

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

**Hong Kong S.A.R., September 30, 2021** – While the restrictions linked to the COVID-19 pandemic put a temporary stop to the upsurge of protest movements, a new wave is on the horizon. Protests, mainly in emerging countries, are expected to increase due to an unprecedented deterioration of socio-economic indicators. In 2020, the Coface social and political risk indicator reached a record of 51% worldwide, and 55% in emerging countries.

This social movements will have repercussions on the economic activity of the affected countries, and particularly on their foreign trade. Coface estimates that mass social movements have particularly pronounced and permanent negative effects on countries' exports: in a year when such movements take place, exports are on average 4.2% lower than their estimated potential.

The forms of social movements, their persistence, and their intensity, will therefore be decisive for international trade in the years to come.

*"The pandemic has temporarily halted the surge of social movements in emerging countries. But the devastating socio-economic effects of the health crisis have raised social and political risk levels to an historic high. These pressures are expected to result in a new wave of social movements with significant economic repercussions for the affected countries. Uncertainty linked to political instability, declining confidence of economic agents, falling industrial activity and services on the supply side, and falling consumption on the demand side, are expected to weigh on activity. Foreign trade, and in particular exports, will likely be collateral victims.*

*We estimate that, over the three years following a social movement, exports remain up to 9% below their potential. If the movement has socio-economic demands, which is likely to be the case following the pandemic, this export constraint can be as much as 20% lower",* comment Samuel Adjutor and Ruben Nizard, economists at Coface.

### A new wave of social movements on the horizon...

Most social movements occur in emerging market countries, and their number has been increasing between 2017 and 2019. Moreover, experience from previous epidemics and pandemics shows that **social unrest emerges, on average, one year after a health crisis<sup>1</sup>. This resurgence of social discontent is explained by the devastating socio-economic effects of these crises<sup>2</sup>**. The magnitude of COVID-19's impact is unparalleled, which will be reflected by the intensity of future social movements. Indeed, **global social and political risk, as measured by Coface, has never been so high<sup>3</sup>**. In 2020, it reached a record 51% worldwide and 55% in emerging market countries. More specifically, social pressures for change have never been higher<sup>4</sup>. In 2020, **the social**

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

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

3 Country & Sector Risk Barometer: Q2 2021 Quarterly Update, Coface.

4 Coface's model measuring the political risk of 161 countries makes it possible to understand 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.

**pressure index reached an all-time high**, up from 46% to 54% globally and, for emerging market countries alone, from 54% to 61%. This increase is explained by the unprecedented deterioration of socio-economic indicators in most countries analyzed. As a result of the pandemic, **people's living standards have fallen**, as illustrated by the drop in GDP per capita, their purchasing power has deteriorated, as evidenced by the rise in unemployment and inflation, and **income and wealth inequalities have increased**<sup>5</sup>. This is compounded in some countries by **growing discontent** with governments' management of the health crisis and by **restrictions on civil and political liberties** that are sometimes seen as unfair.

In 2020, **88% of emerging market countries saw their level of risk associated with social pressures increase**. It has notably increased in some large Asian emerging countries, such as Malaysia, India, Thailand, or the Philippines, but also in some North African countries, such as Algeria or Tunisia.

### **... could affect international trade**

The experience of past pandemics confirms that mass social movements have persistent negative impacts on economic activity<sup>6</sup>.

**For at least a year and a half following a mass social movement, GDP growth remains one percentage point below its pre-movement level**. For emerging market countries, this can even be 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 **fall in consumption. Household and business confidence falls, and uncertainty increases**. Furthermore, the uncertainty associated with political instability increases transaction costs between the affected country and the rest of the world, and reduces incentives to enter new trade relationships or maintain existing ones. **Trade flows slow down or even contract: falling industrial activity disrupts exports and falling consumption affects imports**. In the year of a given social movement, **exports are 4.2% below** their estimated potential. The gap remains substantial for three years, with exports remaining between 6.3% and 8.9% below their potential. **The impact on imports is more marginal**, with imports recovering more quickly.

### **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 greatly**. Several factors can amplify or limit the effects on trade: sectoral specialization, the country's share of international trade, its proximity to trading partners, and the preferred mode of transport in bilateral trade flows. These elements can have knock-on negative effects on third countries, whether or not they are trading partners of the affected country. But it is also how **movements develop that determines the magnitude and persistence** of the shock of trade.

Unsurprisingly, the duration and frequency of social movements are decisive. If the movement is an isolated event, the impact on exports and imports is marginal. If it is not, **the latent political instability reinforces the lack of confidence and uncertainty, raising the costs of trade and**

5 COUNTRY & SECTOR RISK BAROMETER: Q4 2020 QUARTERLY Update, Coface.

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

**further constraining export capacity.** In this case, three years after the first movement, exports remain, on average, about 14% below their potential. The size of the mobilization is also an important factor in this trade shock.

Eventually, **the type of demand plays a crucial** role in the size and persistence of the shock. **Movements with purely political demands have transitory and smaller effects** on exports and imports.

**Protests that include socio-economic demands** and which are therefore more likely to emerge after the pandemic, **have longer lasting and more severe effects.** In this case, three years after the shock, exports remain 20.7% below their potential and imports 5.6% lower. Moreover, **the very little room for maneuver in the economic policy of the emerging countries to limit the effects of social unrest could amplify their impact on trade.**

[Find the full study here](#)

## MEDIA CONTACT

Karen YIK – T. +852 2585 9121 [karen.yik@coface.com](mailto:karen.yik@coface.com)

Leo CHAK – T. +852 2585 9132 [leo.chak@coface.com](mailto:leo.chak@coface.com)

### Coface: for trade

With 75 years of experience and the most extensive international network, Coface is a leader in trade credit insurance and adjacent specialty services, including Factoring, Debt Collection, Single Risk insurance, Bonding, and Information services. Coface's experts work to the beat of the global economy, helping ~50,000 clients, in 100 countries, build successful, growing, and dynamic businesses across the world. Coface helps companies in their credit decisions. The Group's services and solutions strengthen their ability to sell by protecting them against the risks of non-payment in their domestic and export markets. In 2020, Coface employed ~4,450 people and registered a turnover of €1.45 billion.

[www.coface.com](http://www.coface.com)

COFACE SA. is listed on Compartment A of Euronext Paris.

ISIN Code: FR0010667147 / Mnemonic: COFA

