Sample
Introduction to Political Risk Analysis
New York University
January 2014, 1.5 credits
INTA-GB.2114
Room KMC 4-80

Instructor: Dr. Ian Bremmer
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New York University
President, Eurasia Group, Inc.

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Dates:

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<td>Jan 6</td>
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<td>Jan 8</td>
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Course Description

Investors increasingly recognize that politics 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 other fields, especially economics and political economy, can serve as a basis to study how politics influences a variety of economic concerns including portfolio investment (financial services) and fixed investment (corporates).

Students will explore the nature of political risk through case studies that will incorporate alternative frames of reference including alternative disciplines (political science, political economy, law, and finance), level of analysis, and time horizon. For example, on level of analysis, political risk matters at the macro (national and international) level, and at the micro- (local) level. The international political strategies of countries such as Russia and China will influence the investment environment, but so will decisions made by local politicians in a sub-region of either country.

Similarly, time horizons vary substantially across types of investors. In the near term (from 15 minutes to the next 3 months), currency strategists and some traders in bonds and equities markets try to manage the impact of near-term political developments on their market positions. Over the medium-term (3 months to 2 years), more strategic capital markets participants take “extended” views on country risk dynamics and company managers cope with local political and social developments. In the long-term (2 to 15 years), corporations with more substantial fixed, country-specific capital assets, and strategic planners for companies or governments, need to make projections and strategize over a range of future scenarios.

Students will grapple with the impact of political transitions—scheduled and sudden—and transnational geopolitical crises. They will encounter state capitalism and other instances where political and economic management
converge. The course will establish distinctions between political risks in developed and emerging economies, and highlight best practices for making firm, predictive calls as to a country’s risk outlook.  

**Country Experts**

Students will be given a list of countries in the first class from which they will identify their top three preferences, and out of which the instructors will make country coverage assignments. Students will perform baseline research and monitor events in their respective countries with reference to each week’s topic, and should be prepared to answer country-specific questions in class. At the end of the course, the final presentation will focus on the country they covered.  

**Country List**

**Turkey:** Tim Crowe, Ilyssa Strugatz, David Meyrowitz, Ashton Abbot, Adrienne Harris  
**Brazil:** Jules Naters, Cassandra Svenson, Josh Hirschhorn, Tom Giordano, Corey Byrne  
**India:** Ricky Silver, Josh Esterov, Ashok Chandra, Rory Ewing, Kellyann West  
**Russia:** Ivo Nenin, Ben Geldon, James Moore, Xing Yuan  
**China:** Kelly Lundy, Tom Tidgwell, Lowell Wiener, Patrick Ugolini  
**Egypt:** Noha Elmouelhi, Dan Keyserling, Yasuyuki Matsui, Chang Gao  
**Hungary:** Kelly Gawel, Karen Porter, Alex Braun, Michael Hanyok  
**Italy:** Paul Tedeschi, Matthew Winger, Jacque Tohme, Justin Rosen

**Course Deliverables/Grading**

- Class participation and Case Study Paper: 40% (Individual; due Jan 13)  
- Final Presentation: 30% (Group; due Jan 15)  
- Final Analysis Paper: 30% (Individual; due Jan 27)

**Research Assignments**

Two research papers will be assigned, a short “Case Study” to be completed by class on January 13, and a longer “Analysis” to be submitted by January 27. These papers will require students to understand a theoretical event, its relevance and its implications in each student’s role as a political risk analyst for a financial market, corporate or government/government entity client. In response to a question from one of these three economic actors, each student will be expected to construct arguments and forecast plausible outcomes based on the constraints politicians and governments face. On the basis of this answer, clients should be in a position to make more informed investment/management decisions. Detailed instructions for these assignments will be distributed in class on the first session.

**Final Group Presentation**

The final group presentation will be an opportunity for students to provide oral communication/guidance on a political risk issue, building on the Q&A exercises undertaken in class. On the final class session, January 15th, teams of students will give 10-minute presentations on the potential issues that would be of concern for financial market, corporate, or government clients—given the country and time frame each team has been assigned. Teams will be asked questions by course instructors on the basis of their presentations; it will mirror an actual client meeting, where political risk and its implications will be considered for investment/management decisions. As client interaction is an important part of an analyst’s job, this final presentation is an opportunity for students to mimic this experience, and understand the practical applications of the political risk theory/skills they have learned. Students will be assigned to countries and teams at the beginning of the second session of class (8 Jan).
Course themes

Monday, Jan 6: 6-9pm

Introduction to Political Risk

Ian Bremmer, Willis Sparks, Mujtaba Rahman

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 indicator of economic decision making. However, understanding political risk allows investors to better assess relative risk across countries and can provide a valuable source of improved business performance. Being able to think about politics systematically allows investors to hedge against political risks.

Required Readings

- Bremmer and Keat, *The Fat Tail* - Chapter 1
- Eurasia Group Top Risks 2013 and 2014

Wednesday, Jan 8: 6-9pm

Financial Markets and EM political risk

Ian Bremmer, Alex Kliment, Mujtaba Rahman, Maziar Minovi

Required Readings


Maziar Minovi is a senior member of the Investment Strategy Group's tactical asset allocation team at Goldman Sachs. He focuses on identifying investment opportunities in emerging markets, including debt, equities and currencies, as well as geopolitical and global policy issues with market impact. Maziar joined Goldman Sachs as a managing director in 2006.

Prior to joining the firm, Maziar worked at MassMutual/Babson Capital Management, where he was head of the Emerging Markets Group and managed an emerging markets hedge fund. Before that, he worked at the International Monetary Fund, Long Term Capital Management, Putnam Investment Management and The World Bank.
Maziar earned a PhD in International Finance and Economic Development in 1993, an MBA in 1988 and a BBA in 1987 from The George Washington University. He and his wife, Michelle, live with their three children in New York City.

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. Within the Emerging Markets Group, Alexander co-leads comparative assessments of political risk across the EM space. He joined the firm in 2006.

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. He has also focused on urbanism in emerging markets as a program director at the Architectural League of New York, and worked for the Franklin and Eleanor Roosevelt Institute, providing research for a study project on reforming Russia’s social safety net. 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.

Saturday, Jan 11: 9am-4pm

Financial Markets and Developed Country Political Risk

Ian Bremmer, Mujtaba Rahman, Sean West, Tim Stewart

Case study: Eurozone crisis

The sovereign debt crisis afflicting the Eurozone has been the dominant political and economic issue in the world over the last three years, carrying as it does large implications for a variety of different investors, governments, and indeed, populations. It also provides an excellent example of how politics conditions outcomes and why, despite a fairly strong consensus on how to resolve the crisis, a systemic policy response has been so hard to achieve. This class will do a deep dive on the Eurozone crisis, providing historical context on the structural underpinnings of the euro, Europe’s complex political economy, and how these have impacted crisis management and efforts to craft a resolution. It will also forecast a number of plausible pathways the crisis could take in the short, medium, and long run.

Required Readings

- *The Fat Tail* - Chapter 4 (Capital Markets)
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 five 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 recent US government shutdown or as threatened when the debt ceiling is reached); and the indirect effects of politics on monetary policy (for instance, in influencing the start of Federal Reserve "tapering") 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 focus on a case study that examines the 2012 "Fiscal Cliff" through the eyes of a Eurasia Group analyst.

Readings:

* Eurasia Group US 2014 Outlook
* Eurasia Group Intro to US Political Risk slides * Fiscal Cliff case study:
  * Mann and Ornstien Chapter 2, "The Seeds of Dysfunction" from It's Even Worse than it Looks http://blog.lib.umn.edu/burn0277/pa5012/readings/Mann%20and%20Ornstein%202012%20-%20It's%20Even%20Worse%20Than%20It%20Looks%20(Chapter%202).PDF

Afternoon: Breakout sessions / Guest Speaker (TBC)

Monday, Jan 13: 6-9pm

1. International Politics and Transnational Issues

Ian Bremmer, David Gordon, Mujtaba Rahman

Case study: Regime Transitions

In the political risk arena, inter- and transnational political risks are especially problematic given the anarchic environment and resulting difficulty of collective action. This class will focus on regime transitions across the Middle East and Asia, and how each has affected, or could yet affect, international security and the global economy.

Required Readings

• Tett, Gillian. “Geopolitics is final piece in risk jigsaw”. 2011
The recent return of state capitalism has challenged the notion that markets will (eventually) punish state distortions of economic markets for political (and economic) gain. It is, therefore, important to augment economic indicators with political risk assessments in order to get a comprehensive picture of 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.

Required Readings


- The Fat Tail—Chapters 8

**Wednesday, Jan 15: 6-9pm**

Final class presentation and assessments