

The BBVA Research Geo World Report

A Visual Guide to Geopolitical Affairs

Cross Country Emerging Markets Unit





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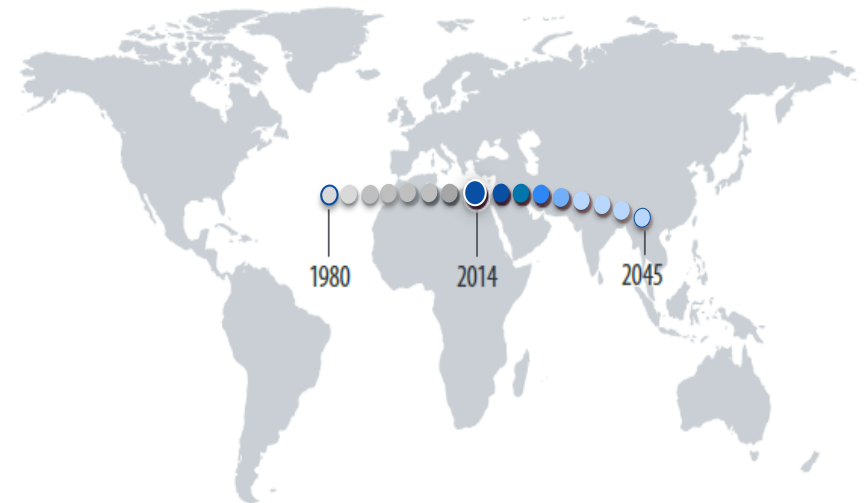
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A changing geopolitical landscape

- The **World is changing and the balance of power with it**
- The traditional post Cold-war **unipolar US dominance is being increasingly tested**
- **The world's balance of power is slowly adapting to the economic balance**
- Social, political and economic **systems are becoming increasingly interconnected**
- **New actors will arise** and will start to make new demands
- With the **new technologies facilitating the spread of social dynamics**

The Global Economy's shifting centre of gravity

Source: Danny Quah 2011





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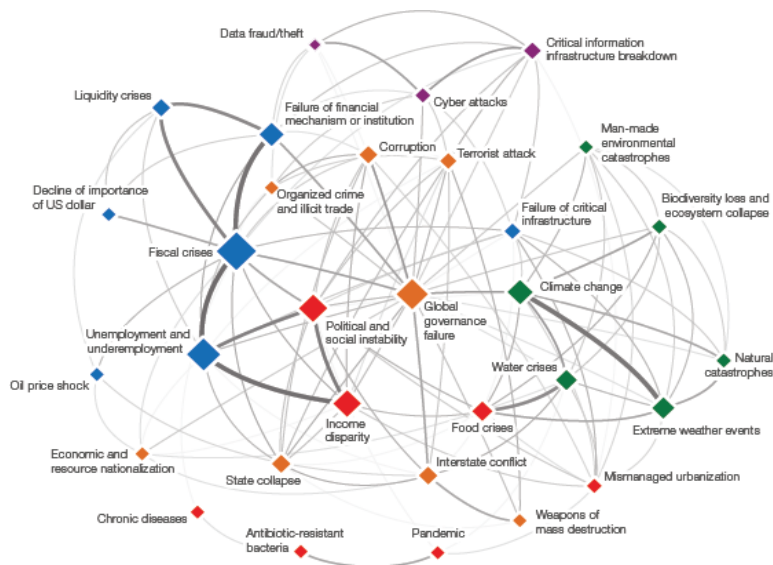
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Why geostrategic Analysis

Geo-strategic analysis will play a crucial role in understanding the field in which international economies operate and the interconnection of global risks. It is becoming an additional and key element in the policy making process.

Geopolitical risks are highly interconnected

Source: The Global Risk Report, WEO 2014



- This report includes new **tools to monitor and quantify geopolitical trends and their interconnections in the global economy** by using an innovative “big data” set
- It **monitors the geopolitical situation to better understand** the behaviour and forces of global-scale social systems
- The report will complement **our geostrategic analysis in aiming to understand the social, political and geo strategic trends in parallel with the dynamics of the global economy**



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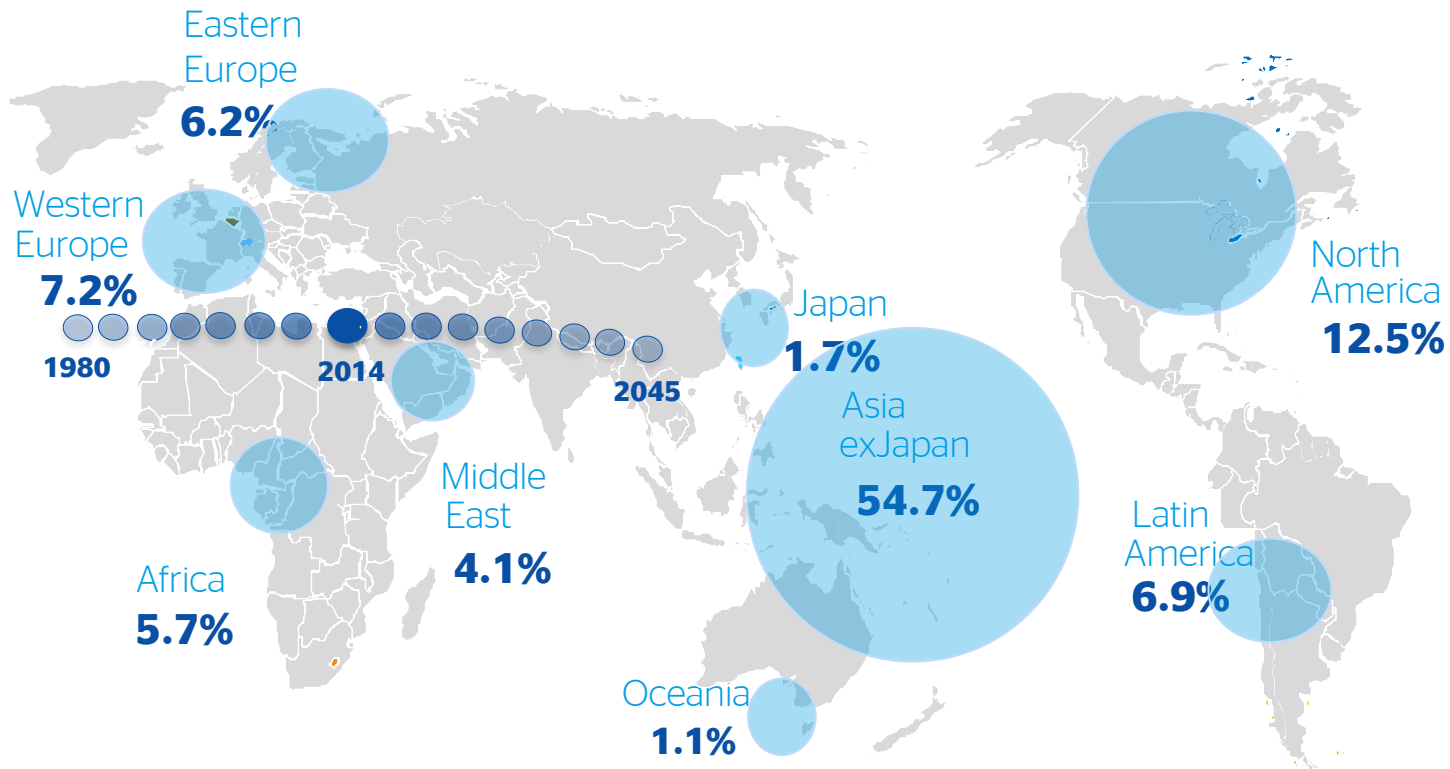
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The Balance of Economic Power

The global economy's centre of gravity is moving to the East

(%GDP in world economy in the next ten years)

Source: BBVA Research and Quah 2011





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Index: A set of problems to deal with



The global awakening

The global awakening will challenge global leaders .

In emerging but also in richer Countries.



The Russia Ukraine crisis

Putin’s expansionism takes advantage of Maidan.


A fragile ceasefire keeps neighbour’s fears.



ISIS advance in the Middle East

ISIS surprises the US’ pivot to Asia.

The Coalition still on tactics (“airstrikes”) more than strategy.



HK unrest & southeast asian sea tensions

China on alert about Hong Kong fears.

Competing territorial claims in the South-east asian sea.



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The World Conflict Map

BBVA World Conflict Heatmap (2H 2014)

(Number of conflicts / Total events)*

Source: www.gdelt.org & BBVA Research



Social Unrest

Social Unrest hotspots.

Ukraine-Russia

Ceasefire in place but still fragile.

ISIS advances in M.East

The Coalition stopped the advance so far. More concerted needed to fight ISIS.

South-East Asia

Democratic demands in Hong Kong. Nationalistic claims on the sea.

* See the annex for more details about the methodology.



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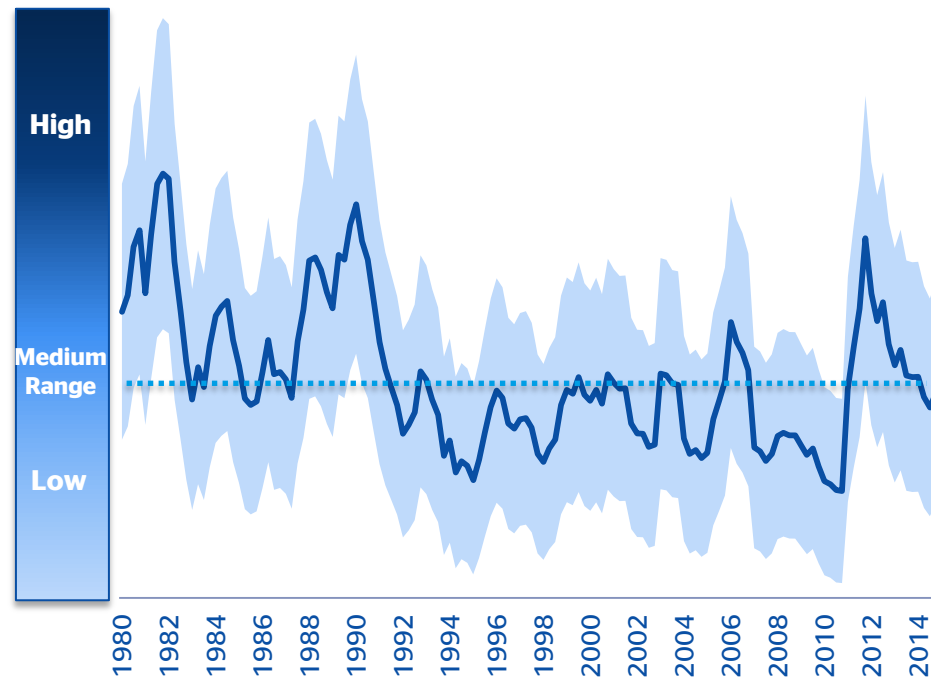
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Global Social Unrest Tracker

World Protest Intensity Index 1980 - 2014

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

Source : www.gdelt.org & BBVA Research

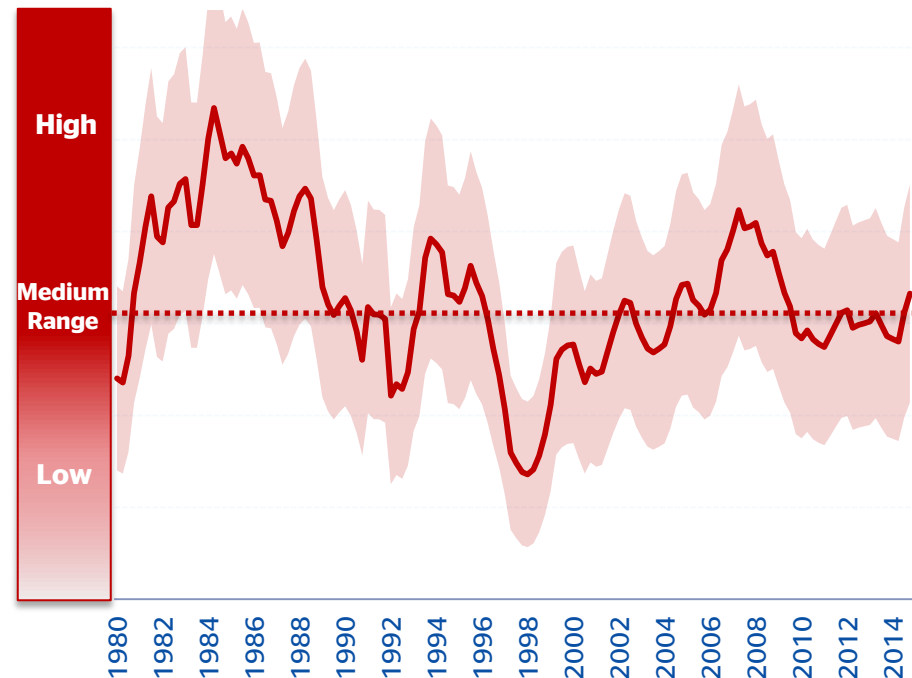


The social unrest is not a new phenomena but it is increasing after a long period of calm

World Conflict Intensity Index 1980 - 2014

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

Source : www.gdelt.org & BBVA Research



The trend in conflict is more worrying and it is being increasing since the beginning of this century

* See the annex for more details about the methodology. Time series are provided in the web and can be downloaded.



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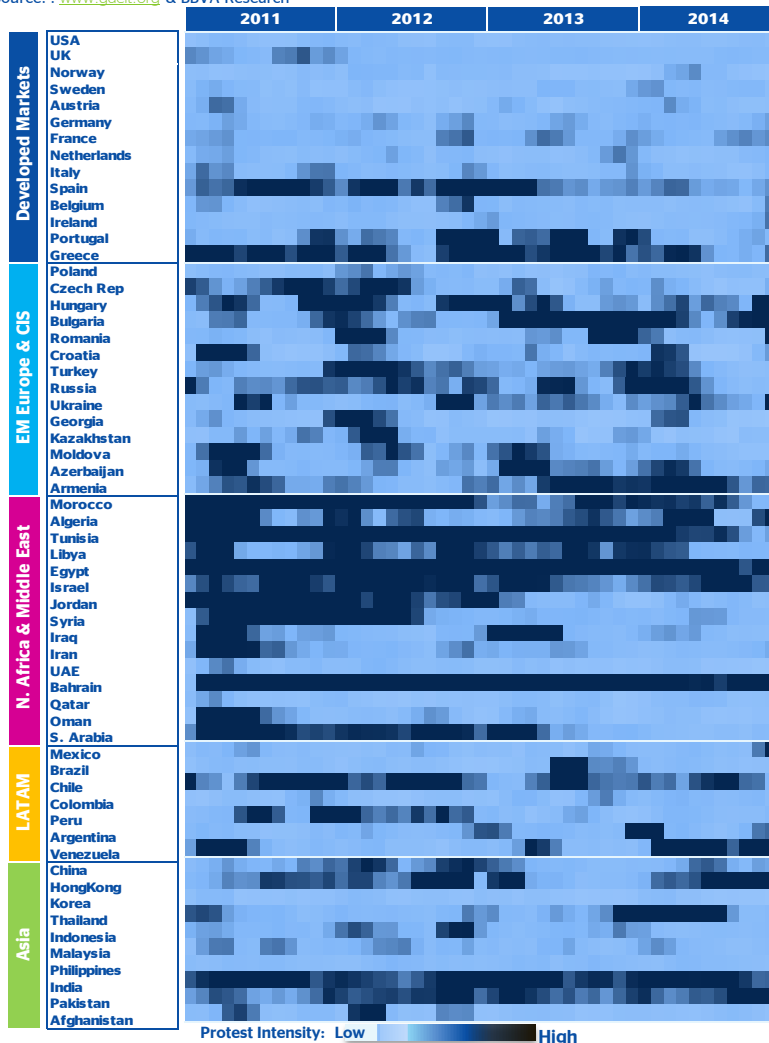
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The Social Unrest Tracker

World Protest Intensity Map Jan 2011 - Nov 2014

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

Source : www.gdelt.org & BBVA Research



- In **Western Europe** mild social pressures have revived in **France** which could challenge the implementation of reform programmes. Protests on the EU periphery have mildly revived.
- Some of **Eastern European countries** still show tense situations despite the improvement. Social tensions have increased in **Bulgaria, Hungary and Romania** while in **Turkey** social tensions relaxed after the Presidential Elections . Ukraine's tensions increased during the autumn, when the crisis with Russia escalated again.
- The social climate continues to be tense in **N.Africa & Middle Eastern countries**. The situation in **Algeria, Israel and Egypt** continues under pressure. In the Middle East, the tensions in **Bahrein** remain high.
- The **Latam** social unrest climate remains mixed. Protests diminished in **Chile** while they have emerged in **Mexico**. The situation in **Venezuela** is still complicated.
- In **Asia**, tense situations in India and Pakistan remain fragile while the social unrest came to a halt in **Thailand** after the military took political control. Increasing demands of democracy in **Hong Kong**.



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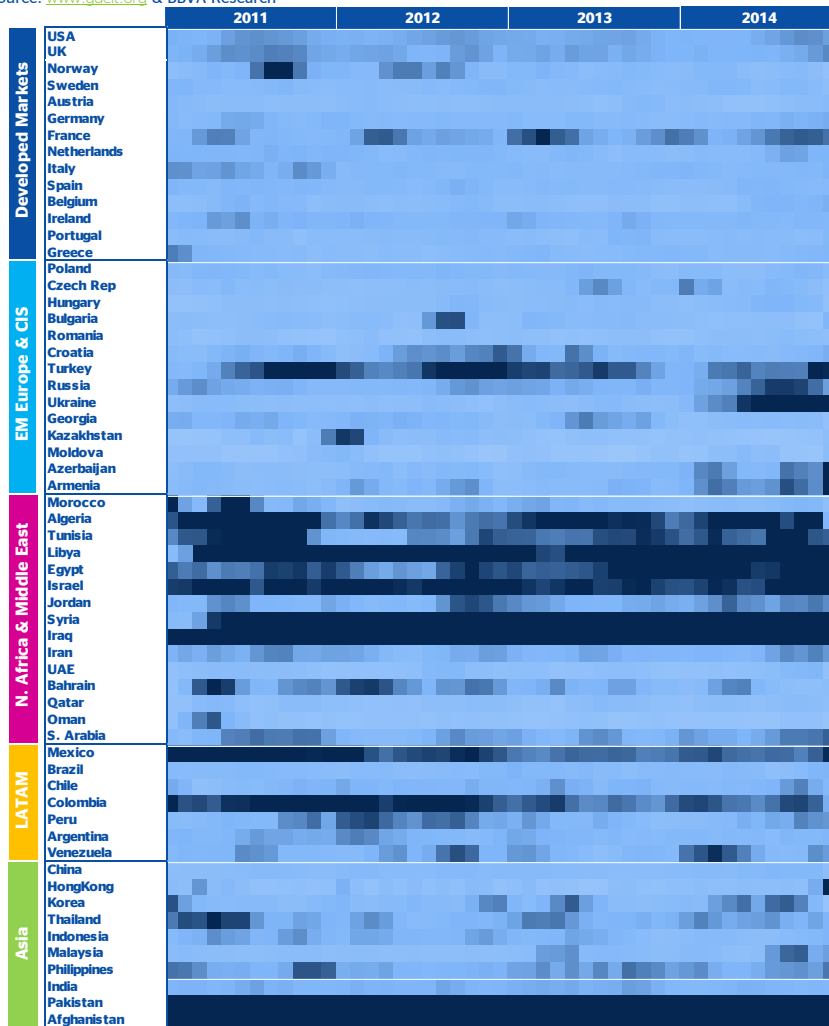
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The Conflict Tracker

World Conflict Intensity Map Jan 2011 - Nov 2014

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

Source: www.gdelt.org & BBVA Research



Conflict Intensity: Low High

- Protest intensity does not lead to conflicts in **Developed Countries** and the conflict intensity in these countries is rather low ...
- **Emerging Europe and CIS countries'** conflicts have reduced during the last decade, but new worrying signals have recently appeared in **Ukraine** and **Russia** and also in some former republics. The conflict intensity is also increasing in **Turkey** as a result of the ISIS and Kurdish related problems.
- The conflict activity in **North Africa & the Middle East** continues to be intense, with critical situation in North Africa but also in **Syria** and **Iraq**. The conflict intensity in the Gulf Countries remains contained.
- **Latam's** conflict rose in **Mexico** given the spread of violent protests. However, conflict activity has eased in Colombia.
- **Asia** remains calm, with most of the conflict activity related to Central Asia (**Afganistan, Pakistan**). Violent demonstrations have carried through to higher conflict intensity in **Honk Kong**.



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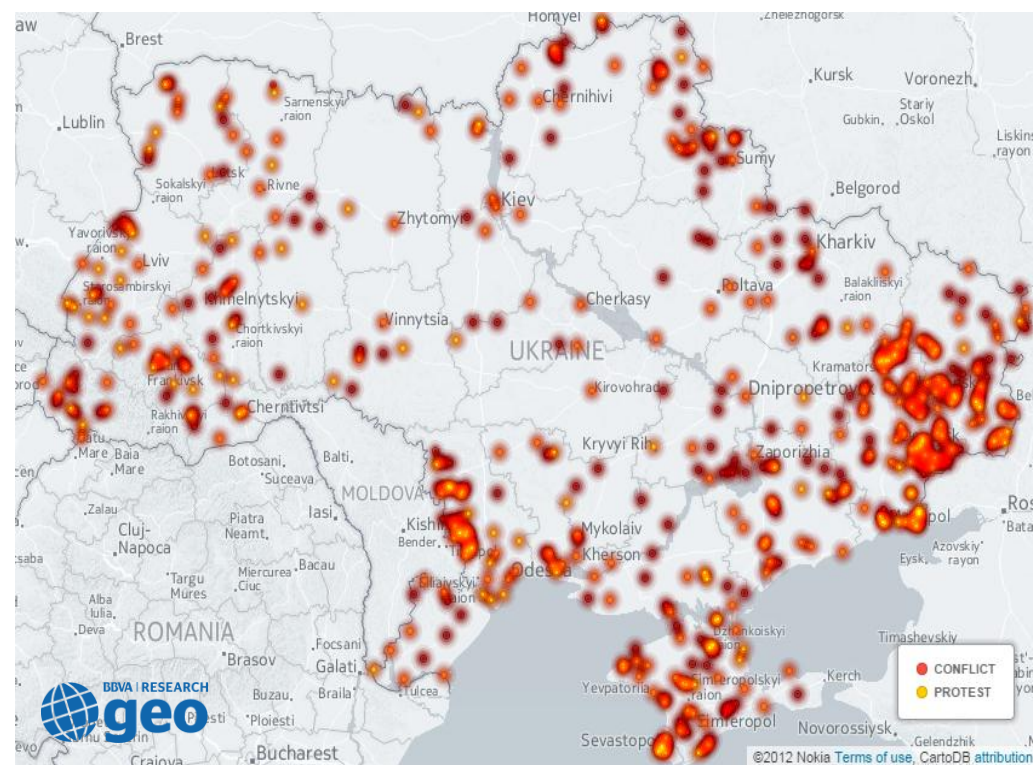
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The Ukraine-Russia Conflict

The situation in Ukraine: Conflict Index

(Protest/total events and conflict/ conflict events)

Source: www.gdelt.org & BBVA Research



- The **fragile ceasefire between the separatists and the government is still in place**. The **worsening economic activity and the result of elections could increase pressure again**.
- The new round of Western sanctions have been imposed. **While sanctions are still not affecting Putin's strategy and popularity (87% in the Levada polls), they are proving effective in economic terms**. The economy will stagnate this year instead of pre-crisis forecasts of 3% growth.
- **The situation in countries with large Russian populations remains tense** (Moldova, Belarus, Georgia and, to a lesser extent, the Baltic States).



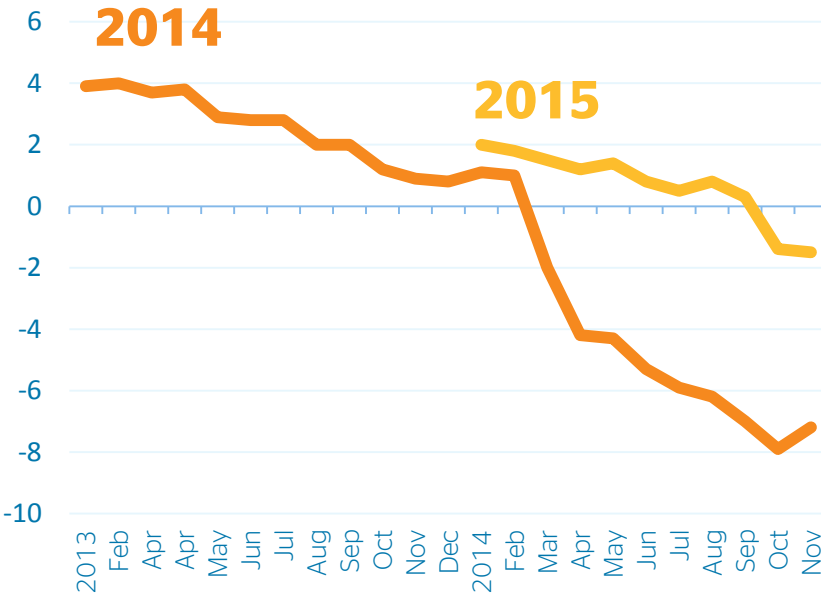
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Economic costs on the rise

Ukraine: Expectations of Economic Activity 2014-2015

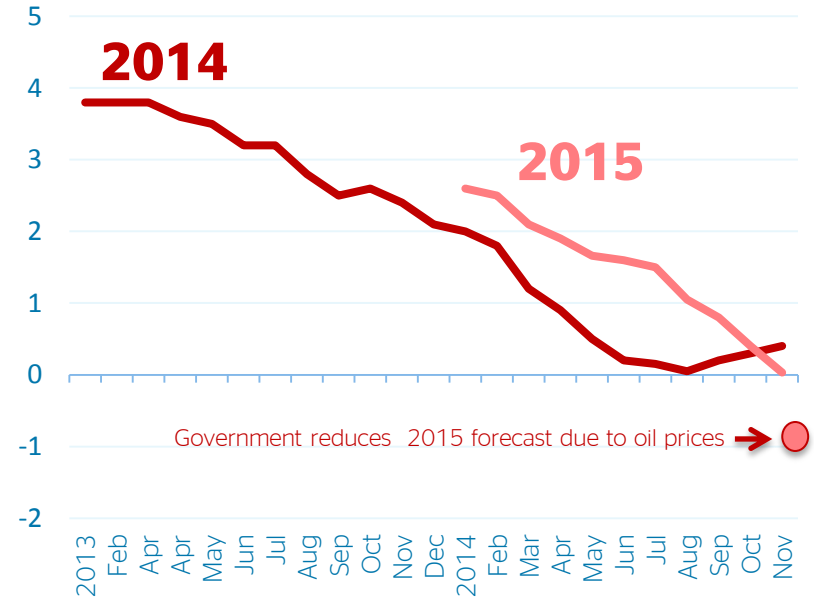
Source: Consensus Forecasts & BBVA Research



The economic situation is becoming critical in Ukraine, with fears of default despite official assistance

Russia: Expectations of Economic Activity 2014-2015

Source: Consensus Forecasts & BBVA Research



Deterioration is also evident in Russia. 2015 will continue to test Putin's support with a strong decline in growth beyond the official forecast



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Russian sanctions spillovers

Russian economic sanctions network

Source: www.gdelt.org & BBVA Research

Central asian trade

Technology exchange restrictions will affect Russia's medium/long term capacity to extract new energy, which could affect Central Asian relationships

Central & Eastern european trade

The trade effects of commercial sanctions imposed on Russia will spread to other countries, particularly traditional trade partners in the East

External demand of some European countries (France, Germany, Italy) will also be affected



Financial circle

Some countries, financial centres and tax havens will be affected by financial sanctions imposed on Russia.

Financial & trade circle

Russian investments in some regions are huge (i.e. the Balkan states)



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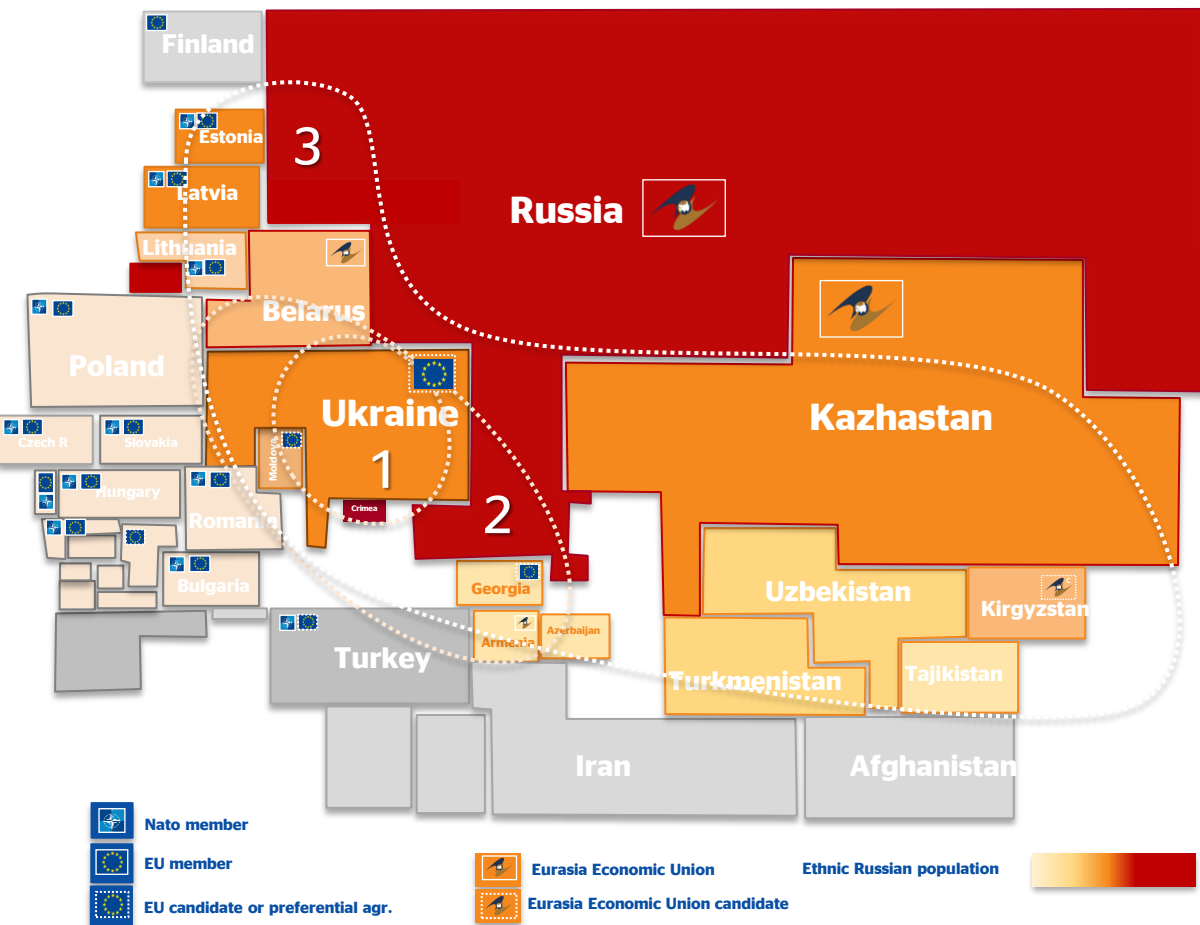
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Russian expansionism scenarios

The Russian crisis and potential spillovers

(From lower -1- to higher -3- risk)

Source: BBVA Research



- 1** Russia favours East Ukraine independence (Crimea, East Ukraine)
- 2** Tensions spread in neighbouring countries (Moldova, Belarus and Georgia)
- 3** Destabilising the Baltics and exploiting “fears” in Central Asia (Kazhastan, Uzbekistan...)



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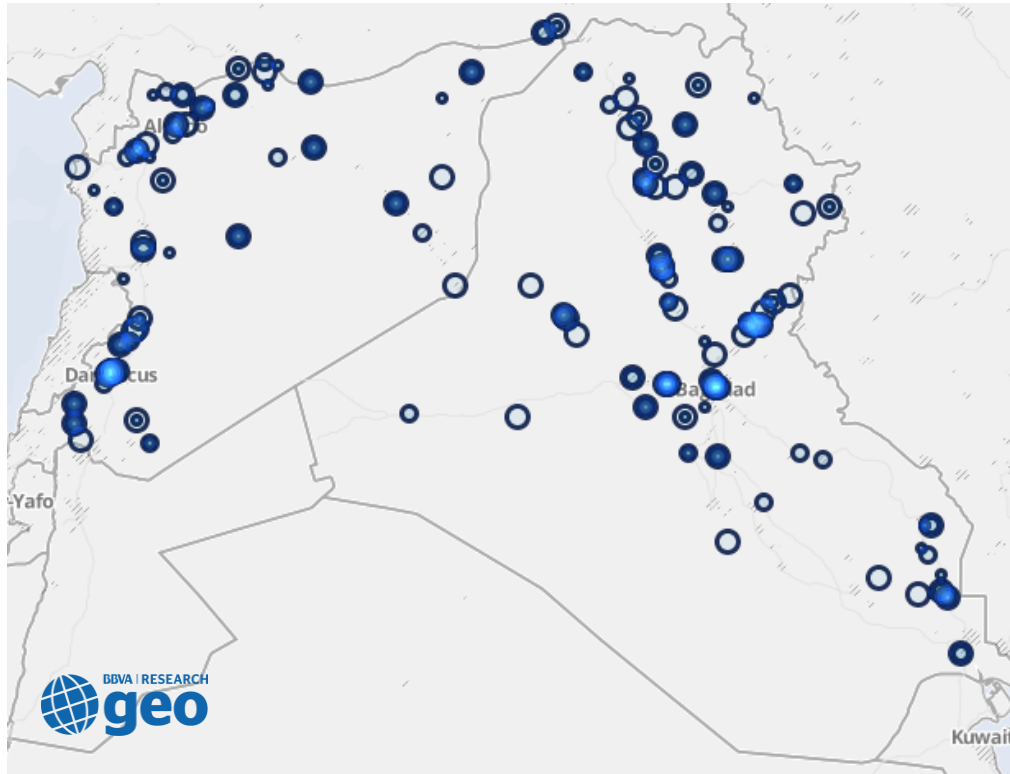
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ISIS surprised the West

The situation in Syria & Iraq: Conflict Index

(Number of Conflicts)

Source : www.gdelt.org & BBVA Research



- The **rapid advance of ISIS** finally led the coalition to extend the **airstrikes** to northern Syria. The airstrikes successfully stopped the ISIS advance into Kurdistan.
- The **assault on the Kurdish city of Kobane is complicating the outlook**, as it is in the border with Turkey.
- ISIS is advancing rapidly through Anbar province, with an increasing likelihood of a final and successful attack on Baghdad.
- **A strategy for the future (Iraq and Syria) still not announced** (but is possibly being negotiated bilaterally by the US). Iran maintains a wait-and-see attitude while Saudi Arabia has joined the Coalition.



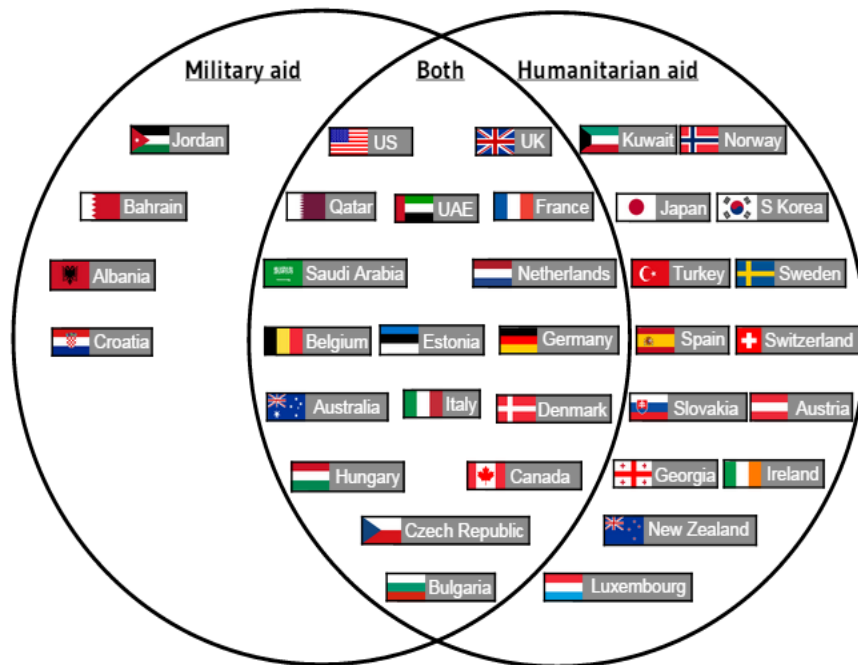
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The International Coalition (IC)

International Coalition members

Source: BBVA Research and BBC



- **International Coalition is playing a key role** in stopping the ISIS advance.
- Countries have joined the Coalition at **different levels of collaboration. Military collaboration** remains limited.
- **Deployment of ground troops has not been considered so far.**



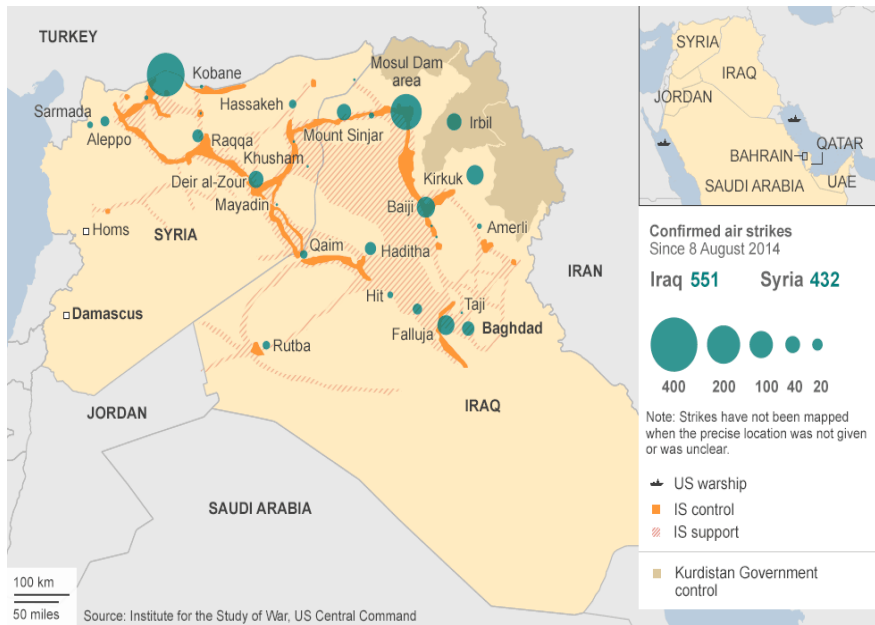
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IC “air-Strikes” stop ISIS advance

Geographical concentration of air-strikes in Iraq & Syria

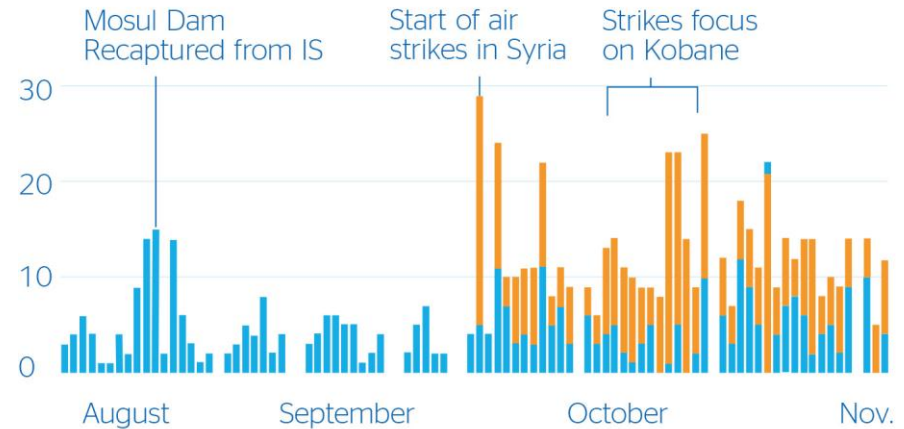
Source: US Central Command and BBC



Air Strikes concentrated in northern Syria and Iraq

First four months of air-strikes in Iraq & Syria

Source: US Central Command and BBC



With increasing focus in Kobane area to support Kurd fighters



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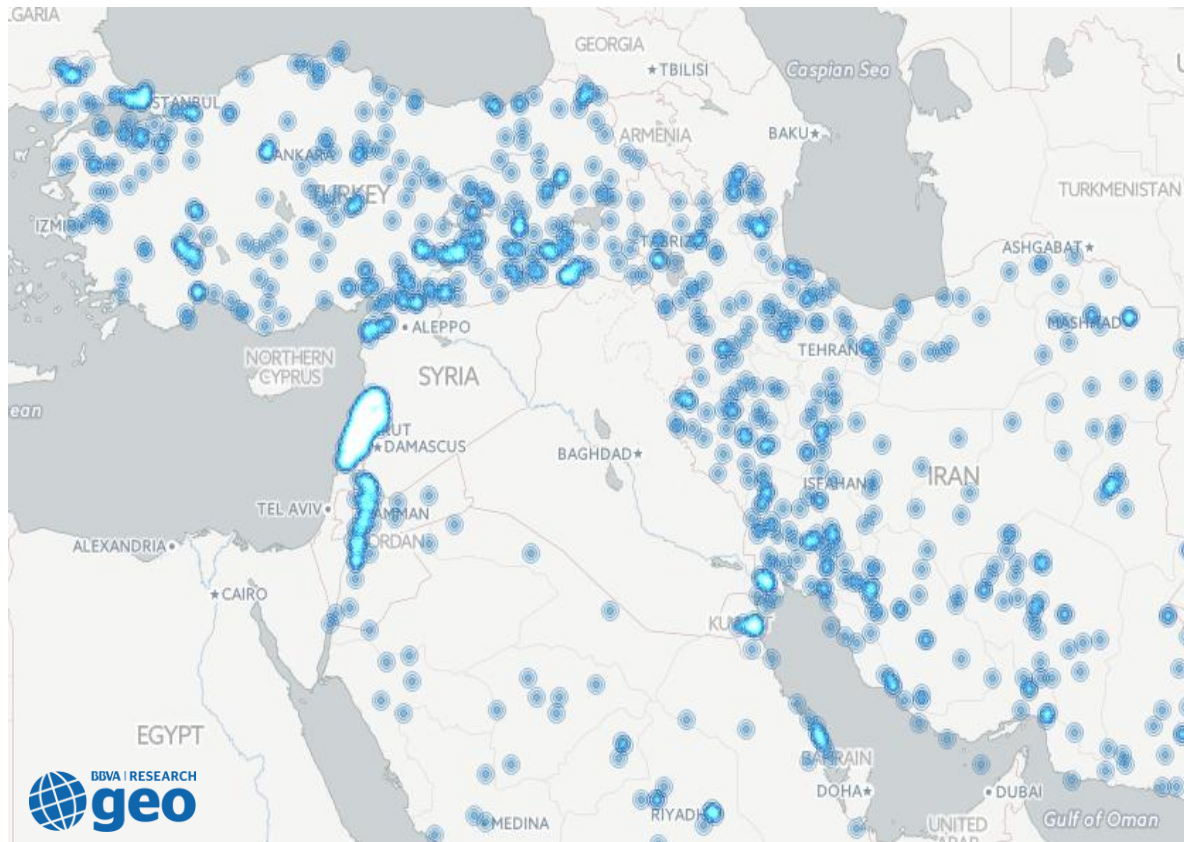
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Refugees into neighbouring countries

Refugees into neighbouring countries from Syria & Iraq

(Cumulative number of refugees from Syria and Iraq)

Source: www.gdelt.org & BBVA Research



- **The ISIS conflict in Iraq & Syria has already increased the large number of refugees in Turkey** (slightly above 1.1 million from Syria alone) due to the Civil War in Syria.
- **The situation in Jordan and Lebanon is even worse**, and will deteriorate further if ISIS takes the central part of Iraq.
- **The effects on macroeconomics are already present but still difficult to quantify** (demand for food, lower wages,...).



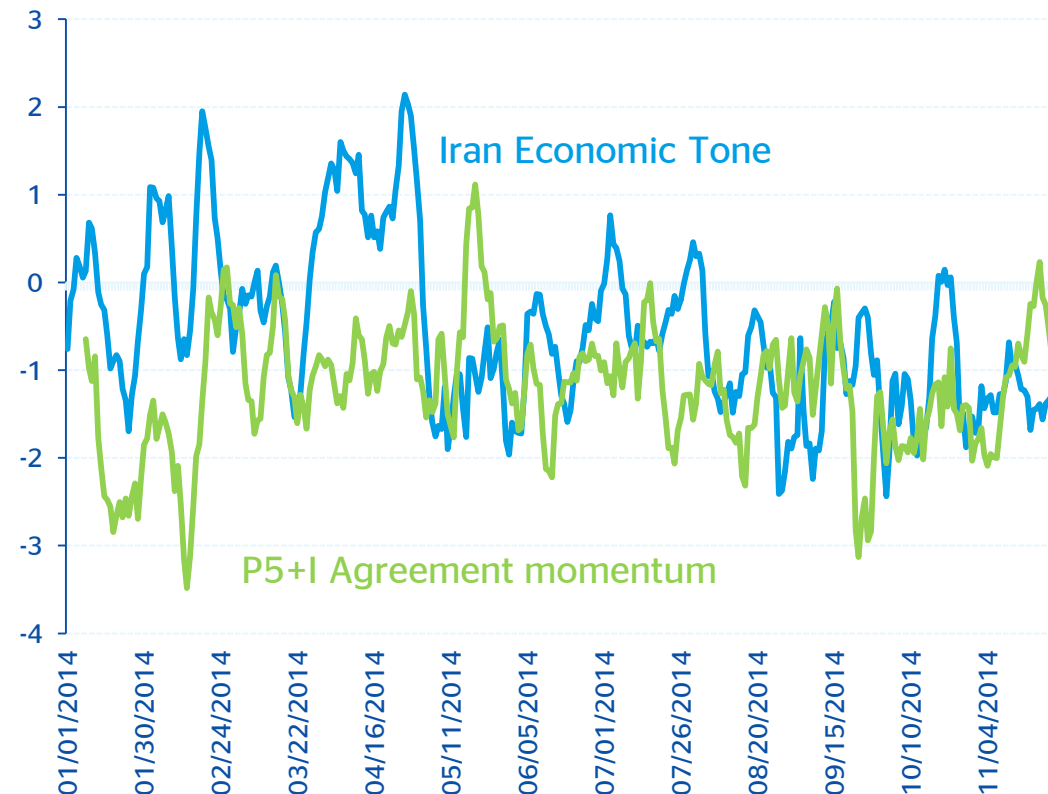
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Iran P5+1 negotiations delayed again

Effects of nuclear negotiations on Iran and P5+1

Source: www.gdelt.org & BBVA Research



- **Sentiment about the P5+1 deal** had been increasing before the deadline, but it **plunged** on 24 November when **no agreement was reached**.
- Iran and P5+1 countries again failed to sign an agreement. However, they have decided **a second extension to 1 March 2015 of negotiations** over Tehran's nuclear programme, with a deadline for final agreement on 1 July.
- The nuclear issue will remain a **key geopolitical focal point next year**. The economic situation in Iran continues to move in tandem with the negotiations (i.e relaxation of sanctions).



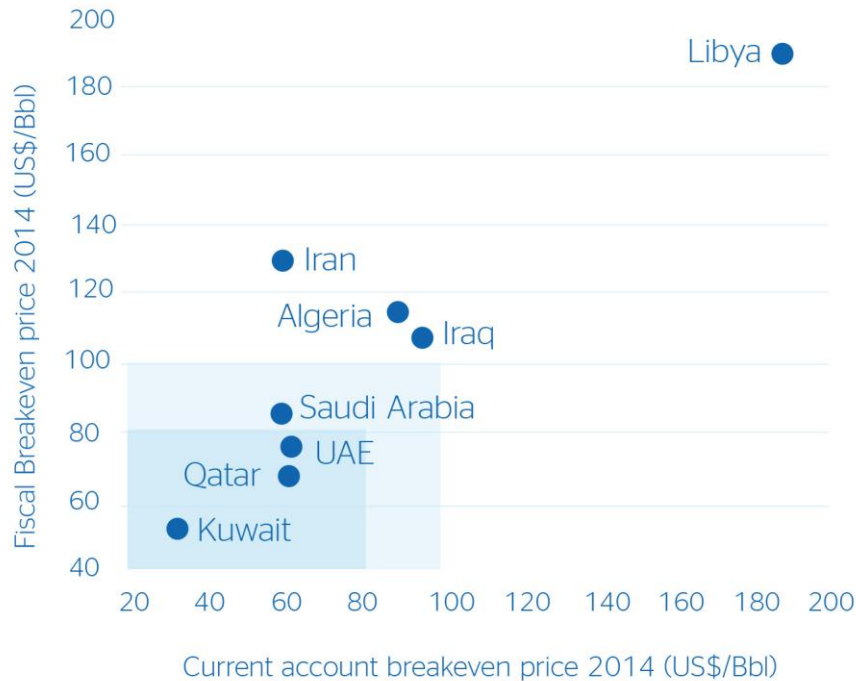
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The sharp drop in oil prices

OPEC breakeven prices (Fiscal and CAC breakeven prices)

Source: Repsol Research



Despite the Middle Eastern turmoil, oil prices have continued to decline.

This will **have positive consequences in strategic terms**, as it will undermine **both Russian and ISIS finances**.

However, **it poses some risks in terms of economic and security situation in some Middle East countries**.

Beyond economic deterioration, **revenues to contain 'social pressures' will be reduced**.



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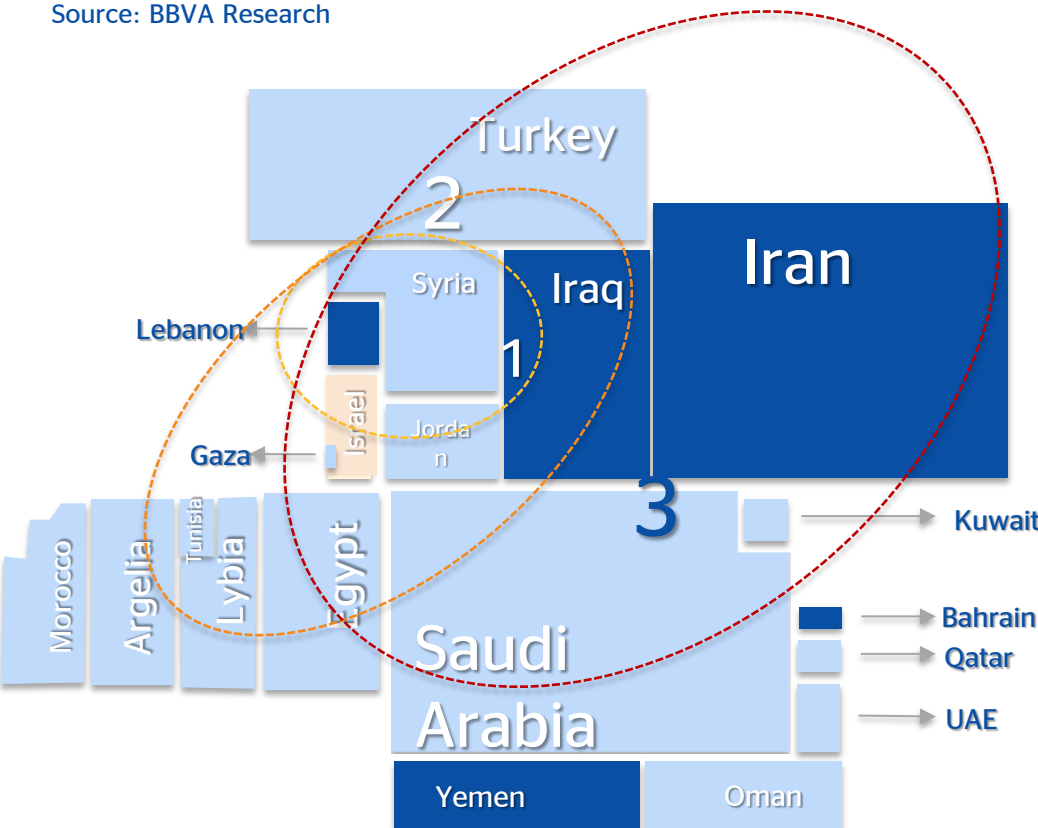
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Middle East potential scenarios

Geopolitics of the Middle East and potential spillovers

(From lower -1- to higher -3- risk)

Source: BBVA Research



- 1** Sectarian clashes continue
 ISIS and government enter a muddle-through scenario
 (Iraq, Syria and the Kurds)
- 2** Neighbour problems
 problems spread to regional neighbours
 (Jordan, Lebanon, Turkey)
- 3** Full-blown crisis
 Crisis spreads to big players (Iran and Saudi Arabia) with sectarian clashes and fights extending into Middle East and North Africa
 (Iran, S.Arabia, North Africa)

Mostly Sunni Mostly Shia



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Protests in Hong Kong

Hong Kong: locations of protests 2014 (Protest events)

Source: www.qdelt.org & BBVA Research



Main Protest areas inside Hong Kong (Protest events)

Source: www.qdelt.org & BBVA Research



Demands for democratic reforms have been increasing in Hong Kong, although they are facing Chinese government opposition...



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China will closely monitor HK woes

Social climate in China: Social Unrest Index

(Number of protests)

Source: www.gdelt.org & BBVA Research



- Chinese authorities will try to maintain “order and harmony”.
- However, the emerging middle classes in the coastal areas could extend their material demands to non-material (social and political) ones.
- Social media will continue to be closely monitored by authorities.
- The Chinese authorities will take any measures to prevent economic deterioration and/or social unrest.



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South-East China Sea tensions

The geopolitics of the South China Sea

Source: BBVA Research



Southeast Asia: Marine Conflict Tracker

Source: www.gdelt.org & BBVA Research



Competing territorial claims between China and south asian islands are increasing tensions in the region...



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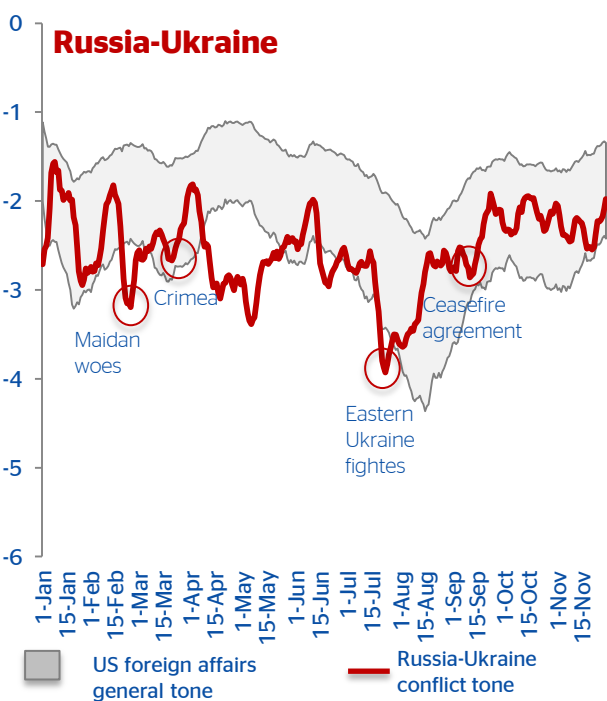
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A challenge for the US foreign policy

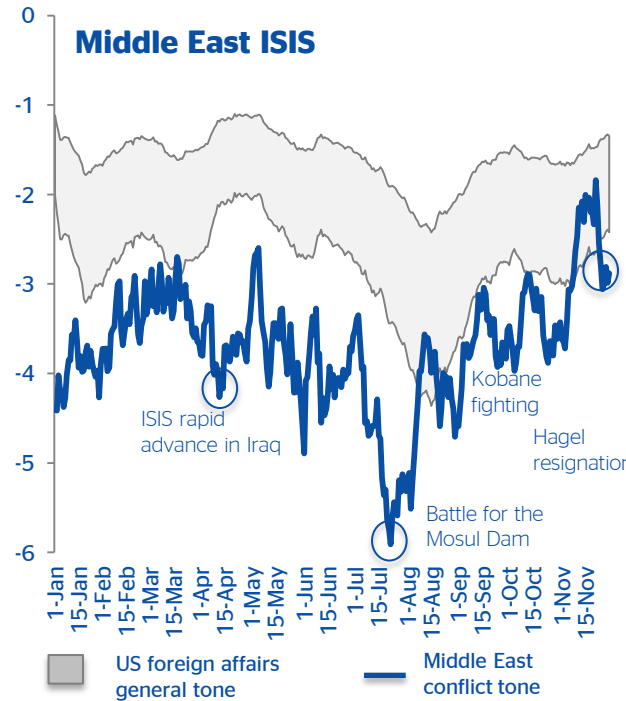
Obama Administration's sentiment on foreign affairs

(Average tone of US foreign affairs with respect to different focal points. Confidence bands: average tone of US foreign affairs)*

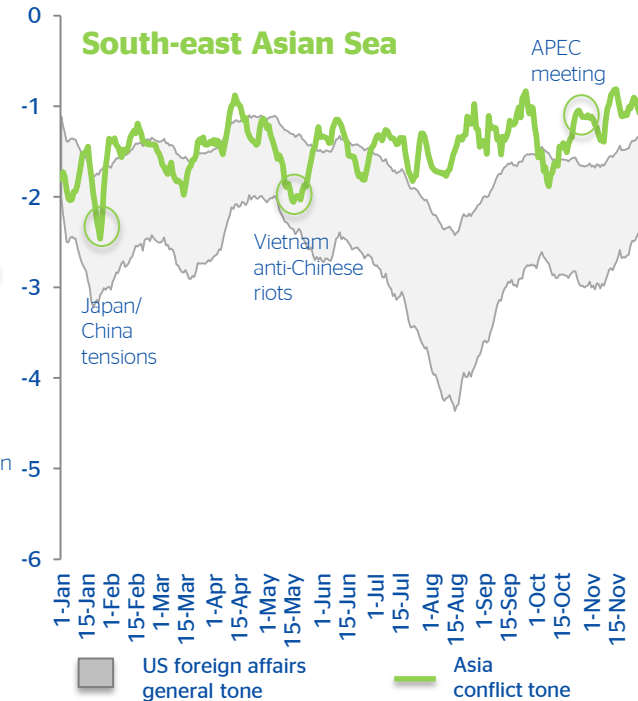
Source: www.gdelt.org & BBVA Research



Advances in Russia-Ukraine crisis management have recently stopped



The Middle East sentiment continues to be lower than the rest. Airstrikes improved it somewhat, but recently reversed after Hagel's resignation



The feeling for the Asian Pivot is more stable and positive. Recent APEC meetings improved sentiment

* See the annex for more details about the methodology.



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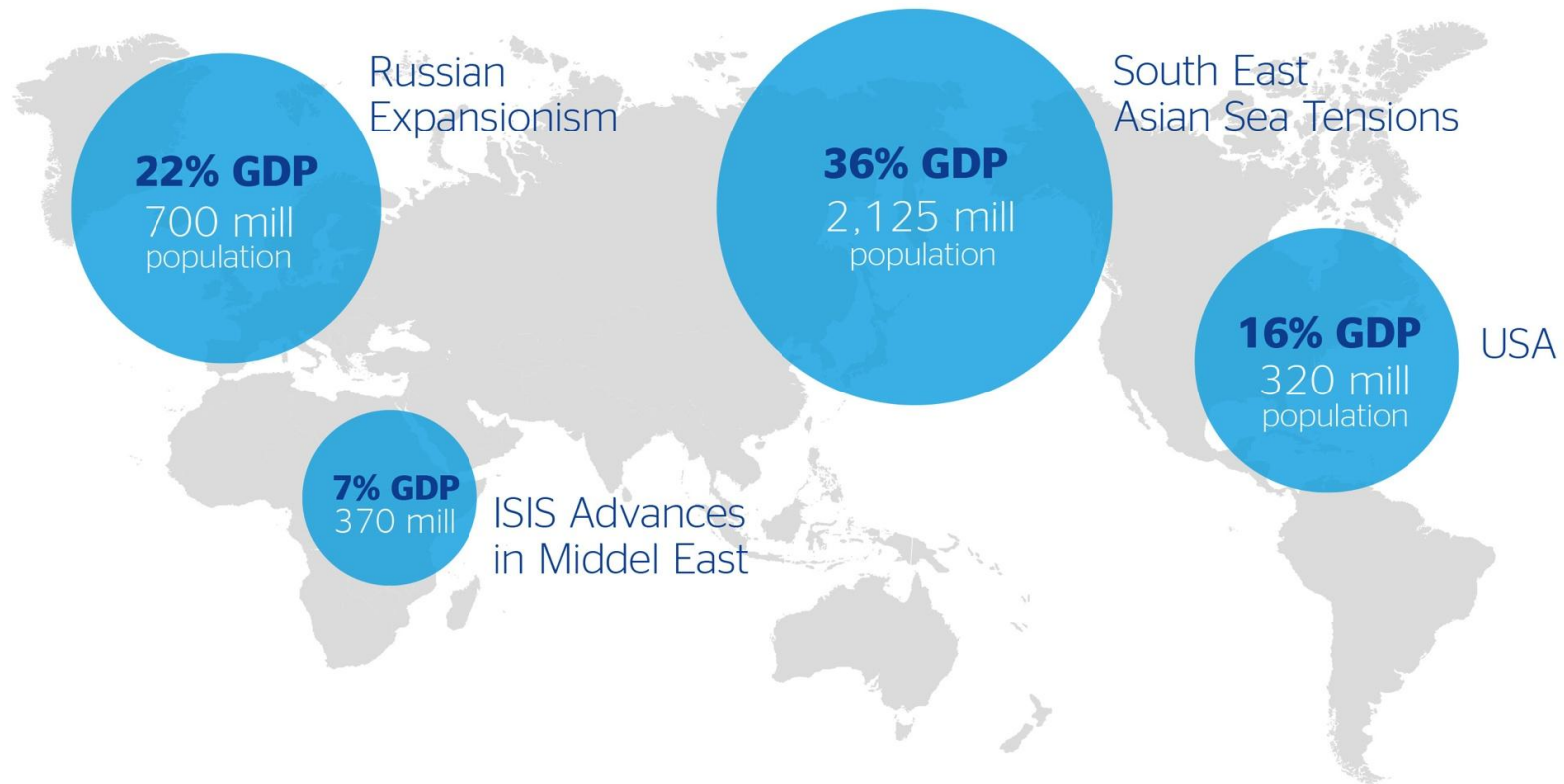
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Geo-strategic scenarios impact

World conflicts: direct income and population

(% of PPP GDP and population)

Source: BBVA Research, IMF





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The Top World Think Tank Tracker

Key articles by leading Think Tanks...



West and Russia Now in Permanent Crisis



Profiling The Islamic State



The U.S. Can't Count on Regional Support in the Fight Against ISIS



CSIS: 2015 Global Security Forecasts



Iran's Nuclear Politics and Missed Opportunities



Russian 'deniable intervention' in Ukraine: how and why Russia broke the rules



Strategic Survey 2014 Press Statement



Putin's Valdai Speech



It's time for a New Deal for Europe

Reports and Multimedia...



IISS Global Strategic Review 2014

The International System and The Ukraine Crisis



IISS Global Strategic Review 2014

The Transformation of the Geopolitical and Geo-Economic Order in the Middle East
Global Strategic Review 2014 Conference



Formulating a New Foreign Policy Approach toward Russia,
By Zbigniew Brzezinski



A discussion with Dr. Henry Kissinger highlighting his latest book, World Order.




Annex Methodology: Tracking Protests and Conflicts

We have developed a tracking of protest and conflict indexes for every country in the world since 1 January 1979 through present day with daily, monthly, quarterly and annual frequencies. To construct this, we use a rich 'big database' of international events (GDELT at www.gdelt.org) which monitors the world's events covered by the news media from nearly every corner of the world in print, broadcast, and web formats, in over 100 languages, every moment of every day updated every 15 minutes.

- **BBVA Protest Intensity Index:** We collect every registered protest in the world for a particular time which are separately collated under the various headings of the **CAMEO taxonomy** as: demonstrate or rally, demonstrate for leadership change, demonstrate for policy change, demonstrate for rights, demonstrate for change in institutions and regime, conduct hunger strike for leadership change, conduct hunger strike for policy change, conduct hunger strike for rights, conduct hunger strike for change in institutions and regime, conduct hunger strike not specified before, conduct strike or boycott for leadership change, conduct strike or boycott for policy change, conduct strike or boycott for rights, conduct strike or boycott for change in institutions and regime, conduct strike or boycott not specified before, obstruct passage or block, obstruct passage to demand leadership change, obstruct passage to demand policy change, obstruct passage to demand rights, obstruct passage to demand change in institutions and regime, protest violently or riot, engage in violent protest for leadership change, engage in violent protest for policy change, engage in violent protest for rights, engage in violent protest for change in institutions and regime, engage in political dissent not specified before.
- **BBVA Conflict Intensity index:** In the same way, we collect every registered conflict in the world for a particular time considering a **wide variety of conflicts under the CAMEO taxonomy headings** as: impose restrictions on political freedoms, ban political parties or politicians, impose curfew, impose state of emergency or martial law, conduct suicide, carry out suicide bombing, carry out car bombing, carry out roadside bombing, car or other non-military bombing not specified below, use as human shield, use conventional military force not specified before, impose blockade, restrict movement, occupy territory, fight with artillery and tanks, employ aerial weapons, violate ceasefire, engage in mass expulsion, engage in mass killings, engage in ethnic cleansing, use unconventional mass violence not specified before, use chemical, biological, or radiological weapons, detonate nuclear weapons, use weapons of mass destruction not specified before.

Using this information, we construct an intensity index for both events. **The number of protests and conflicts each day/month/quarter/year are divided by the total number of all events recorded by GDELT for that day/month/quarter/year to create a protest and conflict intensity score** that tracks just how prevalent protest and conflict activity has been over the last quarter-century, correcting thus for the exponential rise in media coverage over the last 30 years and the imperfect nature of computer processing of the news.



Annex

Methodology: emotional indicator and coding system in GDELT

The GDELT database offers several mechanisms for assessing the “importance” or “impact” of a particular event. The most common measures are:

- **Goldstein Scale.** This is a widely used scale in geopolitics that maps WEIS event codes onto a number representing level of conflict or cooperation. Each **CAMEO event code** is assigned a numeric **score from -10 to +10**, capturing the theoretical **potential impact** that type of event will have **on the stability** of a country. This is known as the Goldstein Scale. This field specifies the Goldstein score for each event type. NOTE: this score is based on the type of event, not the specifics of the actual event record being recorded. Thus two riots, one with 10 people and one with 10,000, will both receive the same Goldstein score. This can be aggregated to various levels of time resolution to yield an approximation of the stability of a location over time.
- **Average Tone.** This is the average “tone” of all documents containing one or more mentions of this event. The score ranges from -100 (extremely negative) to +100 (extremely positive). **Common values range between -10 and +10**, with 0 indicating neutral. This can be used as a method of filtering **the “context” of events** as a subtle measure of the importance of an event and as a proxy for the “impact” of that event. For example, a riot event with a slightly negative average tone is likely to have been a minor occurrence, whereas if it had an extremely negative average tone, it suggests a far more serious occurrence. A riot with a positive score probably suggests a very minor occurrence described in the context of a more positive narrative (such as a report of an attack occurring in a discussion of improving conditions on the ground in a country and how the number of attacks per day has been greatly reduced). To measure the emotional connotation in which the event appears, GDELT uses the tonal dictionary from Shook et al (2012). This scale goes beyond CAMEO event codes and is the measure that we use in the report.

To extract all this information from the text, the data are coded using the **open-source Petrach system** for events and additional software for location and tone. This coding engine identifies all named entities through noun phrases: all nouns, verbs, adjectives, adverbs,.. in the text. Unidentified cases can be separately processed with named-entity-resolution software. The speed of the algorithm is achieved through the use of shallow parsing algorithms and parallel processing.



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