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BBVA Research

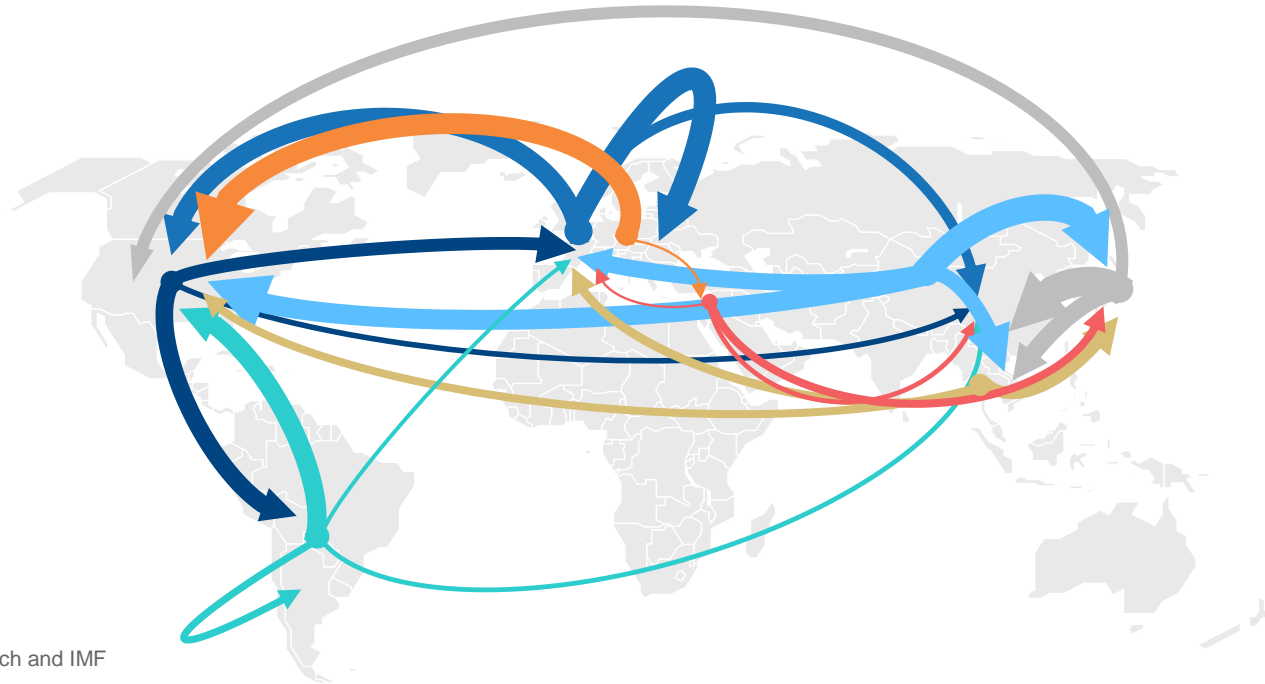
World Trade at a Crossroads

BBVA Financial Institutions Conference

13 June 2018

Creating Opportunities

USA, EU and China are the main nodes of the world trade network, with increasing weight of the Eastern Asiatic region



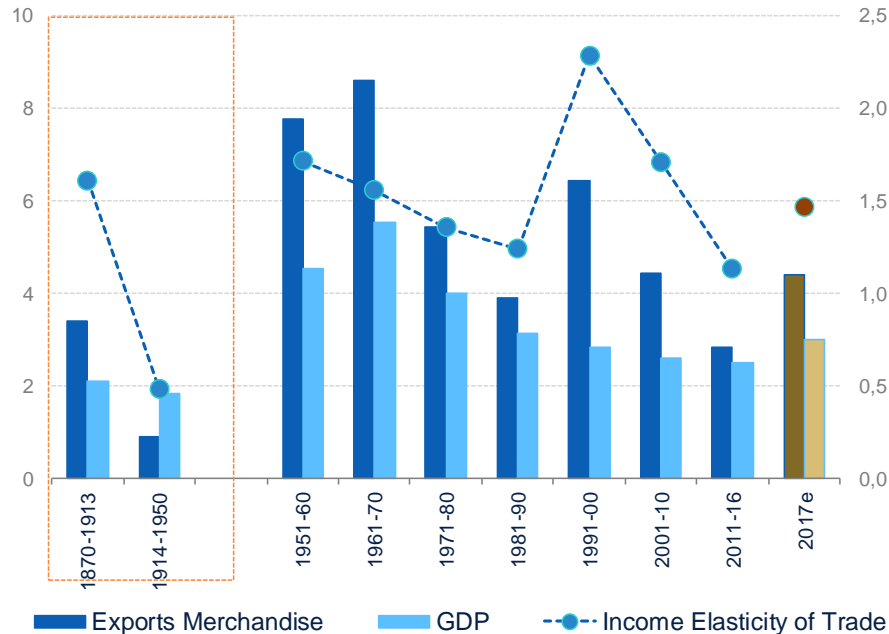
Source: BBVA Research and IMF

The width of the arrow is proportional to size of the flow in global trade of goods

¿Is the world trade retreating? Slight improvement in 2017-18

World. GDP and Exports

(y/y,%, volume)

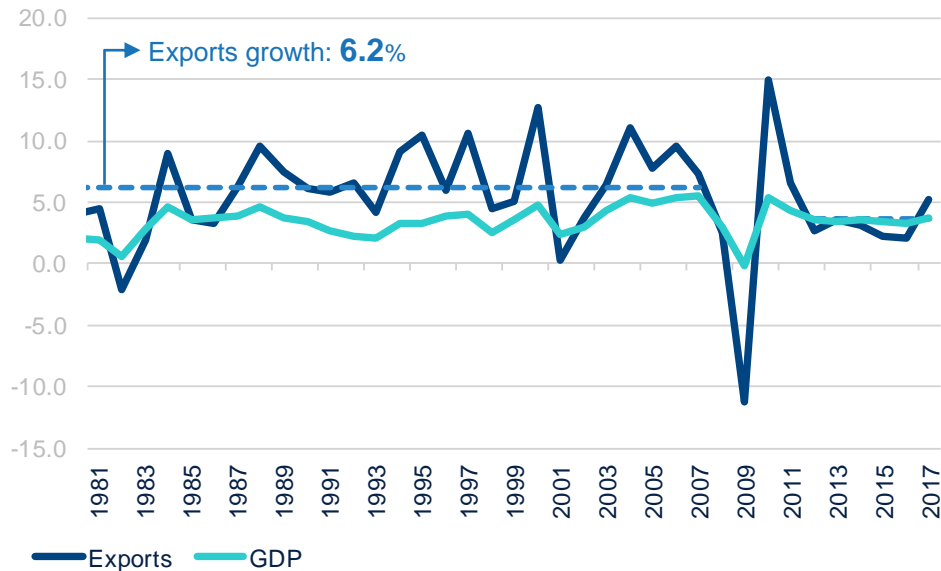


- We have been here before
- The last slowdown of the global trade seems stopped, but the recent rebound is scant, minor than last expansion

1980-2008 has been the most recent period of high dynamism of trade

World. GDP and Exports

(y/y,%, volume)



Source: BBVA Research and IMF

■ The "great convergence" (1980-2008) has been characterized by:

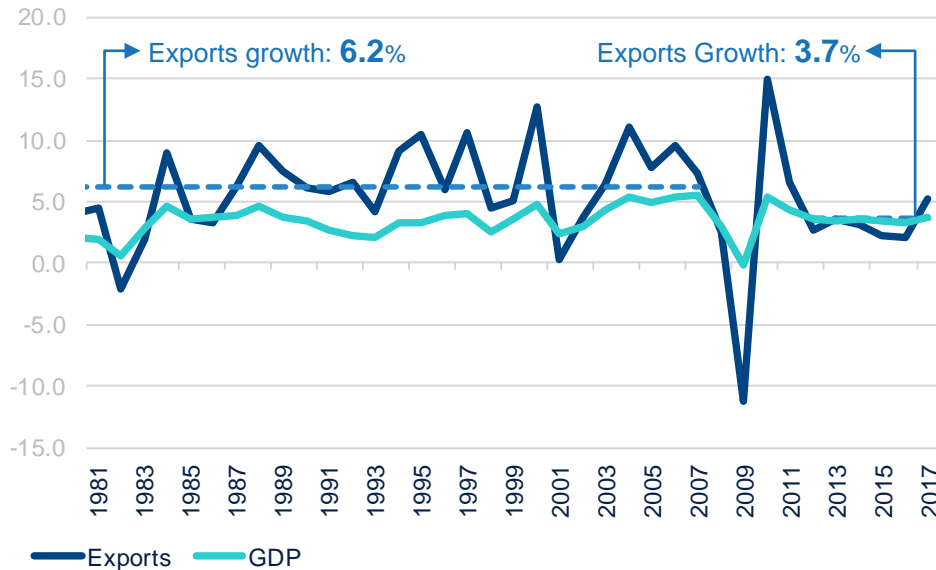
- Increased growth in emerging countries,
- Intense falls in transport costs, an intensification of value chains and
- Technological improvements that have enabled new markets to be reached

■ Boost of the governance of global trade by the WTO and China's openness to market rules and global trade

However, world trade slowed down in the wake of the Global Financial Crisis

World. GDP and Exports

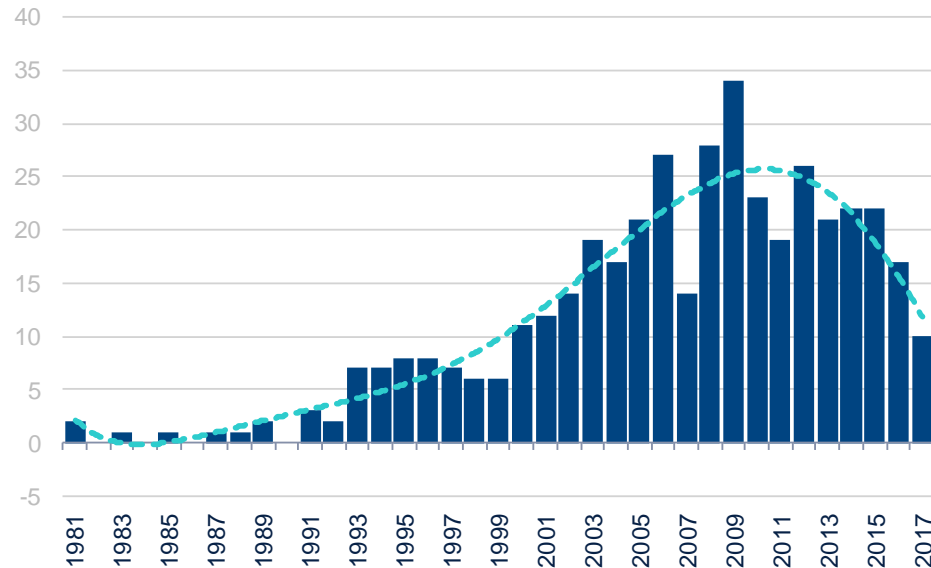
(y/y,%, volume)



- Declining global activity in the aftermath of the crisis
- Lower trade elasticity over GDP (1.0 in 2012-17 vs. 1.8 in 1980-2007):
 - Local integration of production chains, especially in China
 - Increased growth in less trade-intensive sectors and countries
 - Protectionist policies in the wake of the economic crisis

The protectionist threatening didn't come with the current US trade policy ...

Regional Trade Agreements (goods and services) (number of agreements per year of approval)

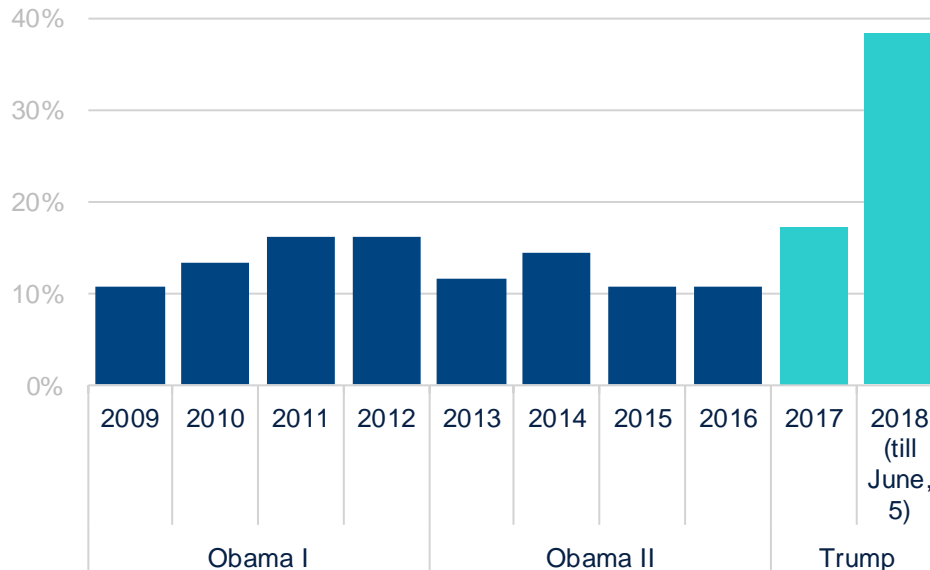


■ Economic policies have been less supportive for trade improvement

... but now, US leads the implementation of harmful interventions for trade, investment and migration

USA. Harmful interventions for global economic transactions

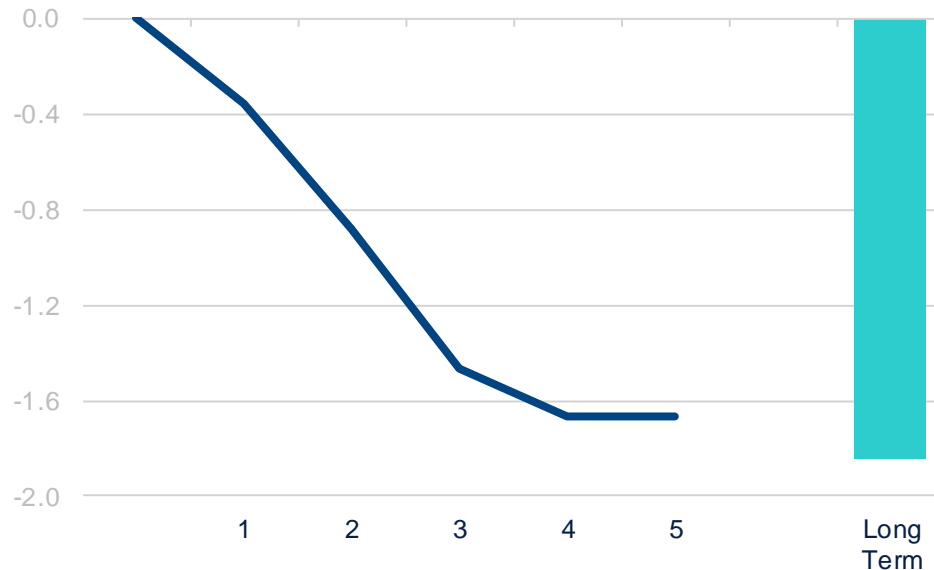
(% World)



- The **current protectionist impulse** is:
 - **Paradoxical**, given the strength of global growth and trade. The breakdown of value chains slows down activity
 - **Generates uncertainty**, which deteriorates confidence and increases financial volatility
 - the **wrong answer** to the challenge of sharing the benefits of globalization

The risk of protectionist escalation creates uncertainty about the global economy

Effect on world GDP of a tariff increase equal to 10 per cent of the import price
(percentage variation over a baseline scenario)



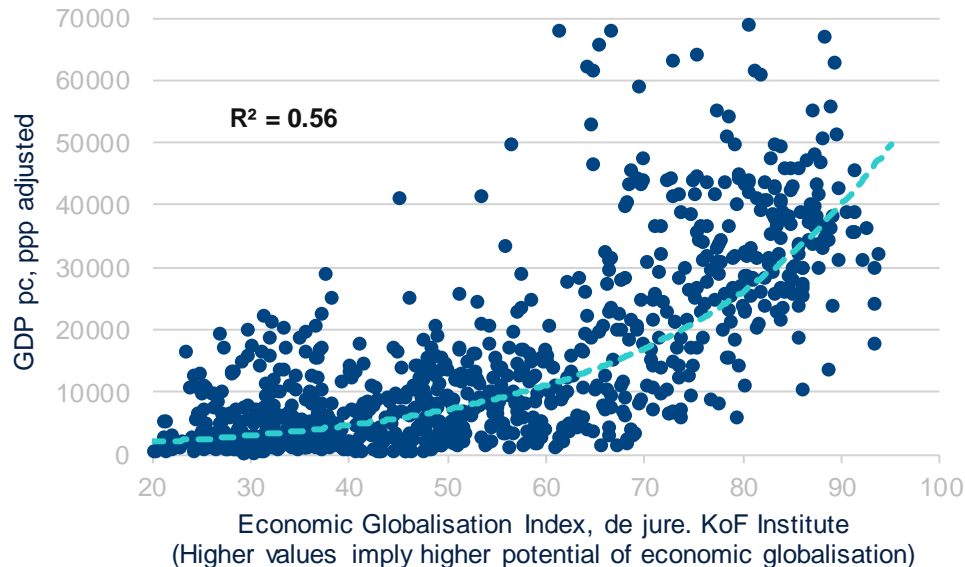
- The risk is that current skirmishes will lead to a **widespread escalation of protectionism** at the global level.
- An increase in tariffs equivalent to 10% of import prices would reduce world GDP by between 1.5 and 2 pp in the long term (IMF, Oct 2016)

Back to basics: Protectionism is the wrong policy

Economic globalization and income level: Common and positive trend

GDP pc and Globalization, 150 countries 1980-2015

(five-year average)



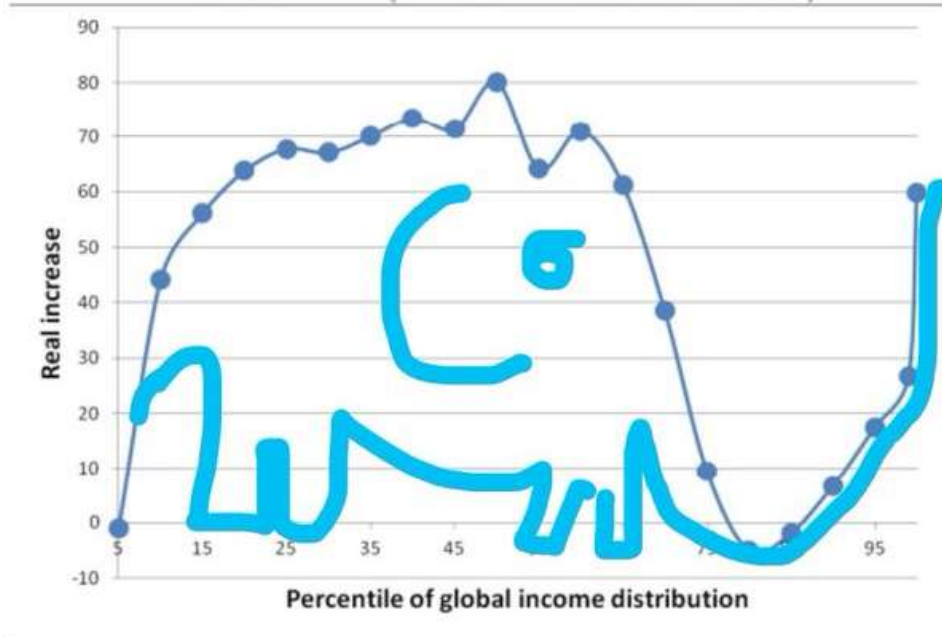
- More globalized economies have higher income level
- Bi-directional causality: higher productivity favors presence in global markets and external openness has positive effects on productivity and the accumulation of physical, technological and human capital.
- The lower degree of restriction of economic flows favors competition and the formation of global value chains

Back to basics: Protectionism is the wrong policy

Same time that globalization wave spread, income inequality increased,...

Global Income Distribution by percentile. Real income change 1998-2008

(calculated in 2005 international dollars)



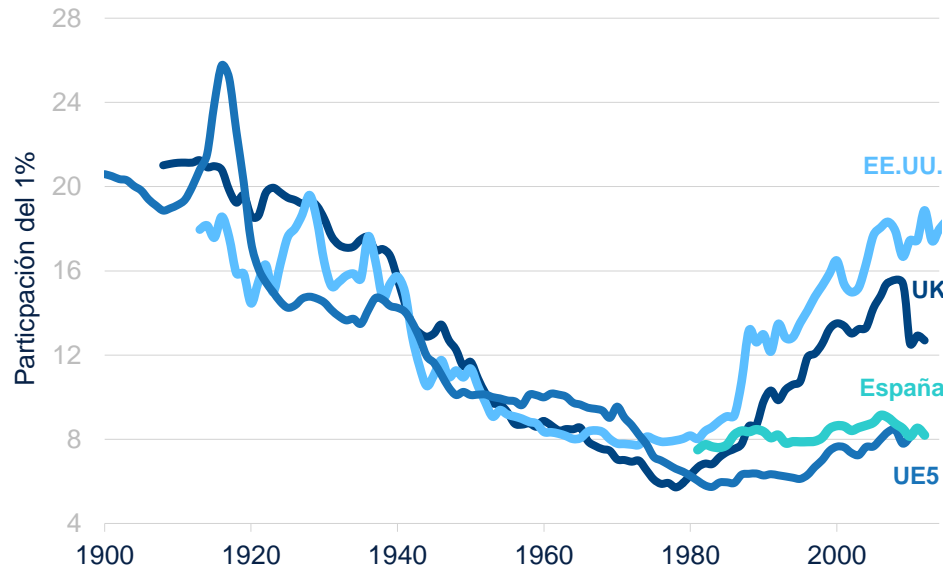
Source: Graph by Branko Milanovic/Christoph Lakner; elephant added by Caroline Freund

- There are winners and losers
 - Although the net benefit is positive, the welfare increase coincident with the last globalization wave has been unevenly distributed between and within countries and sectors

Back to basics: Protectionism is the wrong policy

...but inequality is the compound of different influences, in addition to globalization

Income share of the highest 1% of the income distribution 1900-2012



UE5: Germany, Denmark, Finland, Netherlands and Sweden.

Source: BBVA Research with www.wid.world

- Inequality is affected by the interaction of:
 - Technical progress
 - Demographics
 - Education policy
 - Competition in product and labour markets
 - Globalization
 - Last but not least, the welfare state response
- The challenge of globalization is to share its benefits more evenly

And last but not least: same time that tangible trade seems flattening, the intangible data flows are booming

Bandwidth

Gigabits per second (Gbps)

<50

50–100

100–500

500–1,000

1,000–5,000

5,000–20,000

>20,000

2005

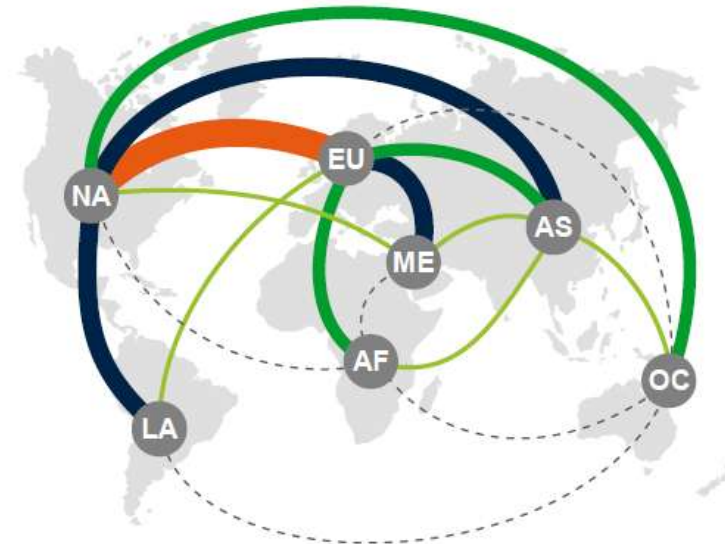
100% = 4.7 Terabits per second (Tbps)



2014

100% = 211.3 Tbps

45x larger



Takeaways

- USA, EU and China are the main nodes of the world trade network, with increasing weight of the Eastern Asiatic region
- 1980-2008 was the most recent period of high dynamism of trade boosted by EM growth, technological and logistic advances and, last but not least, enhanced multilateralism approach
- The trade slowdown in the wake of the Great Financial Crisis has been the compound of lower activity, sectorial rebalancing and less supportive policies for trade. The recent rebound is scant and fragile
- Protectionism threatens global growth, job creation, investment and global production chains. The challenge of globalization is to share its benefits properly
- Same time that tangible trade seems flattening, the intangible data flows are booming. To preserve the level playing field is essential for the development of Global Trade, both tangible and intangible flows

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