

# Is globalization at risk? Some conventional views....

Jorge Sicilia, BBVA Research

OECD Meeting. Paris, July 2017



# Global outlook: growth, low inflation, CB's normalization

- ◆ Sustained growth tending to stabilize.
  - ◆ Mostly driven by China's stimulus
  - ◆ Also driven by: Monetary and (less) fiscal policy; risk appetite; low oil prices (now supply shock), private sector deleveraging.
  - ◆ Geographically: Rebalancing from US to Europe and China (both political and economic)
- ◆ Inflation is subdued, despite ample liquidity and diminishing labor market slack. Low wages
- ◆ Central Banks: proceeding with gradual normalization accompanying the cyclical recovery:
  - ◆ Liquidity drain is needed (to avoid asset bubbles; central banks not yet BIS-like worried)
  - ◆ Communication is key to avoid "taper tantrums" (The "Sintra effect" was an exaggeration)
- ◆ Risks:
  - ◆ China and rightly so but timely is extremely difficult to anticipate
  - ◆ Central banks' normalization: balance sheet adequate size and its impact
  - ◆ Politics (US, Europe, EM's) and geopolitics (Middle East, the south China sea, North Korea)

# Latam: well below potential, with an election cycle ahead

## ◆ Many Latin Americas...

- ◆ **Different growth drivers:** Mexico (and Caribbean countries) linked to the **US cycle** with South America linked to **China/commodities**
- ◆ **Different cyclical positions:** some collapsing, others exiting recession, some decelerating. On average: deceleration in 2011-14, recession in 2015-16; slow growth in 2017-19
- ◆ **Different economic policies:** either entrenched on populism, or turning right, or prudent for a long while now and probably having turned the corner

## ◆ ... but some common themes

- ◆ **Tailwinds** turning into **headwinds**. Same **old friends**: China, commodity prices, financial conditions (end of easy money); and **new ones**: uncertain US policy, risk of protectionism
- ◆ **The biggest challenge:** i **productivity growth** (low but masked during the boom decade) in countries with high **informality** and low investment in **human capital** (education and health).
- ◆ Now that the **demographic bonus fades**, investment, micro reforms and **state efficiency are key**.
- ◆ **Financing is key** in the wake of **Odebrecht**, given the **end of expansive monetary policies** and the **retrenchment of some international banks** from the region
- ◆ **Internal risks:** Political noise, populism, immobility (lack of reforms), depressed confidence

# Globalization at risk

- ◆ Backlash to globalization following the global financial crisis
  - ◆ Lower trade flows, lower trade elasticities and higher trade barriers (well before Trump)
  - ◆ Last year this backlash had two major negative highlights:
    - ◆ Brexit
    - ◆ Trump: threat to trade (NAFTA, China, Germany) and immigration
  - ◆ Inequality as a central issue behind populism trends (plus cultural changes)
- ◆ After the threat, some fresh air on the potential threats:
  - ◆ NAFTA's negotiation process will start in mid August with a desire to finish it quickly.
  - ◆ Barriers in US congress (and civil society) to some of Trump's protectionist measures
  - ◆ Reaction from other areas more clearly pro-trade and globalization:
    - ◆ After Paris climate withdrawal
    - ◆ After Brexit: Macron election and initiatives to deepen EU integration
    - ◆ Initiatives in Asia to keep up the globalization process

# Is globalization at risk?...

## And a story using big data

Jorge Sicilia, BBVA Research

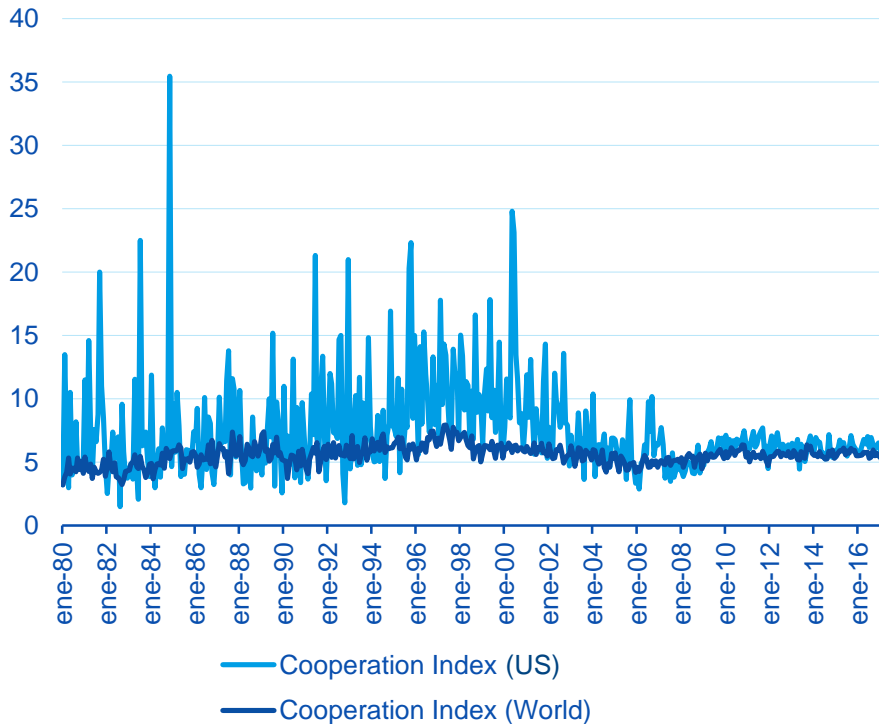
OECD Meeting. Paris, July 2017



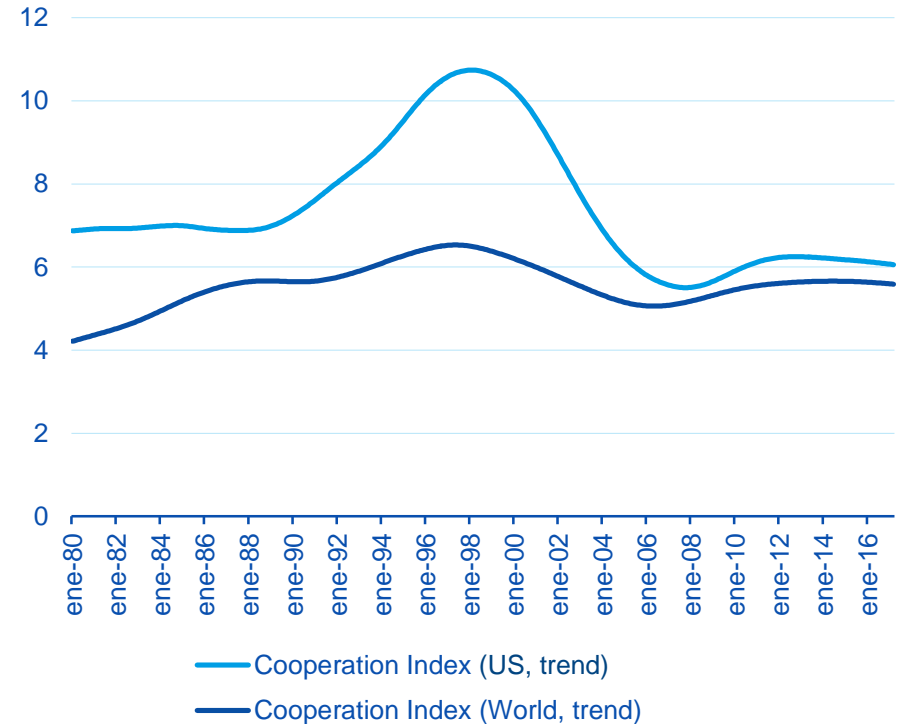
# Cooperation Index evolution over time using big data

The index is defined as the ratio of the numbers of events of cooperation and demand.

**The Index (Original Series)**



**Trends of the index (HP filtered)**

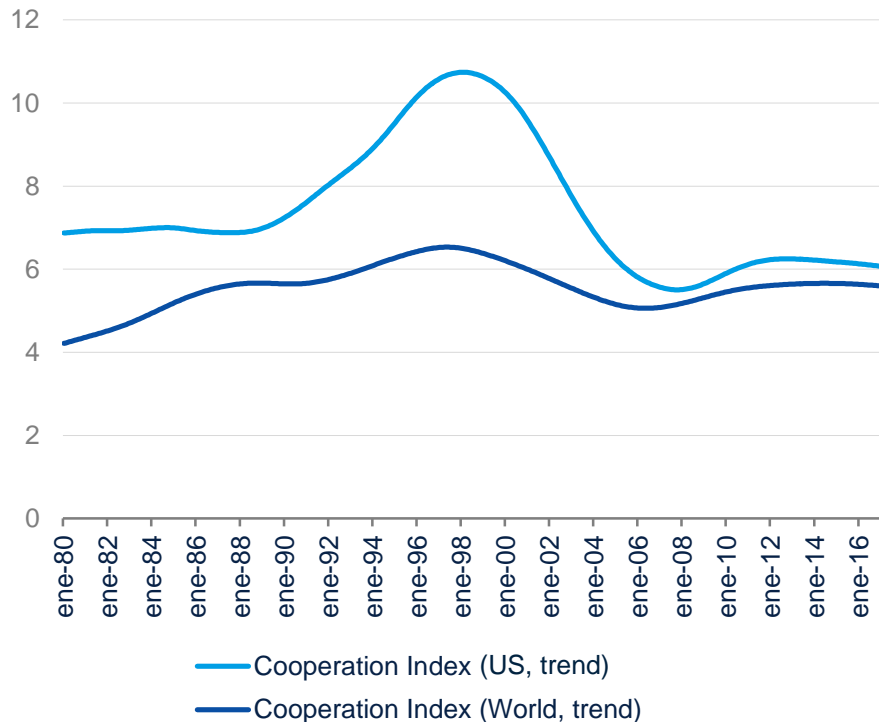


Source: BBVA Research

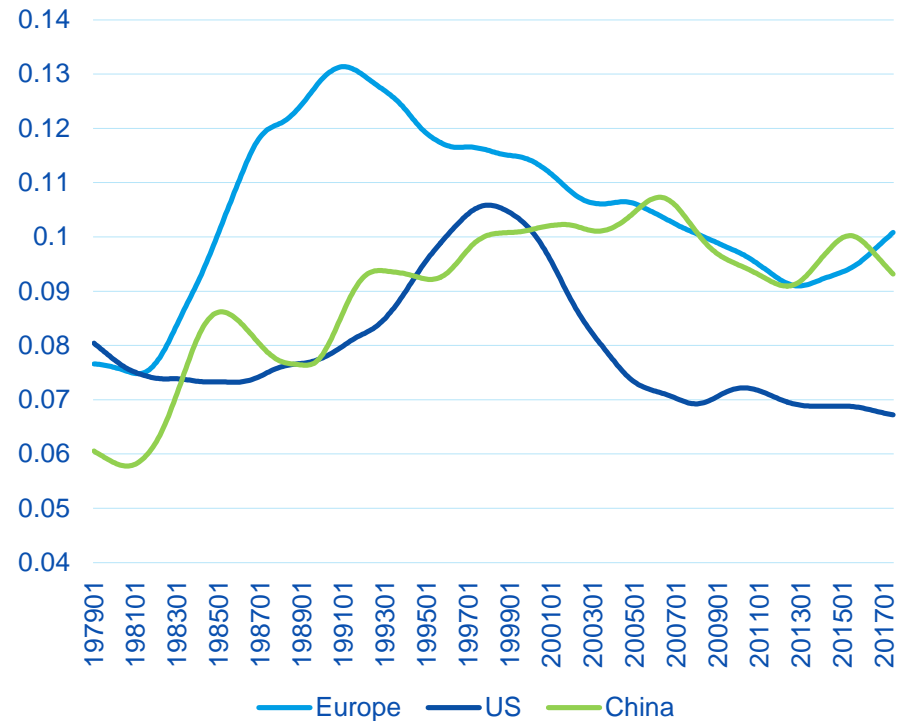
# Cooperation Index evolution over time using big data

The index is defined as the ratio of the numbers of events of cooperation and demand..

**Trends of the index**  
(HP filtered)



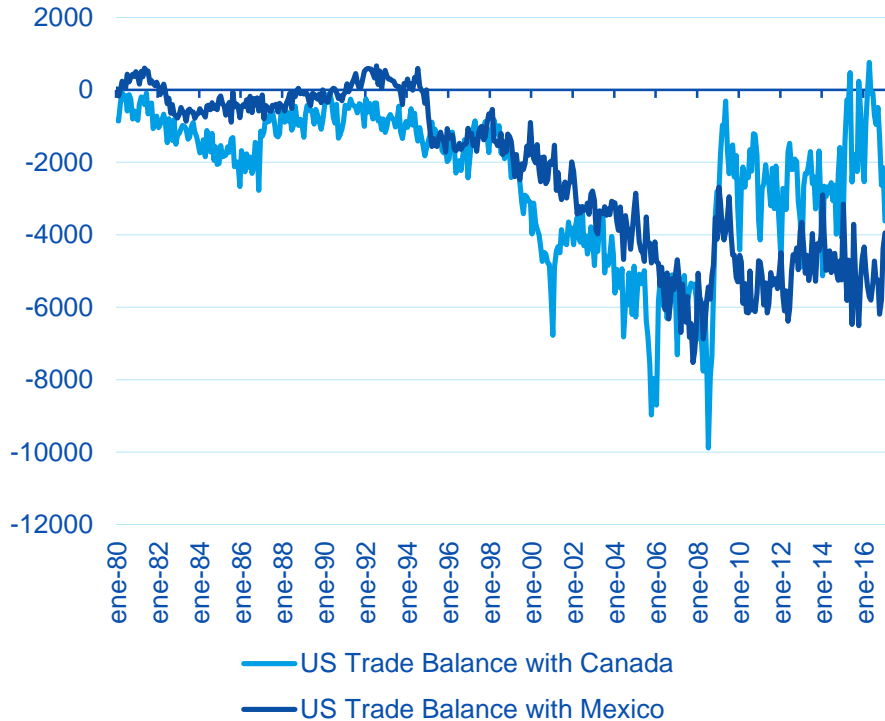
**Trends of the index**  
(HP filtered)



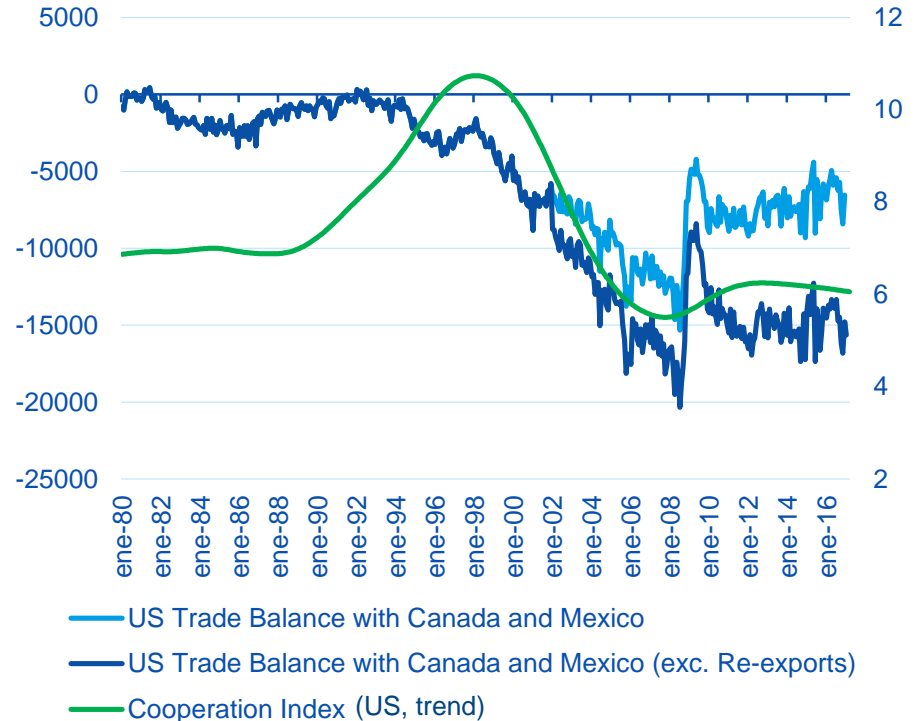
# Cooperation index and America's trade balances

The index for the North America declines with the trade balance of the United States during the first decade of the 2000's.

**U.S. Balances of Trade in Goods with Canada and Mexico**  
(NSA Mil. US\$)



**Trade Balances and Cooperation Index for the N. America**  
(NSA Mil. US\$, Index)



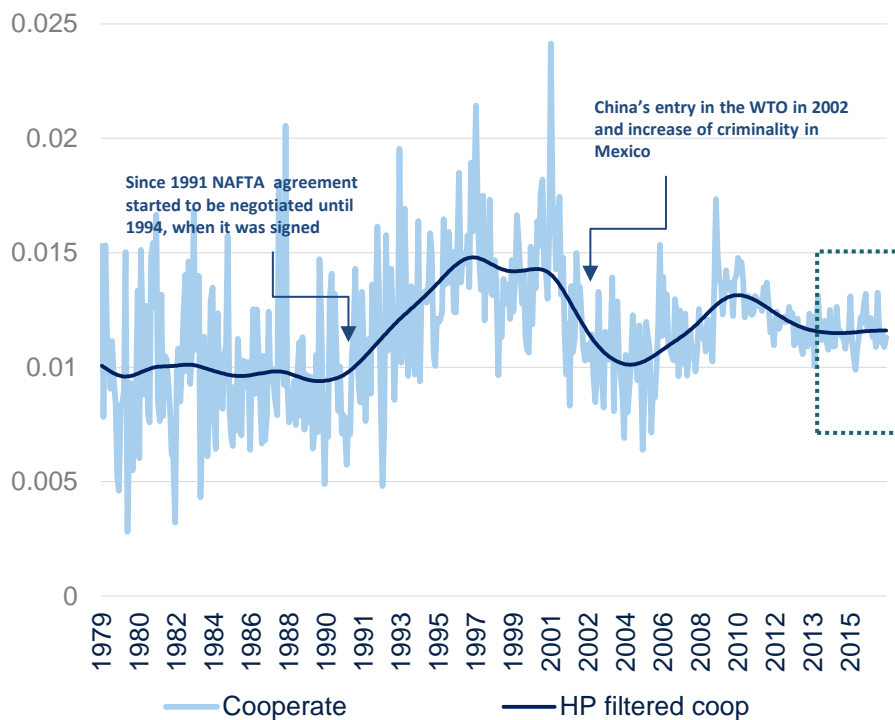
Source: BBVA Research



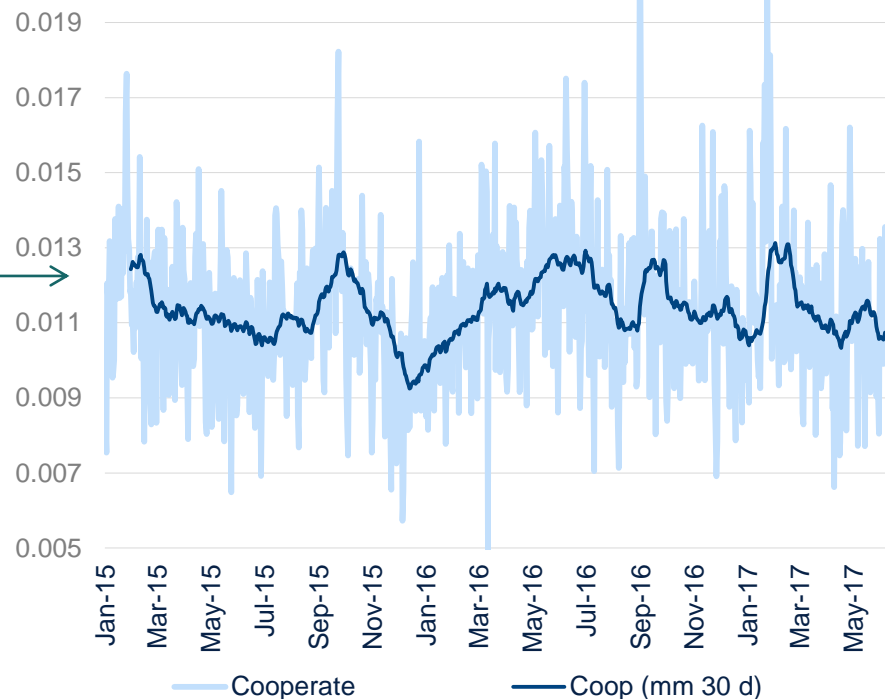
# Cooperation events in North America at lower levels than in the nineties

The index is defined as the ratio of the numbers of events of cooperation and demand..

North America Cooperation monthly index 1979-2017



North America Cooperation daily index 2015-2017



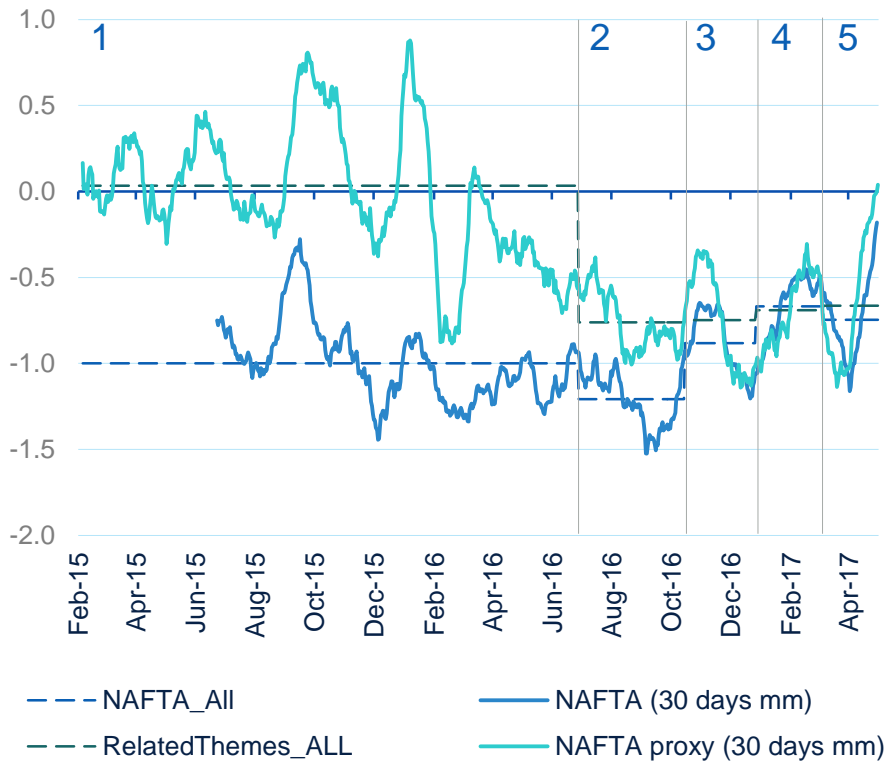
Source: BBVA Research

Note: further information about the index's definition can be found in the [annex](#)

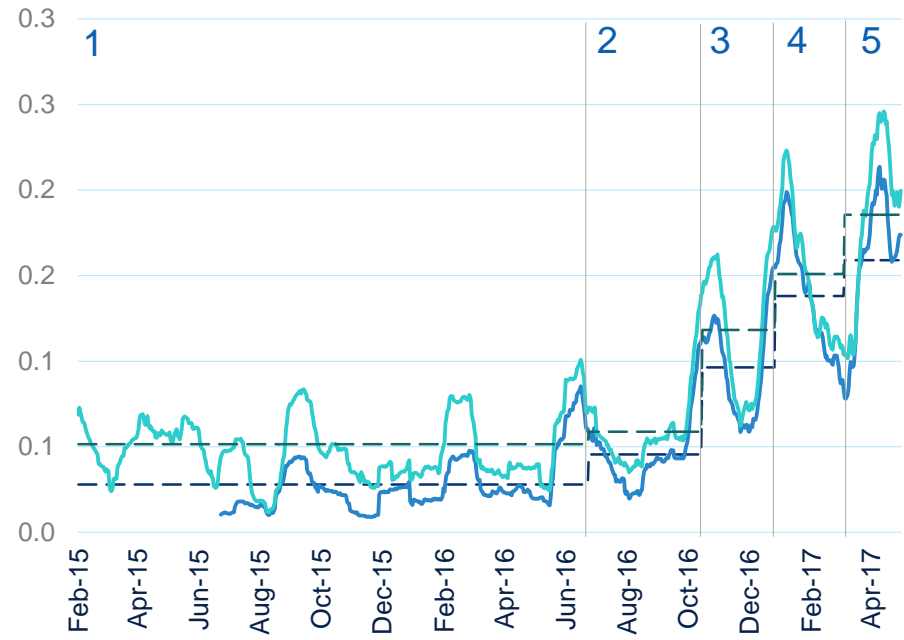
Perception of NAFTA and NAFTA-proxy: all sources

**Tone on NAFTA worsened since the beginning of 2015 and significantly improved after Trump presented the draft for NAFTA renegotiation. Coverage has increased significantly**

Tone of NAFTA and NAFTA-proxy themes



Coverage of NAFTA and NAFTA-proxy themes

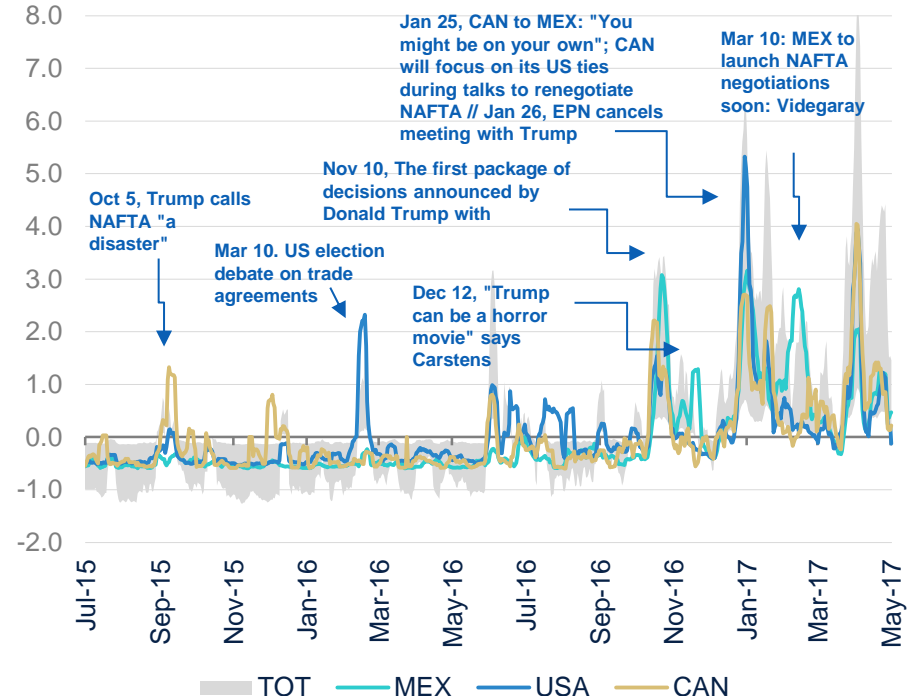
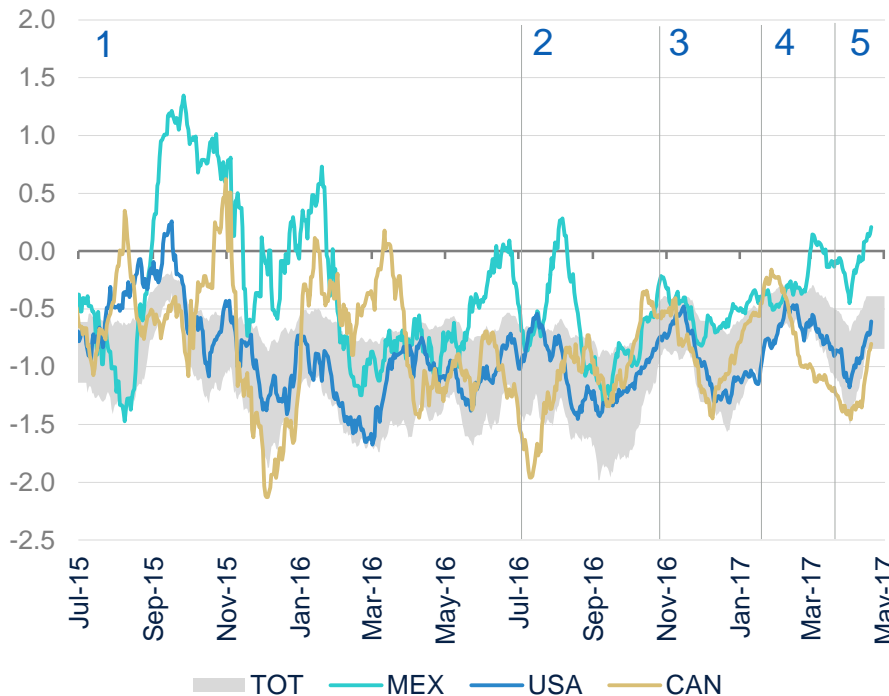


1. 27-feb-15 /21-jul-16 : Previous period
2. 22-jul-16/8-nov-16: Republican convention to Election day
3. 9-nov-16/20-ene-17 : Election day to Trump's inauguration day
4. 21-ene-17/30-mar-17 : Inauguration day to 1st draft of NAFTA renegotiation
5. 30-mar-17 /26-may-17 : 1st draft on general lines of NAFTA renegotiation

# Coverage of NAFTA increased in the three countries. Tone is more positive in Mexico than in US and Canada

Main sources of each country boosted after Trump's election, decoupling CAN-MEX since last days of January. Tone improved after the draft of renegotiation in the three countries.

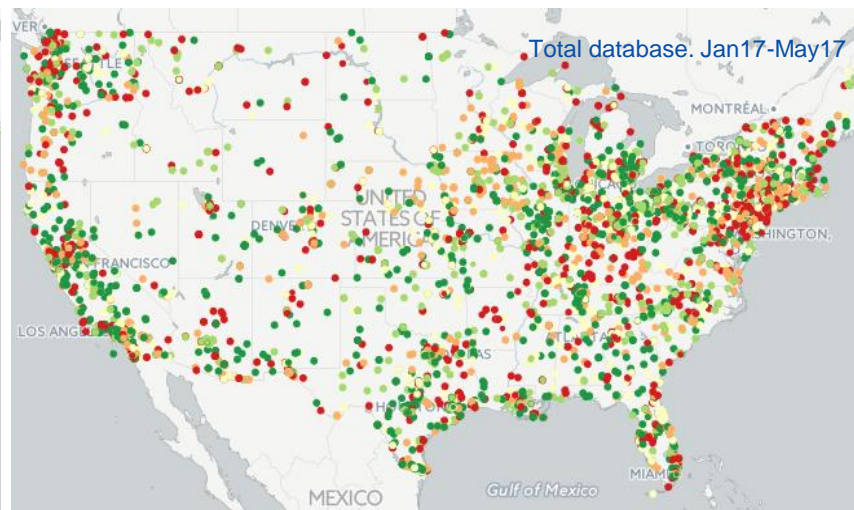
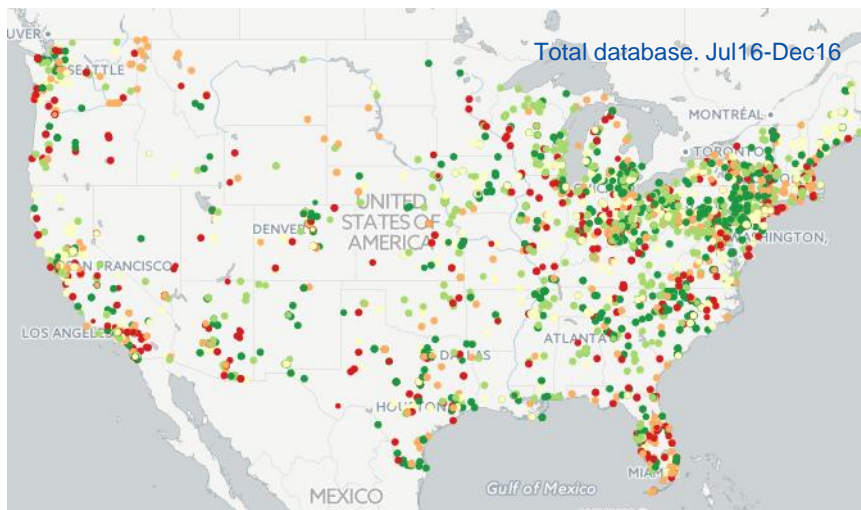
## Coverage and tone of NAFTA among main sources of each country\*



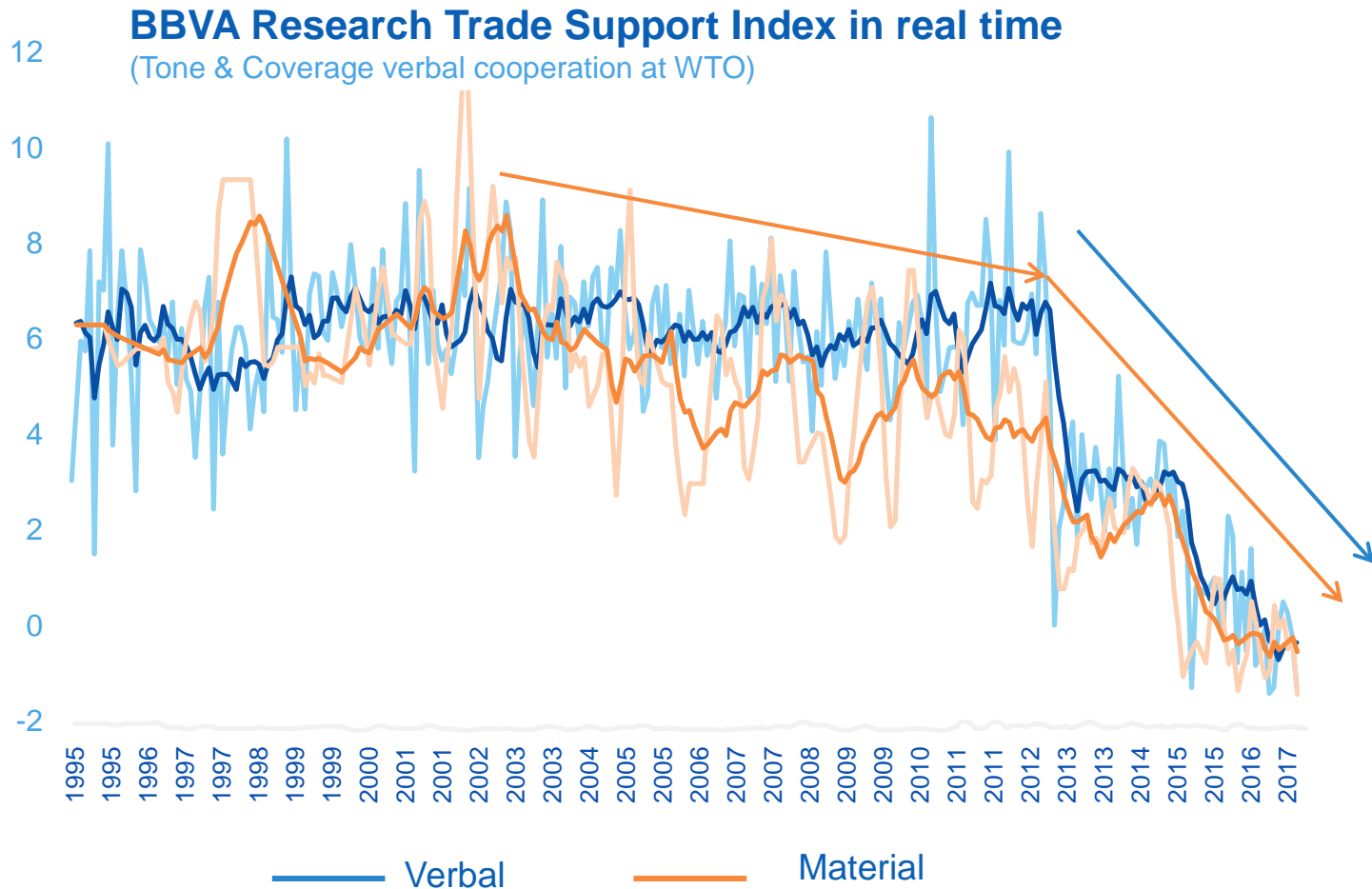
\* Main sources of each countries: media that accounts for 20% of the most mentioned sources in the search, which are 52 media in CAN, 30 media in MEX and 120 in USA; filtered such as local sources prevails. Total refers to all sources. Further information about the used sources can be found in the [annex](#).

# NAFTA sentiment across US cities

## Tone of NAFTA across US cities



# Protectionism: it is not only the US



Source: [www.gdelt.org](http://www.gdelt.org) & BBVA Research



# ANNEX

How do cooperation efforts between NAFTA's countries evolve over time?

# Cooperation index definition

Two categories of events that signal different ways in which countries communicate with each other.

*Cooperation index*

EVENT DESCRIPTION	GOLDSTEIN SCALE
Express intent to cooperate, not specified below	4.0
Express intent to engage in material cooperation, not specified below	5.2
Express intent to cooperate economically	5.2
Express intent to cooperate militarily	5.2
Express intent to cooperate on judicial matters	5.2
Express intent to cooperate on intelligence	5.2
Express intent to provide diplomatic cooperation such as policy support	4.5
Express intent to change leadership	7.0
Express intent to change policy	7.0
Express intent to provide rights	7.0
Express intent to change institutions, regime	7.0
Express intent to ease administrative sanctions	7.0
Express intent to ease popular dissent	7.0
Express intent to ease economic sanctions, boycott, or embargo	7.0
Express intent allow international involvement (not mediation)	7.0
Express intent to meet or negotiate	4.0
Express intent to settle dispute	5.0
Express intent to accept mediation	7.0
Express intent to mediate	5.0

Source: GDELT

Does it relate with the trade balance evolution?

# Cooperation index and trade agreements

Correlation coefficients between trade balances and the cooperation index

	MEXICO	CANADA	MEXICO (NO REEXPORT)	CANADA (NO REEXPORT)	WORLD	CHINA
1980 – 2016	0.20	0.12	0.23	0.23	0.04	0.22
1993 – 2016 (NAFTA)	0.44	0.23	0.47	0.47	<b>0.61</b>	0.46
2002 – 2016 (China in WTO)	0.22	0.18	0.14	0.29	0.27	0.16

Source: BBVA Research

The U.S. trade balances significantly declined since 1990s due to a number of factors. The decline at an unsustainable pace between 1994 and 2006 weakened the willingness of international collaboration and made NAFTA a false target.



List of Media considered by country

# Media that concentrates 20% of most mentioned sources

## List of Canadian sources

cbc.ca  
 globalnews.ca  
 castanet.net  
 lapresse.ca  
 theglobeandmail.com  
 timescolonist.com  
 infotel.ca  
 newstalk770.com  
 brandonsun.com  
 ici.radio-canada.ca  
 cknw.com  
 640toronto.com  
 cjob.com  
 journaldequebec.com  
 680news.com  
 900chml.com  
 calgaryherald.com  
 inews880.com  
 thestar.com  
 montrealgazette.com  
 theguardian.pe.ca  
 theprovince.com  
 ctvnews.ca  
 vancouver.sun.com  
 rusforum.ca  
 ottawacitizen.com  
 winnipegfreepress.com  
 thewesternstar.com  
 1310news.com  
 ngnews.ca  
 bclocalnews.com  
 tbnewswatch.com  
 660news.com  
 journalpioneer.com  
 630ched.com  
 pr-inside.com  
 thechronicleherald.ca  
 torontosun.com  
 ledevoir.com  
 cnfol.com

## List of Mexican sources

zocalo.com.mx  
 eluniversal.com.mx  
 debate.com.mx  
 informador.com.mx  
 pulsoslp.com.mx  
 jornada.unam.mx  
 elsiglodetorreon.com.mx  
 elperiodicodemexico.com  
 eldiariodechihuahua.mx  
 eldiariodecoahuila.com.mx  
 milenio.com  
 elsiglodedurango.com.mx  
 lineadirectaportal.com  
 vanguardia.com.mx  
 yucatan.com.mx  
 excelsior.com.mx  
 el-mexicano.com.mx  
 heraldo.es  
 veracruzanos.info  
 hoytamaulipas.net  
 lasillarota.com  
 razon.com.mx  
 radioformula.com.mx  
 eleconomista.com.mx  
 elmanana.com.mx  
 siete24.mx  
 sdnoticias.com  
 quadratin.com.mx  
 elsoldepuebla.com.mx  
 noroeste.com.mx

## List of US sources

yahoo.com  
 ap.org  
 reuters.com  
 4-traders.com  
 washingtontimes.com  
 marketwatch.com  
 washingtonpost.com  
 dailyprogress.com  
 huffingtonpost.com  
 foxnews.com  
 chicagotribune.com  
 nytimes.com  
 nwtimes.com  
 wickedlocal.com  
 cbslocal.com  
 sfgate.com  
 mysanantonio.com  
 chron.com  
 siouxcityjournal.com  
 newsok.com  
 freerepublic.com  
 stltoday.com  
 muscatinejournal.com  
 missoulian.com  
 tucson.com  
 rapidcityjournal.com  
 startribune.com  
 wenxuecity.com  
 wn.com  
 qctimes.com  
 ifeng.com  
 pressan.is  
 bukla.si  
 pafoa.org  
 wafa.ps  
 sina.com.tw  
 kaixian.tv  
 eastmoney.com  
 ziarelive.ro  
 contacto-latino.com  
 udn.com

sina.com.cn  
 aleqtisady.com  
 dagenstv.com  
 wfcourier.com  
 lacrossetribune.com  
 elghad.co  
 journalstar.com  
 sputniknews.com  
 elmonzar.net  
 msn.com  
 source-7.com  
 fremonttribune.com  
 mtstandard.com  
 entornointeligente.com  
 lakelandtimes.com  
 madison.com  
 business-standard.com  
 trib.com  
 finanznachrichten.de  
 magicvalley.com  
 ctpost.com  
 asianuniverse.net  
 wgmd.com  
 military-technologies.net  
 helenair.com  
 scout.com  
 nbcnews.com  
 news.dahe.cn  
 go.com  
 patch.com  
 herald-review.com  
 greensboro.com  
 nasdaq.com  
 newsviewsnreviews.com  
 pantagraph.com  
 seattletimes.com  
 fredericksburg.com  
 thetandd.com  
 beatricedailysun.com  
 greenwichtime.com  
 tmcnet.com  
 focus-news.net

journaltimes.com  
 newstimes.com  
 miamiherald.com  
 elkodaily.com  
 tdn.com  
 stamfordadvocate.com  
 catholicssentinel.org  
 bgdailynews.com  
 washingtonexaminer.com  
 therepublic.com  
 alghad.com  
 terra.com  
 bostonglobe.com  
 thesouthern.com  
 inquisitr.com  
 omaha.com  
 sltrib.com  
 almjrhnews.com  
 targetednews.com  
 ziar.com  
 ntdtv.com  
 thehour.com  
 themalaymailonline.com  
 winonadailynews.com  
 news-sentinel.com  
 rivernewsonline.com  
 tribunnews.com  
 bismarcktribune.com  
 thehill.com  
 forbes.com  
 couriermail.com.au  
 huanqiu.com  
 latimes.com  
 columbustelegram.com  
 tampabay.com  
 usatoday.com  
 cnn.com

## Pro-Trump digital media

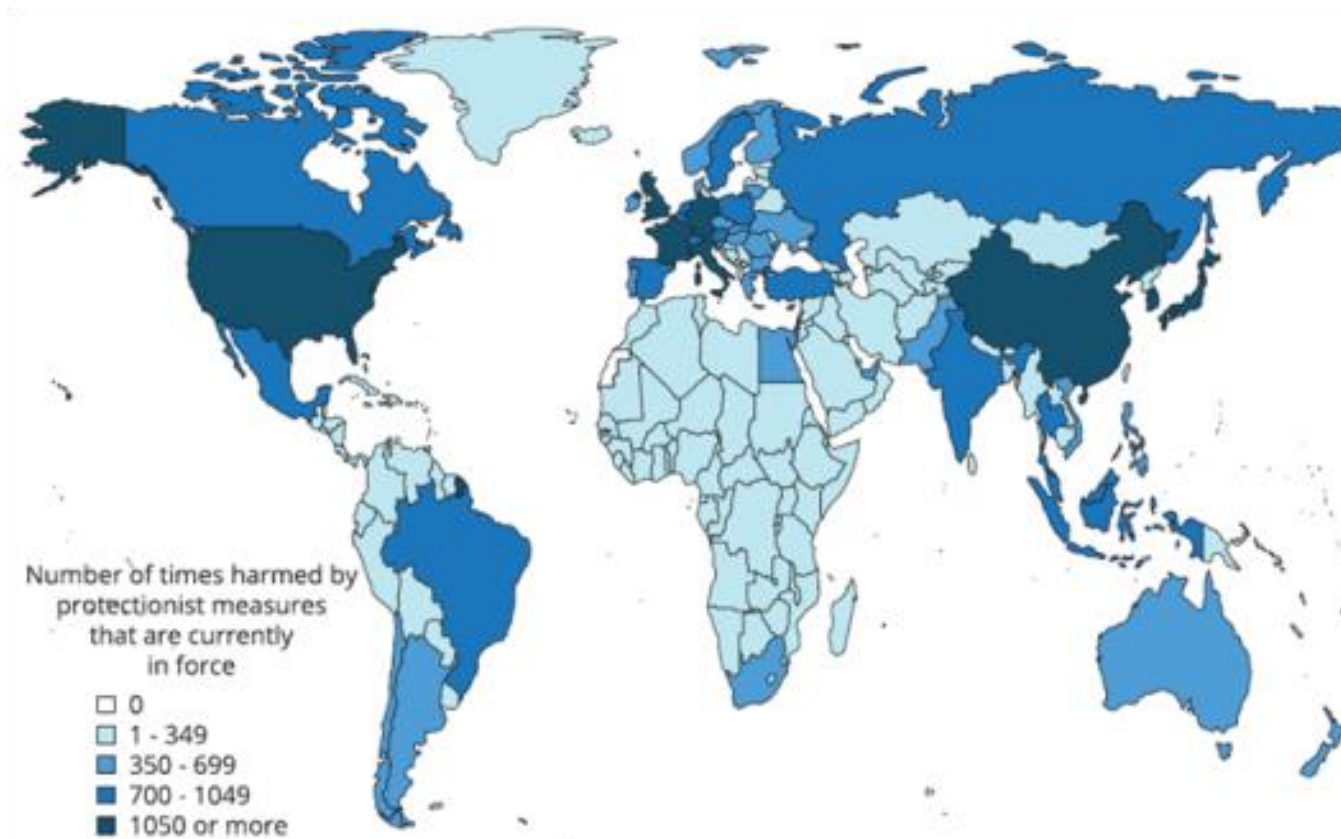
chicagotribune.com  
 nypost.com  
 eviewjournal.com  
 dallasnews.com  
 wsj.com  
 observer.nyc  
 nationalenquirer.com  
 Breitbart  
 theblaze.com  
 drudgereport.com  
 rushlimbaugh.com  
 hannity.com  
 glennbeck.com  
 foxnews.com

## Pro-Trump radio-TV

CNBC  
 FOXNEWSW  
 KBND  
 KDGO  
 KJAR  
 KFEQ  
 KSPV  
 MSNBCW  
 WETR  
 WGSV  
 WHIR  
 WJRB  
 WLAQ  
 WNBC  
 WTAQ

# We have information on the global incidence of protectionism

## The global incidence of protectionism since 2008 (global trade alert)



## Can we measure it using big data (GDELT)?

### BBVA Trade Support Index Changes 2008-17

(Tone & Coverage verbal cooperation at WTO)

