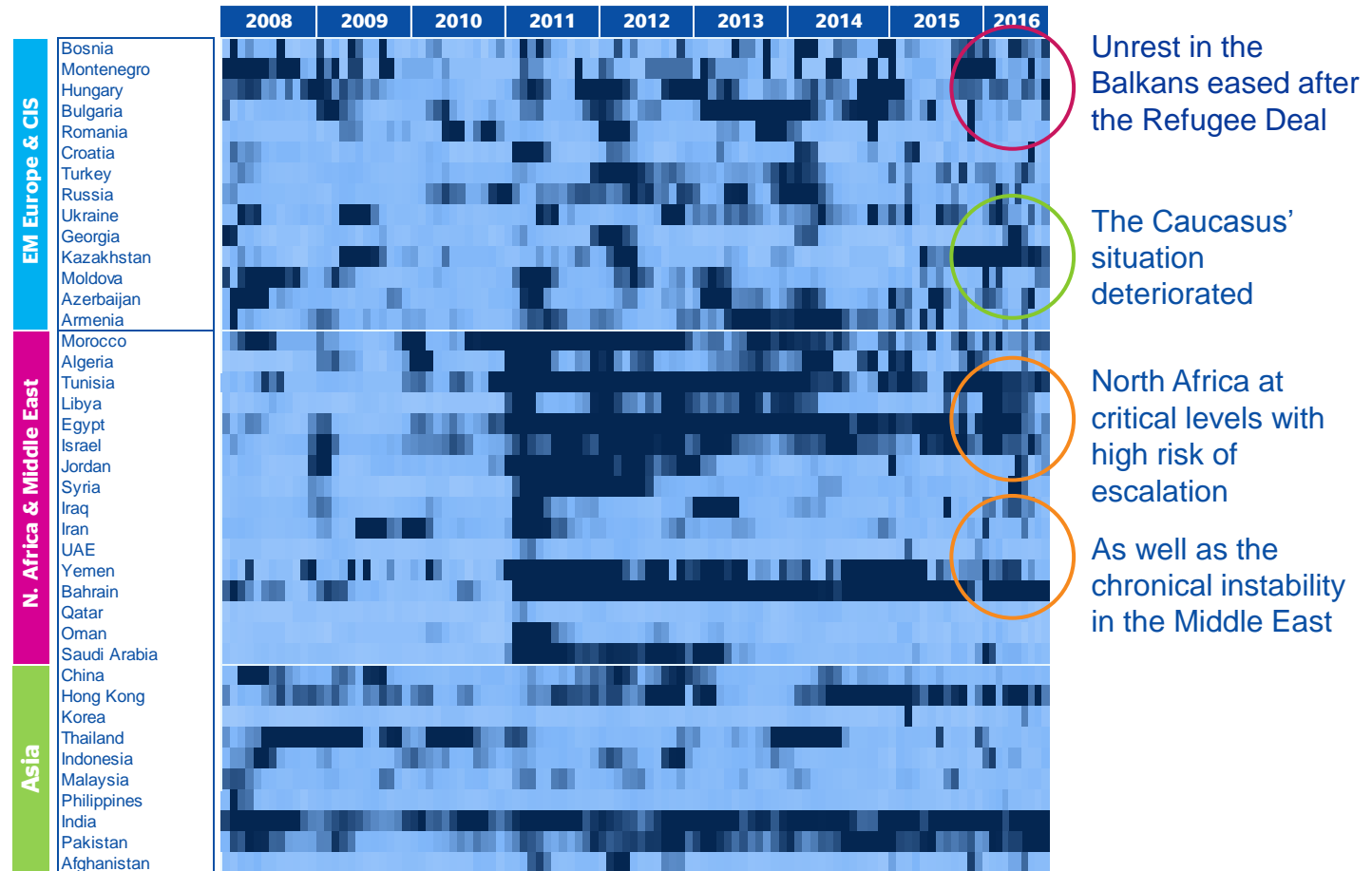
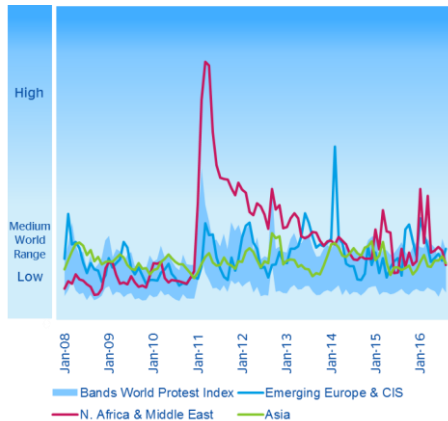


Our Social Unrest Map in this Area shows the kind of hysteresis and path dependence commented before

World Protest Intensity Map Jan 08 – Aug 16

(Number of protests / Total events. Dark Blue: High Intensity)

Protest Intensity: Low High

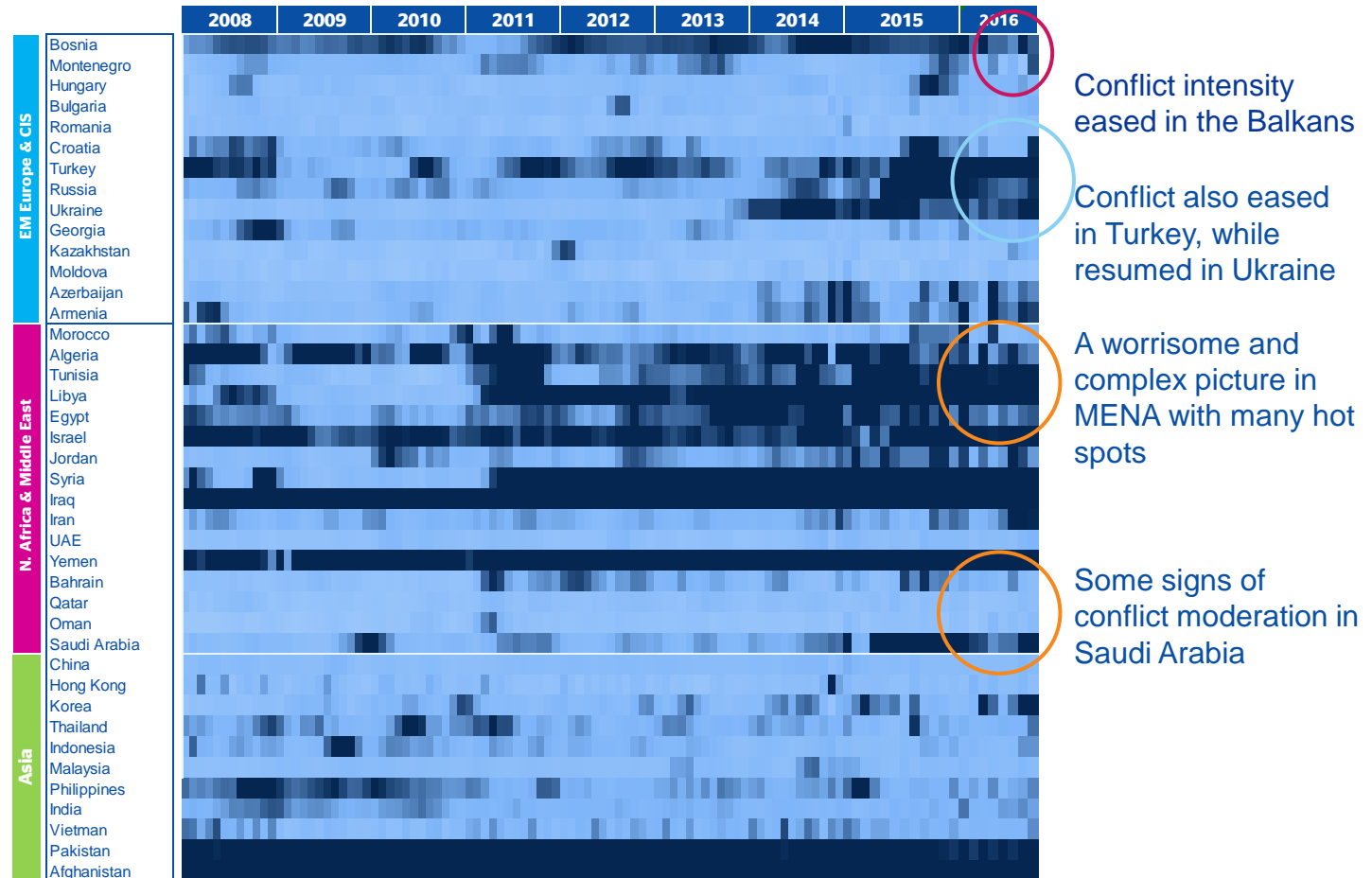
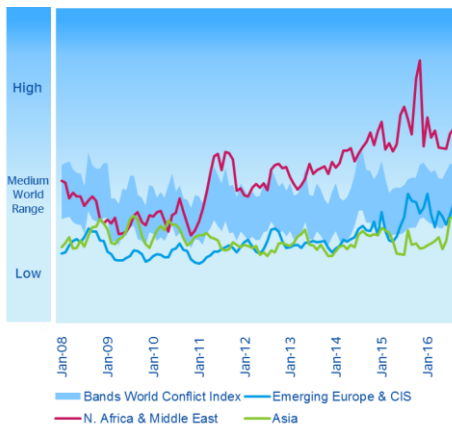


Which is also present in conflicts, that need to be dealt with before they extend

World Conflict Intensity Map Jan 08 – Aug 16

(Number of conflicts / Total events. Dark Blue: High Intensity)

Conflict Intensity: Low High



Interconnectedness can also be important for Emerging Europe: Russia is still interconnected....

The Russian Sanctions Network

Source: BBVA Research and GDELT

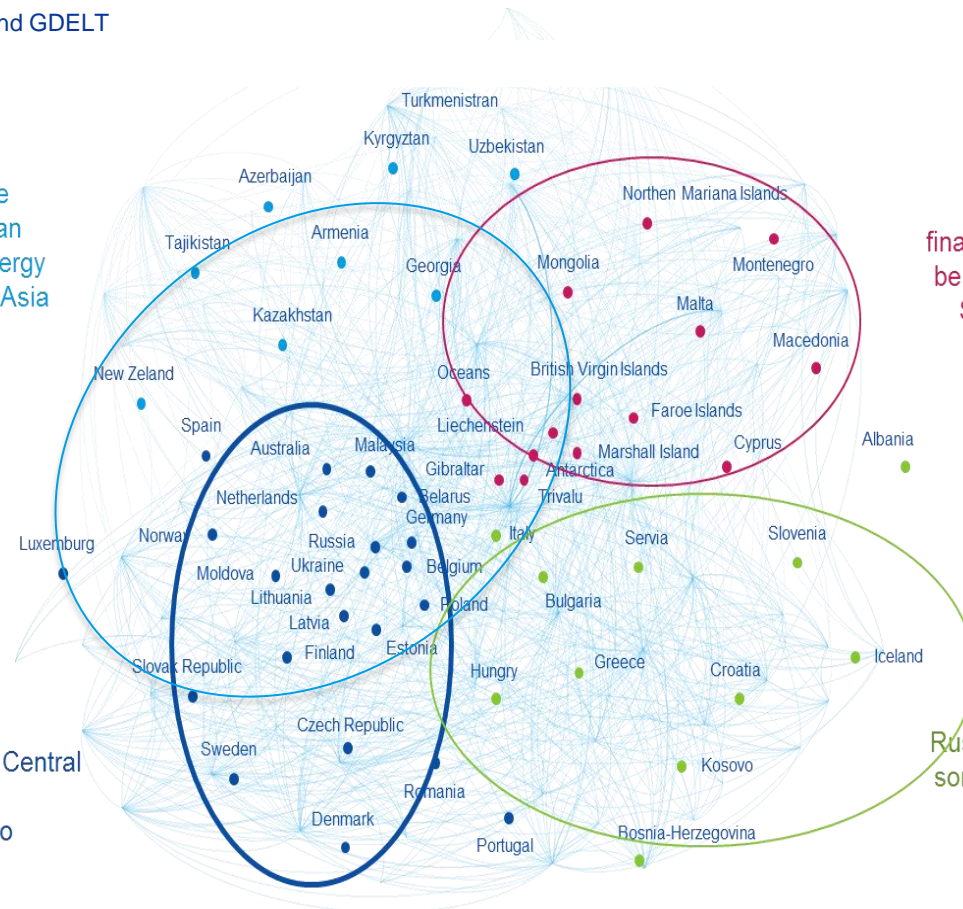
Central Asia Trade

Technology exchange restrictions will affect to the medium/long term Russian capacity to extract new energy which could affect Central Asia relationships

Central & Eastern Europe Trade

Trade Effects of commercial Sanctions imposed to Russia will spread to other countries. Particularly traditional Trade Partners in the East

External Demand of some Central Europe Countries (France ,Germany, Italy) will be also affected



Financial Circle

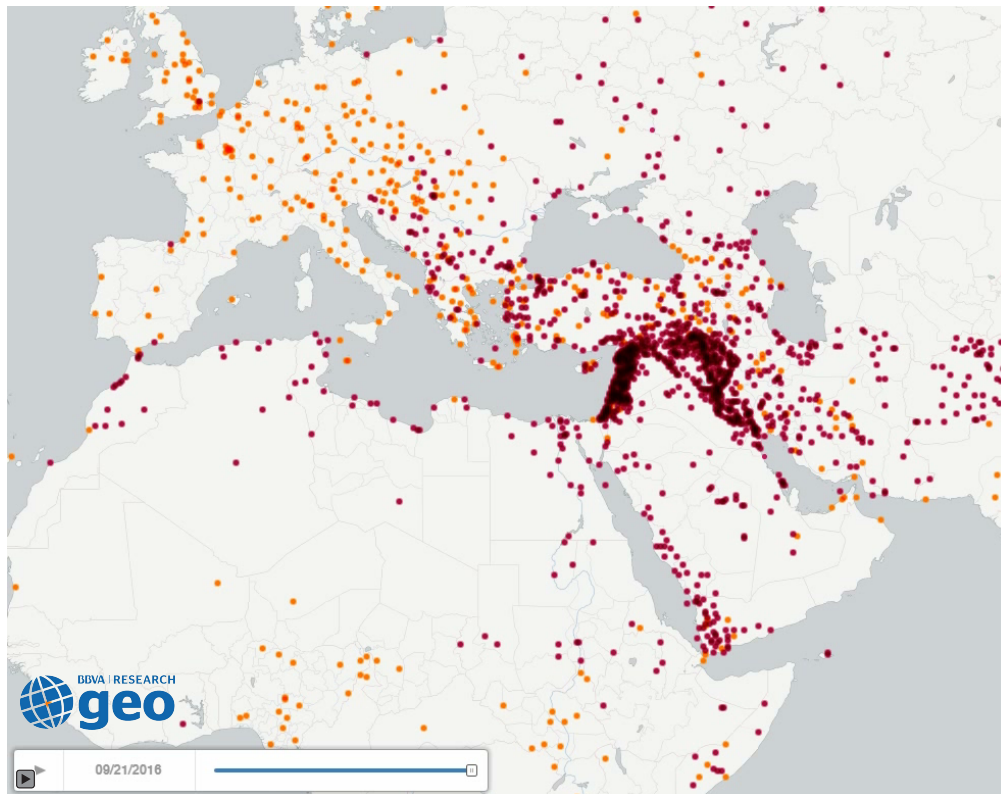
Some Countries, financial centers and will be affected by financial Sanctions imposed to Russia

Financial & Trade Circle

Russian Investments in some regions are huge (i.e the Balkans)

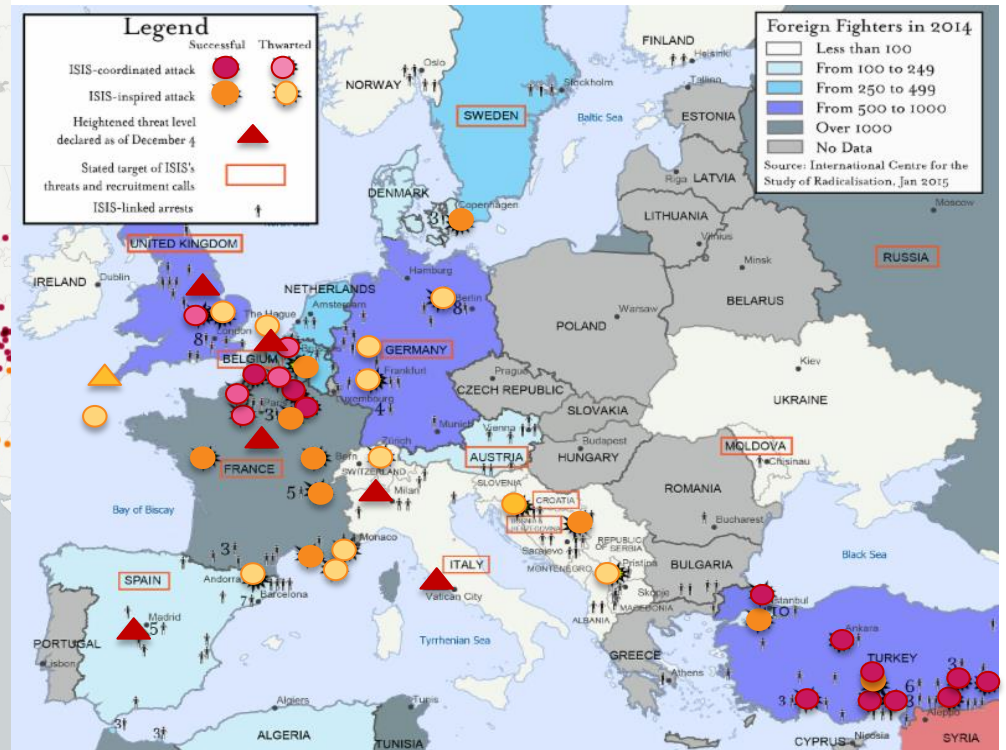
... and some spillovers are also reaching Europe in the form of Migration and terrorism...

BBVA Research Refugees Flows Map in 2015-16
(Number of media citations about refugees' inflows –orange- and outflows -red)



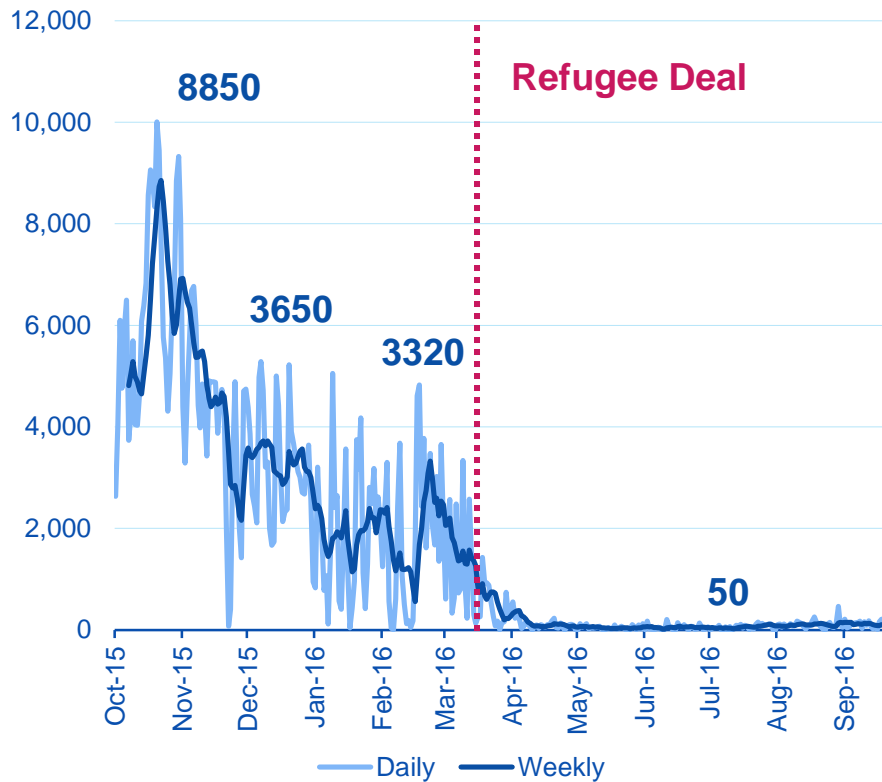
ISIS-linked Events in Europe (Jan14 - Dec15)

Source: ISW & BBVA Research



Some initiatives have worked and could re-launch enlargement processes

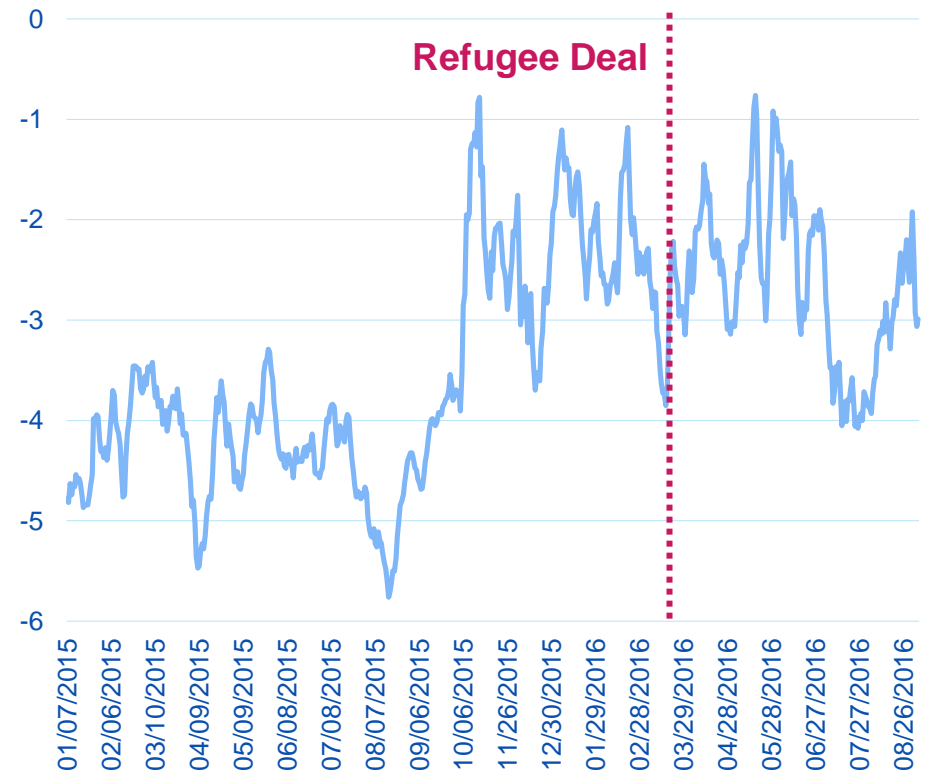
Daily and Weekly Average Refugee Arrivals to Greece



Source: BBVA Research and UNHCR

Media sentiment on Turkey – European Union relationship

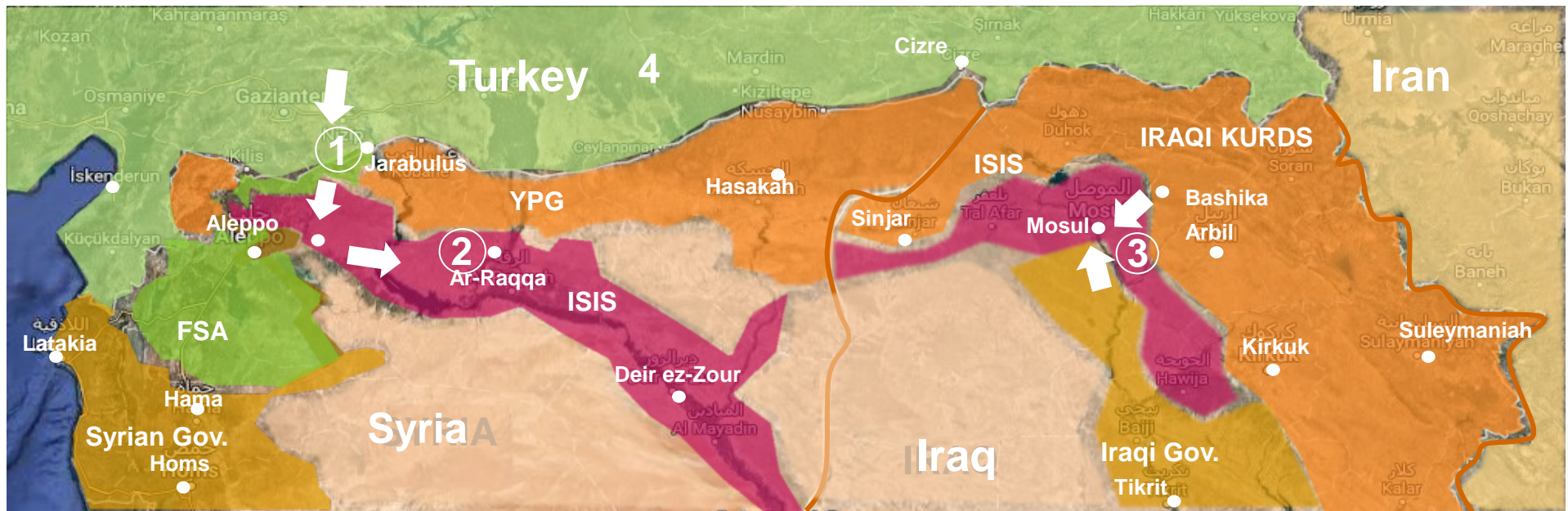
Lower values indicate a deterioration of Turkey-EU relations



Source: BBVA Research and www.gdelt.org

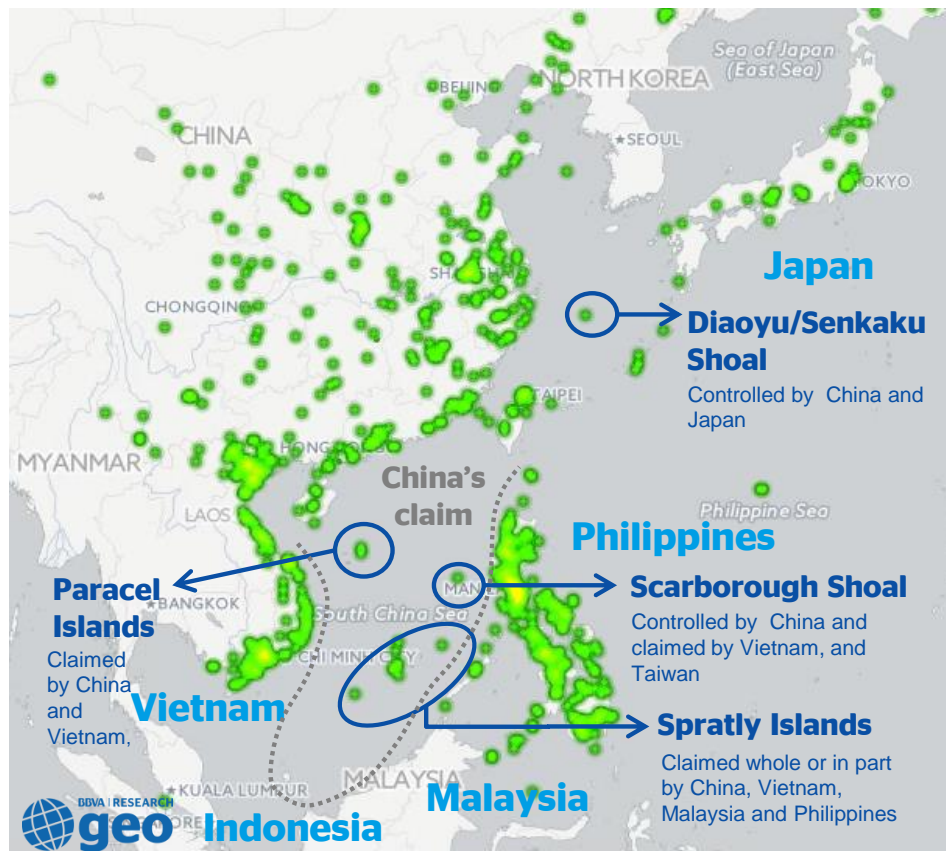
Recently two important fronts have opened against ISIS ... but it could be challenging

Syria and Iraq campaign against ISIS

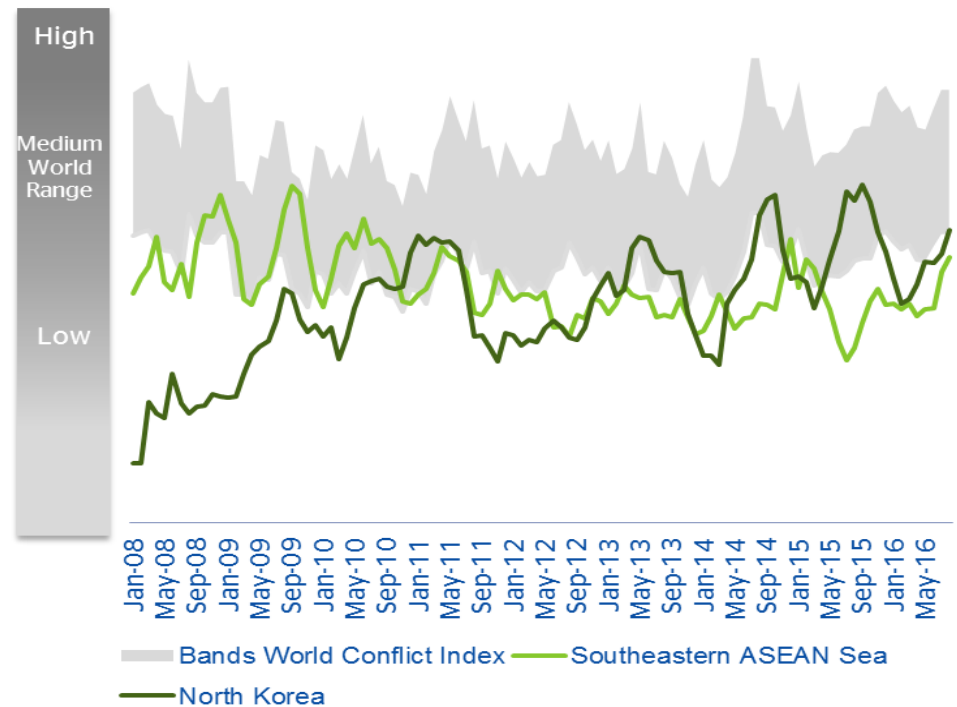


...there are also serious disputes in other parts of the world ...with lower probability to escalate....

Southeast Asian Sea territorial disputes



**BBVA Research Conflict Intensity Index 2008-16
(Number of conflicts / Total events)**

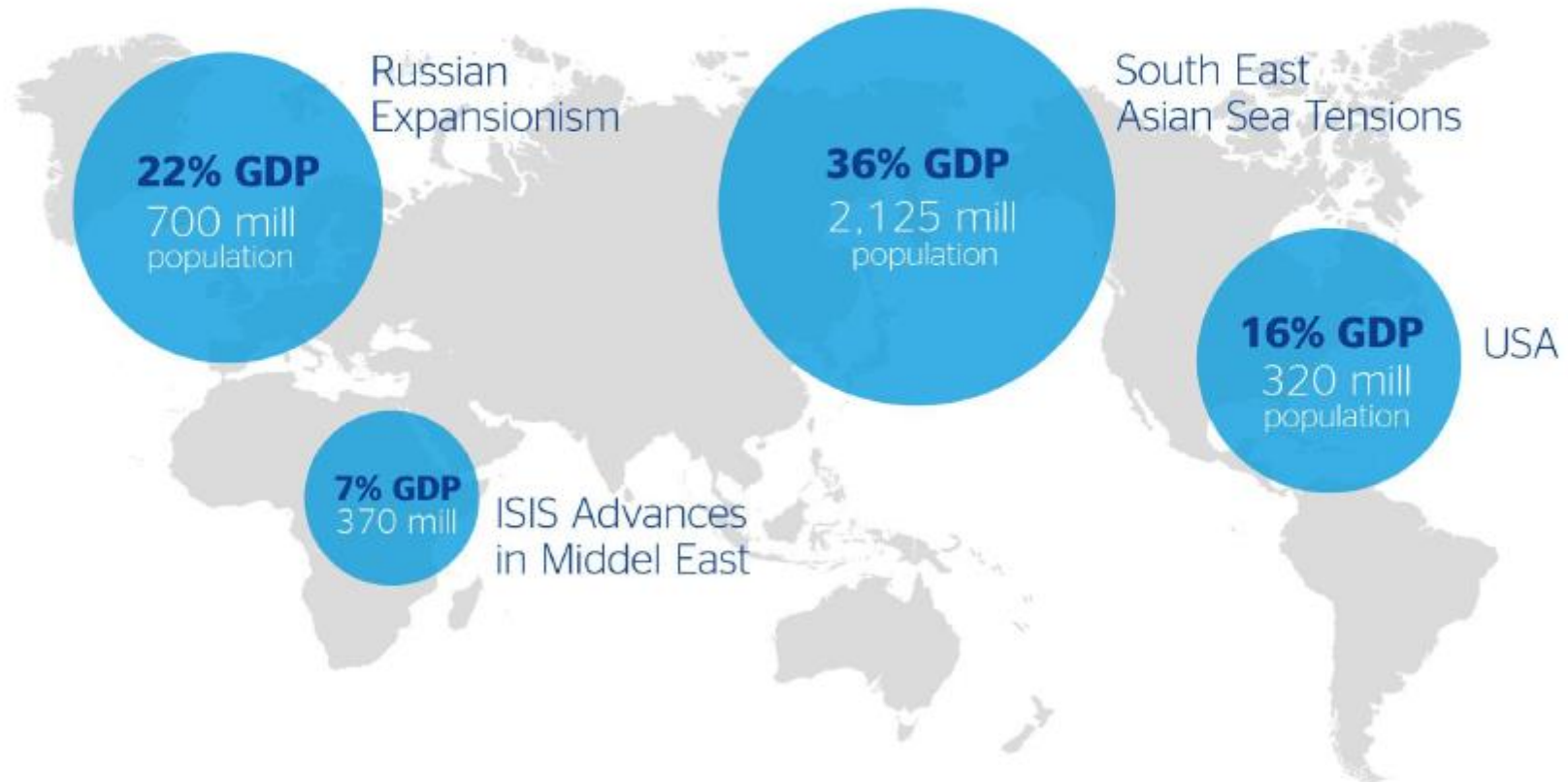


...But more serious implications...

World conflicts: direct income and population

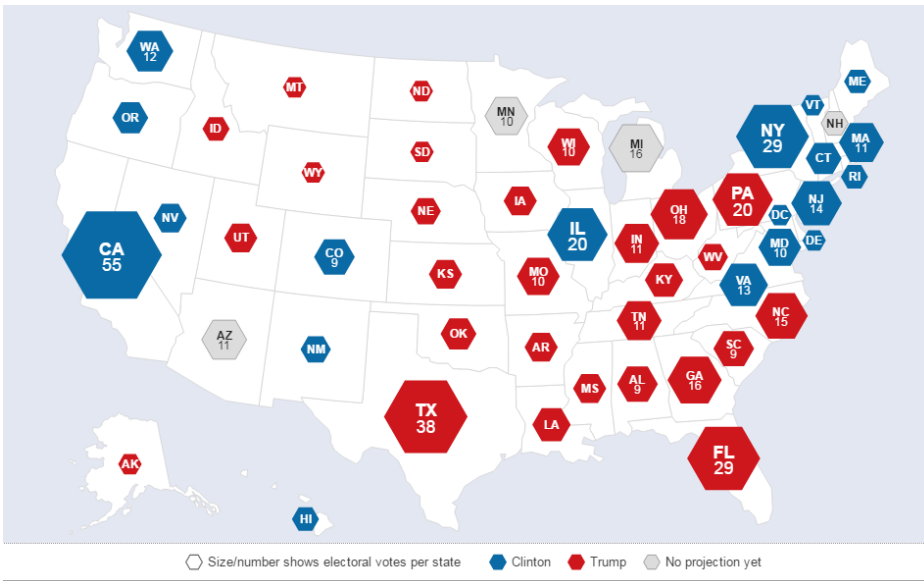
(% of PPP GDP and population)

Source: www.gdelit.org & BBVA Research



And of course the latest surprise can alter the US Grand Strategy and Alliances...

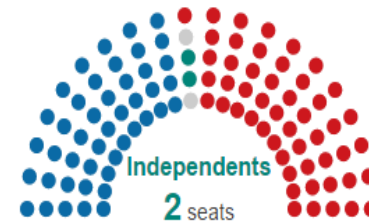
US Presidential Election Results



US Presidential Election Results

Senate

100 seats, 34 up for election



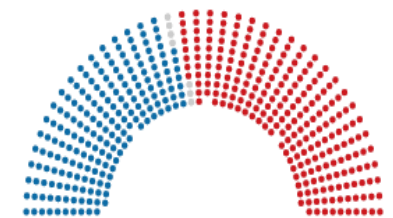
Democrats
45 seats

Republicans
51 seats

State results for Congress

House of Representatives

435 seats, all up for election



Democrats
192 seats

Republicans
236 seats

Source: AP

BBVA Research geostrategic tools and products

✓ **Geo Strategic Reports** to quantify geopolitical trends and to analyse main hotspots:

- **Geo World Report** with monthly updates ([Geo-World: Conflict & Social Unrest August Update](#))
- **Geo Mena Report**

✓ **Global Hot topics** to track the current situation and main geopolitical events:

- [The Refugee Crisis: Challenges for Europe](#)
- [South China Sea: Stable but tenacious waters](#)

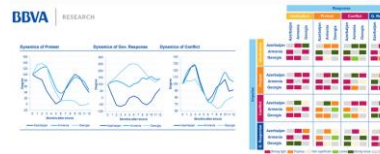
✓ **Working papers** to model social unrest dynamics, social behaviour and state response in different regions:

- [An Empirical Assessment of Social Unrest Dynamics and State Response in Eurasian Countries](#)
- [An Empirical Assessment of Social Unrest Dynamics and State Response in MENA Countries](#)

Working Paper, Nº 15/20
Madrid, June 2015

An Empirical Assessment of Social Unrest Dynamics and State Response In Eurasian Countries

Gonzalo de Cadenas-Santiago
Alicia García Herrero
Álvaro Ortiz Vidal-Ababá
Tomasza Rodríguez López



Global Hot Topics
June, 26th 2015

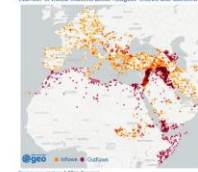
The Refugee Crisis: Challenges for Europe

Álvaro Ortiz and Tomasa Rodríguez. BBVA Cross Emerging Markets Unit

The Middle East and North Africa region are facing complex and multiple emergency situations that are posing important humanitarian challenges for Europe. The significant influx of refugees has introduced some security problems which could reshape migration. European policies looking for a more coordinated response. Especially worrisome is the situation in Syria, which leads more than 3.5 millions of people to flee to neighboring countries (Turkey, Lebanon and Jordan) and to Europe.

BBVA Research Refugees Flow Map (Jan 14 to Jun 15)

(Number of media citations about refugee influx and outflow)



The migrant problems in the "South" ... Europe is facing its most serious migration crisis since the end of the Second World War. The massive refugee influx (mostly from Africa and the Middle East) has greatly increased during last year, introducing complex challenges for Europe. There are several reasons why migrants through the Mediterranean Sea have increased dramatically. The post-Arab Spring social instability, human rights violation and security problems have increased notably the migrant flows from North Africa. The fall of some of the dictatorship (i.e. Libya, Tunisia), which was a backstop for Sub-Saharan African migrants, has disappeared, fostering the flow of migrants from these countries. The ISIS advance in Syria and Iraq and the recent proxy war in Yemen have triggered a massive flow of migrants to neighboring countries (Turkey, Lebanon, Jordan and Saudi Arabia), and from them to Europe. The conflict in the Caucasus is complicating further the security situation.

The BBVA Research Geo World Report

A Visual Guide to Geopolitical Affairs

Cross Country Emerging Markets Unit



Thank you

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