Introduction to Political Risk Analysis

Instructors: Dr. Ian Bremmer
Global Research Professor
New York University
President
Eurasia Group
Global Affairs Columnist
TIME Magazine

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Eurasia Group

Dates:
- Jan 4 6:00pm-9:00pm
- Jan 6 6:00pm-9:00pm
- Jan 8 6:00pm-9:00pm
- Jan 10 9:00pm-4:00pm
- Jan 12 6:00pm-9:00pm

Location: KMC 4-110

Course Description

Investors increasingly recognize that political dynamics matter at least as much as economic fundamentals to economic performance in many developing economies, and matters more than they had long thought possible in developed ones as well. As the relevance of political factors has become more apparent to investors, so has the dearth of comprehensive and systematic tools for evaluating political risk.

This course will focus on building a solid theoretical foundation for political risk analysis and applying these skills to current, real-world problems. The course will underscore how political science theory, complemented by economic theory, can serve as a basis for analyzing the influence of politics on a variety of business concerns, including portfolio investment (financial services) and fixed investment (corporates).

Students will examine the nature of political risk through case studies across diverse regions, markets and timeframes. For example, political risk matters at the macro (national and international) level and at the micro-(local) level. The international political strategies of countries, such as the US, Germany, Russia and China will influence their respective investment environments, but so will decisions made by local politicians in the sub-regions of these countries. Similarly, the institutional environments in the first two countries differ from those in the latter two, illustrating the distinctions between political risks in developed and emerging economies. Finally, currency strategists and some traders in bonds and equities markets with exposure in these countries will need to manage the impact of near-term (from 15 minutes to the next 3 months) political developments on their market positions, thus facing different challenges from more strategic capital markets participants and company managers who take extended, medium-term (3 months to 2 years) views on country risk dynamics, and even more different risks from corporations with more substantial long-term (2 to 15 years) fixed, country-specific capital assets.

Students will further explore key topics in global political risk, such as political transitions (whether scheduled and sudden), state interventions in economic activity (including state capitalism and other instances where political and economic management converge), geopolitical conflict and cooperation at times of crisis and of periods of stability, and transnational and unconventional conflict, all of which generate risks and opportunities for the macro-business environment. As a result, students will develop a political risk toolkit and learn how to anticipate the impact of
political risk on different types of business operations as well as gain insight into the regulatory and geostrategic aspects of risk management.

Course Deliverables/Grading

- Class participation: 30%
- Final Presentation: 30% (Group; delivered in class on Jan 12)
- Final Analysis Paper: 40% (Individual; due date: Jan 19)

Class Participation

Students will be asked to perform baseline research and monitor events with reference to each class topic in a country assigned to them by the instructors. In the first class, students will indicate their coverage preferences among the following countries: UK, Brazil, Turkey, China, Russia, and Greece. The instructors will then assign each student a country to cover for the rest of the class. Students should be prepared to answer country-specific questions in each class. The final presentation and final paper will focus on the country each student covered for the duration of the course.

Final Paper

The paper (2 single-spaced pages) will focus on each student’s country of coverage. Each student should pick three current events with political risk significance to financial market, corporate, or government/government entity clients. Each student should then analyse these events, their relevance and implications, for the type of client chosen and forecast the plausible outcomes. A 1-sentence argument, summarizing the most likely client-relevant outcome, for each event should be submitted to the instructors by Friday, January 8, 2016. The instructors will then select one of these arguments to be developed into the student’s final paper. On the basis of this paper, the client should be in a position to make more informed investment/management decisions. Detailed instructions for this assignment will be provided in class on Monday, January 4 and Sunday, January 10.

Final Group Presentation

In the last class, students will participate in a simulated client meeting. As client interaction is an important part of a political-risk analyst’s job, this final presentation is an opportunity for students to get relevant experience and understand the practical applications of the political risk theory/skills they have acquired during the class. Students with the same country coverage will be asked to work as a team and give 15-minute presentations on their overall country outlook. It should highlight the three top risk and/or opportunities in that country. Each team will then be asked questions by course instructors on the basis of their presentations; the exercise will mirror an actual client meeting, where political risk and its implications are considered for investment/management decisions.

Course Schedule

Monday, Jan 4: 6-9pm

Introduction to Political Risk

Ian Bremmer, Mujtaba Rahman, Tsveta Petrova

For economic actors, political risk consists of any political change or event that alters the expected value of a given economic action. Because it is difficult to operationalize, political risk is an underused and undervalued explanatory factor of economic outcomes. However, understanding political risk allows investors to better assess relative risk
across countries and can provide a valuable source of improved economic decision making and business performance.

**Required Readings**


**Wednesday, Jan 6: 6-9pm**

**Geopolitics, Transnational & Unconventional conflict**

**Ian Bremmer, Alec Ross, Mujtaba Rahman**

The international standing and political strategies of a country does not just shape its foreign policy but also influences the state’s role in its economy. Accordingly, this session will examine how geopolitics impacts the corporate operating environment, both for new ventures and monitoring existing investments, particularly when these involve large fixed assets and require a long time horizon to generate positive returns. The empirical focus will be on the return of state capitalism and the ways in which it has challenged the notion that markets will (eventually) punish state distortions of economic markets for political (and economic) gain. This session will also explore how transnational conflict and unconventional international conflict structure the business environment. The focus will be on the politics of the migrant crisis in Europe and on new technologies and political risk in the digital world (respectively).

**Required Readings**


• Wellhausen, R. The Shield of Nationality. (Cambridge University Press, 2015), Ch 1.

Alec Ross is one of America’s leading experts on innovation. He recently served for four year as Senior Advisor for Innovation to the Secretary of State Hillary Clinton, a role created for him by Secretary Clinton to maximize the potential of technology and innovation in service of America’s diplomatic goals and stewarding the Secretary of State 21st Century Statecraft agenda. In this role, Alec acted as the diplomatic lead on a range of issues including cybersecurity, Internet Freedom, disaster response and the use of network technologies in conflict zones. Previously, Alec served as the Convener for the Technology, Media & Telecommunications Policy Committee on Barack Obama’s 2008 presidential campaign and served on the Obama-Biden Presidential Transition Team. In 2000, he and three colleagues co-founded the nonprofit organization One Economy and grew it from modest origins in a basement into a global organization serving millions of low-income people, with programs on four continents.

Friday, Jan 8: 6-9pm

Political economy of developed markets

Ian Bremmer, Mujtaba Rahman, David Gordon

This class will discuss political risk in developed markets. The empirical focus will be on the broader context of the rise of political risk in these markets in the wake of the 2008 financial crisis. This topic will be examined through two case studies Europe and United States in 2016.

Case study: Europe

The sovereign debt crisis afflicting the Eurozone has been one of the dominant political and economic issues in recent years, carrying large implications for a variety of different investors, governments, and indeed, peoples. Although the height of the financial crisis is behind us, its aftereffects are still being felt all over Europe, and this will certainly be the case in 2016, as the on-going turbulence in Greece demonstrates. A large number of existential questions still dog the currency and its leading creditor, Germany, on the role of fiscal policy, the ECB, the emergence of extreme populists and the emergence of external and internal security threats. Given the EU’s highly complex political structure, these issues affect non-Euro states, too. This case study will focus on the challenges Europe faces in 2016, and whether Europe has a realistic shot at addressing them.

Case study: US

Long a haven of low political risk, the financial crisis turned US policymaking into one of the most unpredictable forces in the global economy. In the six years since the collapse of Lehman Brothers, the US has showcased how proactive policy reforms (like Dodd-Frank or the Affordable Care Act); the absence/threat of absence of policy choices (as witnessed in the 2013 US government shutdown or as threatened when the debt ceiling is reached); and the indirect effects of politics on monetary policy (for instance, in pressure from Republicans on the Federal Reserve) can all rattle global markets. The section will discuss how to separate US political risk signals from political noise as well as how firms and investors can best manage such risks. Part of the session will be devoted to the upcoming presidential elections and the political risks and opportunities they pose for markets and corporations.

Required Readings


David Gordon is the former Director of Policy Planning for Secretary of State Condoleezza Rice. In his extensive career in intelligence analysis and foreign policy, Dr. Gordon has served as the Vice Chair of the National Intelligence Council and the director of the CIA’s Office of Transitional Issues, and on the staff of the House Foreign Affairs Committee. After leaving government, Dr. Gordon was Chairman and Head of Research at the Eurasia Group, the political risk advisory firm.

**Sunday, Jan 10: 9am-4pm**

**Political economy of emerging markets**

Ian Bremmer, Mujtaba Rahman, Alexander Kliment, Karthik Sankaran

This class will discuss political risk in emerging markets. The empirical focus will be on the distinct political challenges to and capacity of developing countries to enact economic policy. This topic will be examined through two case studies – the intersection between regime transitions and economic reform and the rise of political risk in emerging markets in the wake of the 2008 financial crisis. The first case study will focus on regime transitions across the globe, and how they have affected, or could yet affect, international security and the global economy. The second case study will discuss how emerging markets are likely to fare now that the credit boom is coming to an end, yet many incumbents are politically weak but also facing demands for more transparency and better public services.

**Required Readings**

• Bremmer, I. and Keat, P. *The Fat Tail*, (Oxford University Press, 2009), Chapter 4 and 5.


Alexander Kliment is a Director in Eurasia Group’s Emerging Markets Strategy practice. Alexander Kliment focuses on Russian politics, with an emphasis on leadership dynamics, economic and monetary policy, and regional politics. Alexander has worked as a journalist for the *Financial Times* (FT Tilt) in Sao Paulo, Brazil, where he covered economics, industrial policy, and urban development. Alexander has lectured on Russian politics in the US, Europe, and Moscow. He has also published articles in the *Financial Times, Russia Profile, World Finance Review, World Politics Review, RealClearPolitics*, as well as for *Foreign Policy*’s "The Call" blog. Alexander appears regularly in the media, with television appearances on networks such as BBC, MSNBC, CNBC, FOX, Bloomberg and frequently provides commentary for publications including the *Economist, New York Times*, and Reuters. Alexander holds an MA in International Affairs from The Johns Hopkins School of Advanced International Studies, and a BA in History from Columbia University. He speaks Russian, Spanish, and Portuguese, and is proficient in Arabic.

Karthik Sankaran is director at Eurasia Group in global strategy. In this capacity, he leads Eurasia Group’s analysis of global financial themes and assists Eurasia Group’s research platform in identifying and evaluating interactions among national politics, geopolitics and global asset markets. He has 16 years of experience in financial markets on both the buy and sell sides. He was previously a portfolio manager at Covepoint Capital Advisors, a global macro hedge fund, for seven years, and prior to that he was a currency strategist at AIG Trading Group and Bank Julius Baer. Before entering the markets, he was managing editor of Emerging Markets, a publication distributed at the Annual Meetings of the IMF and World Bank and the major regional development banks. He holds BA, MA and MPhil degrees in modern European history from Columbia University with a thematic interest in the political economy of modernization. He has published in the *Financial Times, Absolute Return, Latin Finance, AIG World Markets Advisory, Emerging Markets* and the *Quaderni dell’Istituto Orientale di Napoli*. To varying degrees of fluency, he is competent in Hindi, Italian, French and German.

**Afternoon: Breakout sessions / Group work / Tutorial for final paper and presentation**

**Tuesday, Jan 12: 6-9pm**

Mujtaba Rahman, Alexander Kliment & Tsveta Petrova

Final class presentations.