

# Sample political risk syllabus

**Course title:** “Managing Global Political Risk”

**Instructors:** Dr. Ian Bremmer, Dr. Preston Keat, Eurasia Group

## ***Course description***

In recent years, investors have recognized that politics matter at least as much as economic fundamentals. As the relevance of political factors has become more apparent to investors, so has the general lack of comprehensive and systematic tools for evaluating them. “Managing Global Political Risk” examines the process of identifying and managing political risk in a range of environments. Particular attention is given to applying frameworks for measuring and mitigating risk in emerging market countries where social and political instability affect investors and Western policymakers. We consider a range of analytical tools and approaches including index/framework construction, scenario planning, and the role of political institutions.

Political risk matters at the macro (national and geopolitical) level, and at the local, micro level. The geopolitical strategies of countries such as Russia, China, Iran, and the US will impact the investment environment, but so will the decisions made by local politicians in a sub-region of Brazil or India. In a middle level, national government policies, like current attempts in many emerging markets to pass systematic and market-friendly pension reform, can drive market sentiment and currency, bond, and equity prices.

Investors’ time horizons also vary substantially. In the near term (today to 3 months), currency strategists and more opportunistic traders in bonds and equities markets try to manage the impact of temporal political developments on their market positions. Over the medium terms (3 months to 2 years), more strategic capital markets participants take “long” 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 capital assets in-country, and strategic planners for companies or governments need to make projections about a range of future scenarios.

Throughout the course, we include a broad scope of individual cases that range from big picture transnational themes like terrorism and arms proliferation, to more micro cases on individual countries, firms, and even specific plant sites at the local level. Students will cover individual emerging market countries and will use an analytical toolkit from the course to identify key political risks, and to develop strategies for mitigating these risks.

## **Course themes**

### **Approaches to country risk**

Keat, Preston. "What markets miss—political stability frameworks and country risk." Bracken et. al., *Managing Strategic Surprise*. Cambridge University Press, 2008.

Darryl s. I. Jarvis and Martin Griffiths, "Learning to Fly: The Evolution of Political Risk Analysis," *Global Society*, Vol. 21, No. 1, January, 2007.

D. W. Bunn; M. M. Mustafaoglu, "Forecasting Political Risk," *Management Science*, Vol. 24, No. 15. Nov. 1978, pp. 1557–1567.

Jean-Claude Cosset; Jean Roy, "The Determinants of Country Risk Ratings," *Journal of International Business Studies*, Vol. 22, No. 1. (1st Qtr., 1991), pp. 135–142.

Llewellyn D, Howell, Brad Chaddick "Models of Political Risk for Foreign Investment and Trade. An Assessment of Three Approaches," *The Columbia Journal of World Business*, Fall 1994.

Models: Damocles and Eurasia Group's Global Political Risk Index (GPRI)

### **Political risk and financial markets**

Burrough, Bryan. "Bringing Down Bear Sterns: Politics and Power." *Vanity Fair*, 8 August 2008.

Stone, Martin. "Managing Currency Inconvertibility and Exchange Transfer Risk: Identification, Assessment and Risk Transfer Issues," in Sam Wilkin, ed., *Country and Political Risk: Practical Insights for Global Finance*, Risk Books, London (2004).

Wing Thye Woo, "Devaluation and Politics in Developing Countries: Indonesia in 1978," *Journal of Public Policy*, Vol. 8, No. 3/4, International Monetary Cooperation, Domestic Politics, and Policy Ideas. (Jul. to Dec. 1988), pp. 335–352.

Ferguson, Niall. "Political risk and the international bond market between the 1848 revolution and the outbreak of the First World War," *Economic History Review*, LIX, 1 2006, pp. 70–112.

Lukauskas, Arvid, Susan Minushkin, "Explaining Styles of Financial Market Opening in Chile, Mexico, South Korea, and Turkey" *International Studies Quarterly*, Vol. 44, No. 4. Dec. 2000, p. 697.

Bernhard, William; Leblang, David. "Democratic Processes, Political Risk, and Foreign Exchange Markets" *American Journal of Political Science*, Vol. 46, No. 2, Apr. 2002, pp. 316–333.

## **Foreign direct investment—societal instability, expropriation, regulatory risk**

Kambayashi, Satoshi, "Of Coups and Coverage: Political Turmoil is Costly Unless You Are Fully Insured," *The Economist*, April 4 2007.

Frynas, Jędrzej George, "Political instability and business: Focus on Shell in Nigeria" *Third World Quarterly*, Vol. 19, No. 3, 1998, pp.457–478.

Allen, Chris, "Warfare, Endemic Violence and State Collapse in Africa," *Review of African Political Economy*, Sep. 1999.

Claude Ake, "A Definition of Political Stability," *Comparative Politics*, Vol. 7, No. 2, Jan. 1975, pp. 271–283.

Jakob De Haan, Clemens L., J Siermann, and Erna Van Lubek, "Political instability and country risk: new evidence," *Applied Economics Letters*, 1997, 4, 703–707.

J. Frederick Truitt, "Expropriation of Foreign Investment: Summary of the Post World War II Experience of American and British Investors in the Less Developed Countries," *Journal of International Business Studies*, Vol. 1, No. 2, (Autumn 1970), pp. 21–34.

Michael S. Minor, "The Demise of Expropriation as an Instrument of LDC Policy, 1980-1992" *Journal of International Business Studies*, Vol. 25, No. 1. (1st Qtr., 1994), pp. 177-188.

Chua, Amy L. "The Privatization-Nationalization Cycle: The Link between Markets and Ethnicity in Developing Countries," *Columbia Law Review*, Vol. 95, No. 2, March 1995, p. 256.

Ravi Ramamurti, "The Obsolescing 'Bargaining Model'? MNC-Host Developing Country Relations Revisited," *Journal of International Business Studies*, Vol. 32, No. 1. (1st Qtr., 2001), pp. 23–39.

Pearson, Margaret "The Business of Governing Business in China: Institutions and Norms of the Emerging Regulatory State," *World Politics* 57, January 2005, pp. 296–322, 300–301.

Jensen, Nathan, "Measuring Risk: Political Risk Insurance Premiums and Domestic Political Institutions," paper presented at 2005 Political Economy of Multinational Corporations and Foreign Direct Investment Conference, Washington University, 4.

OECD, Directorate for Financial and Enterprise Affairs, "Indirect Expropriation" and the 'Right to Regulate' in International Investment Law." Number 2004–4, 1, 2.

## **Politics and global energy/commodities markets—scenario and long-range planning**

"Mapping the Global Future" Report of the National Intelligence Council's 2020 Project.

Taleb, Nassim Nicholas. *The Black Swan: The Impact of the Highly Improbable* 2007. New York: Random House.

Betts, Richard, "Surprise Despite Warning: Why Sudden Attacks Succeed," *Political Science Quarterly*, Volume 95, No. 4, (Winter 1980–82), p. 563.

Ormerod and Riordan, "A New Approach to the Analysis of Geo-Political Risk," *Diplomacy and Statecraft*, 15(4): 643–654, p. 643.

Tetlock, Philip, *Expert Political Judgment: How Good Is It? How Can We Know?* Princeton: Princeton University Press, 2006.

Anthony Giddens, "Risk and Responsibility" *The Modern Law Review*, Vol. 62, No. 1. Jan. 1999, pp. 1–10.

## **Geopolitics/global macro**

Bremmer, Ian, "Managing Risk in an Unstable World," *Harvard Business Review*, p. 51.

Bremmer, Ian, *The J Curve: A New Way to Understand Why Nations Rise and Fall*. Simon and Schuster, 2006.

## **Final country risk presentations**

Each student will produce a written analysis (approximately 10 pages, double spaced) of an emerging market country that identifies and gives projected outcomes for the key risk factors for investors. The piece will highlight short-, medium-, and long-term risk factors, and consider which types of investors will be affected by the different risk factors. It will also suggest how the investors can best manage and mitigate these risks.