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New wave of post-pandemic social movements: international trade as a collateral victim

Executive summary

While the restrictions linked to the COVID-19 pandemic put a stop to the resurgence of social movements, a new wave is on the horizon. The resurgence of mass protests, which had already been strong since 2017, mainly in emerging countries, is expected to accelerate again due to the unprecedented deterioration of socio-economic indicators. Following the crisis, Coface's social and political risk indicator, which factors in these socio-economic criteria, reached a record high of 51% worldwide in 2020 and, more particularly, 55% in emerging countries. Social pressures have increased in some large emerging Asian countries such as Malaysia, India, Thailand and the Philippines, as well as in North African countries such as Algeria and Tunisia. Several countries in Asia, Latin America, Africa and Eastern Europe have already entered this new wave of protest, fuelled by health, socio-economic and political factors.

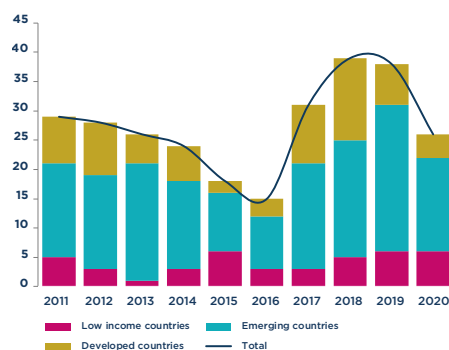
These social movements will have an impact on the economic activity of the affected countries, including on their external trade. We estimate that a mass social movement has, on average, a particularly pronounced and permanent negative impact on the affected country's goods exports. During the year of the movement, they are, on average, 4.2% below their estimated potential. The gap remains substantial over the three following years, as they remain between 6.3% and 8.9% lower. The shock on imports is weaker and more transitory. The shock on trade is likely to vary greatly depending on the form of these social movements: their persistence and intensity turn out as key determinants. Our results also suggest that the shock depends on the demands of the movement. Protests that incorporate socio-economic demands - therefore more likely to emerge after the pandemic - have, on average, longer-lasting and more severe effects. Three years after the shock, exports and imports remain 20.7% and 5.6% below their potential level, respectively. Moreover, the limited policy space available in emerging countries after the pandemic to limit the effects of social unrest on trade could amplify this phenomenon.



After a surge in social movements before the pandemic, a new wave is on the horizon...

From the Arab Spring in 2011 to the wave of social movements that hit some emerging countries in 2019, the past decade has been marked by numerous mass protests. After a gradual decline in social movements at the global level between 2011 and 2016, their number steadily increased between 2017 and 2019 (Chart 1). They remain, for the most part, in emerging countries. This is illustrated by the social movements that broke out just before the pandemic in Hong Kong, Algeria, Lebanon, and in several Latin American countries, notably Chile and Ecuador.

CHART 1
Number of mass social movements worldwide, 2011 - 2020

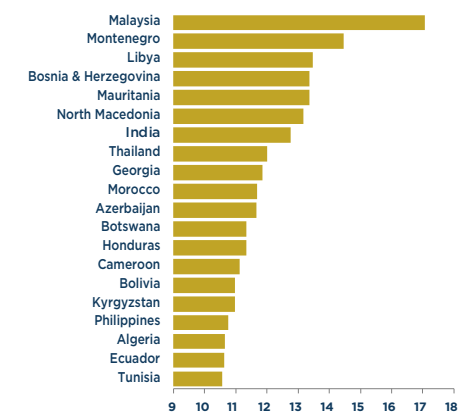


Sources: Barrett et al. (2021), Coface

The restrictions related to the COVID-19 pandemic have put a stop to this upsurge, but this will only be temporary. The experience of previous epidemics and pandemics teaches us that social unrest emerges (or re-emerges), on average, one year after a health crisis¹. This resurgence of social discontent is explained by the devastating socio-economic effects of these crises². As the magnitude of those generated by the global pandemic is unparalleled, the magnitude of the new wave of social movements that is coming should be as well. Indeed, the social and political risk, as measured by the Coface model, have never been this high at the global level³. In 2020, it reached a record 51% worldwide and, more particularly, 55% in emerging countries. More specifically, social pressures for change have never been this strong⁴. In 2020, the social pressure index reached an all-time high, rising from 46% to 54% globally and from 54% to 61% for emerging countries. This increase is explained by the unprecedented deterioration of socio-economic indicators in the overwhelming majority of analysed countries. People's living standards have fallen because of the pandemic, as illustrated by the drop in GDP per capita, their purchasing power has deteriorated through the rise in unemployment and inflation, and income and wealth inequalities have increased⁵. Furthermore, in some countries, there is growing dissatisfaction regarding the government's management of the pandemic and the restrictions on civil and political liberties in the context of the health crisis that are sometimes considered abusive. Thus, in 2020, 88% of emerging countries saw their level of risk associated with social pressures rise, with over two-thirds recording an increase by at least five percentage points. It has particularly increased in some large emerging Asian countries, such as Malaysia, India, Thailand and the Philippines, but also in some North African countries, such as Algeria and Tunisia (Chart 2). Some countries have already entered, at varying degrees, into this new wave of social protest. Most of the countries concerned have seen pressures increase because of the pandemic, or already had levels of social

risk higher than the average for emerging countries. Demonstrations to criticize the management and socio-economic consequences of the pandemic have broken out in Latin America (Brazil, Colombia, Cuba, Mexico and Paraguay), but also in Asia (Thailand, Malaysia and Mongolia). They have also occurred as a result of political crises in some countries in Latin America (Bolivia and Peru in particular), Asia (Kyrgyzstan, Myanmar and Nepal), Africa (Benin and Senegal) and Eastern Europe (Georgia and Montenegro). Other emerging countries, such as South Africa, Guatemala and Tunisia, have been plagued by protests involving all of these factors.

CHART 2
Emerging countries with the largest increase in the social pressure score in 2020, in percentage points



Source: Coface

... and could weigh on international trade

The new wave of social protests on the horizon is likely to have economic repercussions on the domestic and external balances of the concerned countries. The experience of past epidemics and pandemics confirms that mass social movements have persistent negative impacts on economic activity⁶. Indeed, on average, GDP growth remains one percentage point below its level before the movement for at least a year and a half. For emerging countries, the figure is even two percentage points lower. These effects are explained, on the supply side, by a fall in industrial activity and services and, on the demand side, by the drop in consumption. This is compounded by falling household and business confidence, and rising uncertainty. Moreover, the uncertainty associated with political instability increases the transaction costs between the affected country and the rest of the world, and reduces the incentives to enter in new trade relationships or to maintain existing ones. Trade flows slow down or even contract: the fall in industrial activity disrupts exports and the fall in consumption affects imports.

To quantify this negative impact of mass social movements on international trade in goods, we combine two approaches: a gravity model of international trade and the synthetic control method (see Box next page). Our estimates are based on a list of social movements that have occurred over the last decade in emerging countries (Table 1 next page). We focus our analysis on these countries because, as mentioned above, they concentrate the largest number of movements at the global level, but also because our social and political risk indicator points to particularly strong and growing pressures in these countries, which could lead to new mobilizations. A mass social movement has, on average, negative effects on both exports and imports of goods in the country in which it occurs (Charts 3 & 4 next page).

1 - See Saadi Sedik, T., & Xu, R. (2020). A Vicious Cycle: How Pandemics Lead to Economic Despair and Social Unrest. *IMF Working Papers* (216).

2 - See Barrett, P., & Chen, S. (2021). Social Repercussions of Pandemics. *IMF Working Papers* (21).

3 - See Country and Sector Risks Barometer - Q2 2021 - A two-speed world, Coface.

4 - The Coface model measuring the political risk of 161 countries aims at understanding the emergence of social movements by linking two fundamental pillars:

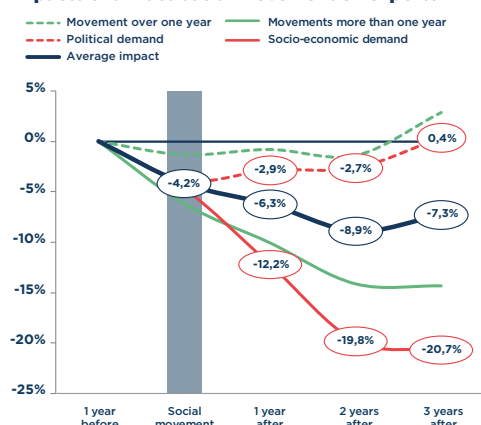
the pressures for change and the instruments facilitating social mobilization. For more details on the methodology, see Panorama - March 2017 - The rise and rise of political risks, Coface.

5 - See Country and Sector Risks Barometer - Q4 2020 - An unequal recovery, Coface.

6 - See Hadzi-Vaskov, M., Pienknagura, S., & Ricci, L. A. (2021). The Macroeconomic Impact of Social Unrest. *IMF Working Papers* (135).

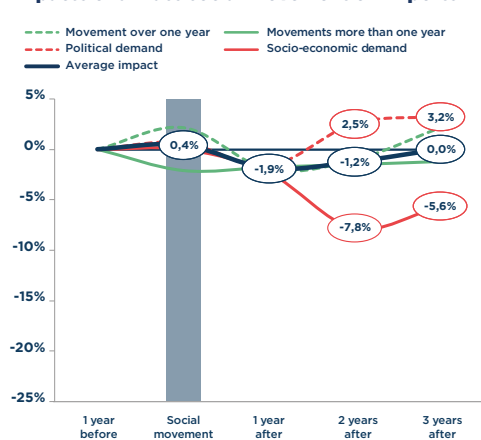
However, while its impact is particularly pronounced and lasting on exports, it is less significant and more transitory on imports. In the year of the mass social movement, exports are, on average, 4.2% lower than they would have been had the movement not occurred. The gap remains substantial in the three years following the movement, as they remain between 6.3% and 8.9% below their potential. Conversely, the impact on imports is more marginal, allowing them to quickly return to their potential level.

CHART 3
Impacts of a mass social movement on exports



Source: Coface

CHART 4
Impacts of a mass social movement on imports



Source: Coface

The impact on trade will depend on the persistence, intensity and demands of the movements

The impact of a movement on exports and imports varies (and will vary in the new wave of social protests that is about to occur) greatly depending on the event (Charts 5 & 6 next page). A series of factors can amplify or limit their effects on trade, including sectoral specialization, the country's weight in international trade, its proximity to its trading partners and the preferred mode of transport in bilateral trade flows. These factors can also determine the negative externalities on third countries, whether or not they are trading partners of the affected country. However, the forms that the movements take will also determine

METHODOLOGY TO ESTIMATE THE IMPACT OF MASS SOCIAL MOVEMENTS ON INTERNATIONAL TRADE

To estimate the impact of mass social movements on international trade, our starting point is the gravity model of international trade over the 2011-2018 period. We used CEPIL's Gravity database⁷, combined with the mass social movements identified by Barrett et al. (2021)⁸ with the indicator developed by Barrett, Appendino, Nguyen, and de Leon (2020)⁹. More specifically, our model is as follows:

$$\text{Trade flow}_{ijt} = \beta_0 + \beta_1 \text{GDP}_{it} + \beta_2 \text{GDP}_{jt} + \beta_3 \text{Distance}_{ijt} + \beta_4 \text{Multilateral resistance}_{it} + \beta_5 \text{Multilateral resistance}_{jt} + \beta_7 \text{Social movement}_{it} + \beta_8 \text{Social movement}_{jt} + \mu_i + \nu_j + \delta_t + \varepsilon_{ijt}$$

Trade flow_{ijt} is the bilateral trade flow in goods between country *i* (exporter) and country *j* (importer) in year *t*. GDP_{it} is the GDP of the exporting country *i* and GDP_{jt} is the GDP of the importing country *j*, in year *t*. Distance_{ijt} includes the distance or costs to trade between the two countries in year *t*, i.e. the physical distance between the two countries, the existence of a common border, a common language, a colonial past, close legal systems, a free trade agreement or a common currency. Multilateral resistance_{it} and Multilateral resistance_{jt} refer, respectively, to the average level of all barriers imposed by the exporting country and the importing country on all their trading partners in year *t*. Social movement_{it} and Social movement_{jt} capture, respectively, the occurrence of a mass social movement in the exporting and importing country in year *t*. μ_i are exporter fixed effects, δ_t are importer fixed effects, ν_j are year fixed effects and ε_{ijt} is an error term. To estimate the evolution of this impact over time, we combine the gravity model of international trade with the synthetic control method. The idea of this method is, for each pair of countries impacted by a mass social movement, to construct a counterfactual that simulates the trajectory that their bilateral trade would have followed had it not been impacted by the movement. This counterfactual, called the synthetic control, is a weighted average of trade flows between countries that were not subject to any movement. To determine which pairs of countries constitute it, as well as their weights, we minimize, over the ten years before the mass social movement, the pseudo-distance between the determinants of the trade flow between the two countries impacted by the movement and those that were not impacted by any movement. These determinants are those of the gravity model, plus the average value of bilateral trade over the ten years before the social movement. Thus, the impact in year *t* of the occurrence of a mass social movement on bilateral trade between the two impacted countries is:

$$\widehat{\text{Impact}}_{ijt} = \text{Trade flow}_{ijt} - \sum_{s=1}^S \text{Weight}_s * \text{Trade flow}_{st}$$

With *S* the number of country pairs that form the synthetic control. The sum of their weights is equal to one and each weight of a country pair is strictly positive. This method allows to construct a counterfactual for each bilateral trade flow of a country impacted by a social movement, and thus to estimate the overall impact on its exports and imports.

Sources: Barrett et al. (2021), Coface

TABLE 1
Events selected to estimate the impact of mass social movements on international trade

Country	Year of the first mass social movement	Main demand	Years of subsequent movements (up to 3 years later)
Algeria	2011	Socio-economic, Political	2013
Bangladesh	2013	Political	2014
Brazil	2013	Socio-economic, Political	2014, 2016
Bulgaria	2013	Political	-
Chile	2013	Socio-economic	-
Colombia	2013	Socio-economic	-
Egypt	2011	Socio-economic, Political	2012, 2013
Honduras	2013	Political	-
India	2014	Political	-
Kenya	2013	Political	-
Kuwait	2011	Political	-
North Macedonia	2012	Political	2013, 2015
Malaysia	2011	Political	-
Morocco	2011	Socio-economic, Political	2013
Nigeria	2011	Socio-economic, Political	2012, 2014
Pakistan	2013	Political	2014
Peru	2011	Political	-
Senegal	2011	Political	2012
Thailand	2013	Political	2014
Tunisia	2011	Socio-economic, Political	2013, 2014
Turkey	2011	Political	2013, 2014
Ukraine	2013	Political	2014

7 - See Conte, M., Cotterlaz, P., & Mayer, T. (2020). *The CEPIL Gravity Database*.

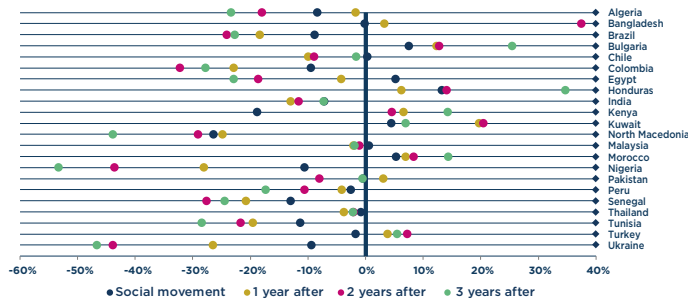
8 - See Barrett, P., Bondar, M., Chen, S., & Igan, D. (2021). Pricing Protest: The Response of Financial Markets to Social Unrest. *IMF Working Papers* (79).

9 - See Barrett, P., Appendino, M., Nguyen, K., & de Leon, M. (2020). Measuring Social Unrest Using Media Reports. *IMF Working Papers* (129).



the magnitude and persistence of the shock on trade. This is the case for the duration of social movements in a country, which is, unsurprisingly, a key determinant (Charts 3 & 4 previous page). If the movement is an isolated event, *i.e.* no other movement occurs in subsequent years, the impact on exports and imports is marginal. If the event is not isolated, the latent political instability reinforces the lack of confidence and uncertainty, increasing the costs to trade and further constraining export capacity. In this case, three years after the first movement, exports remain on average about 14% below their potential.

CHART 5
Heterogeneous impacts of mass social movements on exports



Source: Coface

CHART 6
Heterogeneous impacts of mass social movements on imports



Source: Coface

The scale of the mobilization is also one of the main determinants of the shock on trade. Over the past decade, social movements, even with similar demands, have had varying degrees of impact on trade. These differences can be explained by the intensity of the movement, *i.e.* the number of demonstrators organized, the number of demonstrators and even the violence on the margins of these demonstrations. For instance, the 2011 protests in Malaysia had negligible effects on exports and imports, while those in Ukraine in 2013 and 2014 had particularly strong impacts (Charts 5 & 6 previous page). While these events were politically motivated (freer and fairer elections in Malaysia, government resignation in Ukraine), the Ukrainian protests lasted for several months and were much more violent than the Malaysian protests.

Finally, our analysis suggests that the type of demands plays a crucial role in the size and persistence of the shock on trade (Charts 3 & 4 previous page). Movements with purely political demands have, on average, transitory and weaker effects on exports and imports, which return to the trajectories they would have followed in the absence of the shock three and two years after the movement, respectively. On the other hand, movements that include socio-economic demands have, on average, longer-lasting and stronger effects. Three years after the shock, exports and imports remain 20.7% and 5.6% below their potential, respectively. The impact of movements with socio-economic demands is also greater on economic activity¹⁰. This difference is undoubtedly explained by the greater difficulty of governments to respond quickly to these demands. This result is all the more important because, as mentioned above, the movements that are likely to emerge as a result of the health crisis will probably be motivated by the deterioration of socio-economic conditions. The ability of countries to respond to these demands, but also to limit the economic effects of the movements, will depend on the quality of their institutions and their economic policy space. However, as monetary policies in emerging countries are constrained by rising inflation, and as fiscal policies have run out of steam after the pandemic, the policy space seems limited, threatening an amplification of the shocks on trade.

10 - See Hadzi-Vaskov, M., Pienknagura, S., & Ricci, L. A. (2021).

The Macroeconomic Impact of Social Unrest. *IMF Working Papers* (135).

DISCLAIMER

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