

Political Risk Analysis

School of International Service, American University
SIS 750-005 – Fall 2020

COURSE INFORMATION

Professor Matthew M. Taylor
Office: SIS 350
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Class: Fridays, 5:30pm-8pm
Classroom: Online only
Office hours: by appointment, at
<https://calendly.com/mtaylor-sis>

COURSE OBJECTIVES

Human rights groups, emergency relief organizations, governments, and multinational corporations all worry about political risk and its ability to affect financial markets, undermine geopolitical stability, bend development trajectories, destabilize local peace and order, and otherwise damage their organizations' ability to achieve their strategic objectives.

Drawing on lessons from practitioners in the public and private sectors, as well as the academic field of risk analysis, this course proceeds in three roughly equal phases. In the first, students will evaluate the various sources of political risk and how they have evolved over time. The second section discusses various models for analyzing political risk. The final section of the course offers strategies for applying risk analysis.

LEARNING OUTCOMES

By the end of the semester, students will be able to:

- Discuss the sources of political risk, and their evolution over time;
- Assess political risk threats and opportunities in a particular country and with regard to a particular organization working in that country;
- Use multiple approaches to model political risk, including bottom-up, mid-level, and cross-country comparative approaches;
- Critically appraise models of political risk analysis, demonstrating awareness of the possible shortcomings of each model or mode of analysis;
- Communicate the results of their analysis and offer strategies for risk mitigation.

REQUIRED COURSE MATERIALS

Bremmer, Ian and Preston Keat, *The Fat Tail: The Power of Political Knowledge for Strategic Investing* (Oxford, UK: Oxford University Press, 2010).

Rice, Condoleeza, and Amy Zegart, *Political Risk: How Businesses and Organizations can Anticipate Global Insecurity* (New York: Hachette, 2018).

Tetlock, Philip E. and Dan Gardner, *Superforecasting: The Art and Science of Prediction* (New York: Broadway Books, 2015).

All other readings will be on reserve and are available online through the library website or through the course Canvas site.

COURSE REQUIREMENTS

Students will be evaluated on the basis of:

- Informed class participation (15%). Both the quality of the course and your ability to do well on assignments depend on understanding the texts and on your critical reflection on class discussions. You are expected to take notes on the main themes of the reading, so that they can be discussed in class, and referenced in your assignments. It goes without saying that a lack of participation will redound in a low participation grade. Media reports (described during the first class) are a way of earning additional credit toward class participation.
- Class assignments (60%). This class will use a mix of discussion and Problem Based Learning to draw out key lessons. Your participation in the discussions and in-class problems is intended to help you learn, and your write-up of these exercises is designed to help to cement those lessons. Both participation and write-up will be graded. Approximately every three weeks, students will be asked to complete an out of class written assignment.
- Final exam (25%).

READINGS

All readings, with the exception of the books above, are available via course reserves on Canvas or through the library.

OFFICE HOURS

I hope to meet with all of you individually over the course of the semester. You should consider my office hours an integral part of your classroom experience. Please see calendly link at top of first page for scheduling.

ACADEMIC INTEGRITY

Standards of academic conduct are set forth in the University's Academic Integrity Code. By registering, you have acknowledged your awareness of the Academic Integrity Code, and you are obliged to become familiar with your rights and responsibilities as defined by

the Code. Violations of the Academic Integrity Code will not be tolerated, and disciplinary actions will be taken should such violations occur. Please see me if you have any questions about the academic violations described in the Code in general or as they relate to particular requirements for this course.

FALL 2020 COURSE MODALITY

There is only one certainty about Fall 2020: it will be one of the strangest semesters in the history of higher education. A core objective for all of us this semester is to stay safe: ourselves, our colleagues, and our families. I'd ask that you please keep me up to date on how you are doing, as well as any challenges you are facing to effective participation. There will be many forms of participation, so please do not give up if you find that one form or another does not work for you.

APPROPRIATE CLASS BEHAVIOR

Given that we will need to meet remotely, I would ask that you engage as fully as possible in synchronous activities and discussions. I prefer to see you on the screen; if this is not possible, please let me know as soon as possible so that we can engage the technology specialists at the University in finding a solution.

Given the unusual circumstances of this semester, I will break the class members into two distinct online discussion groups. Beginning in Week 2, each class period will be broken into two sections: 5:30-6:40pm; and 6:50-8:00pm. Half of the students will participate in each section. To make up for the loss of class time that will result from this arrangement, I will also post asynchronous content.

CLASS DATES

Week	Date	Topic
1	Aug. 28	Introduction to political risk
2	Sept. 4	Impacts of political risk
3	Sept. 11	Sovereign risk
4	Sept. 18	Geopolitical risks
5	Sept. 25	Different countries, different approaches?
6	Oct. 2	Top-down models of political risk
7	Oct. 9	NO CLASS: Fall Break
8	Oct. 16	Quantified models of sovereign risk
9	Oct. 23	Bottom up models of political risk
10	Oct. 30	Wargaming
11	Nov. 6	Scenario planning
12	Nov. 13	Difficulties of forecasting
13	Nov. 20	Cascading risk and feedback loops
14	Nov. 24	<i>NOTE: CLASS MEETING ON TUESDAY</i> Risk mitigation
Final	Dec. 7-12	Final examination to be held at scheduled time

READING BY CLASS

Section I: What is Political Risk?

1. INTRODUCTION TO POLITICAL RISK

Key questions: What is risk? What is political risk? Why do we care about political risk? What is epistemology? What will be required of us this semester?

Readings:

Bremmer and Keat, *The Fat Tail*, 1-36 (Chapters 1 and 2).

International Crisis Group, *Crisis Watch*, <https://www.crisisgroup.org/crisiswatch> (look at map and read global overview)

2. THE IMPACTS OF POLITICAL RISK

Key questions: What does political risk do? What determines our risk tolerance or risk appetite? What frameworks can we use for thinking about political risk? Why is managing political risk so difficult?

Readings:

Rice and Zegart, *Political Risk*, Chapters 1-3, 5-6.

McKellar, Robert, *A Short Guide to Political Risk* (Gower Publishing, 2010), Chapter 4 (“Assessing Political Risk”).

3. SOVEREIGN RISK

Key questions: What is sovereign risk? What are the key sources of sovereign risk? How have sovereign risks changed over time?

Readings:

Gould-Davies, Nigel, *Tectonic Politics: Global Political Risk in an Age of Transformation*, (Washington: Brookings Institution Press 2019), Chapter 3 (“Gray Swans Take Flight: The Fall and Rise of Sovereign Risks”).

Bremmer and Keat, *The Fat Tail*, Chapters 5, 7, and 8 (“Domestic instability: revolution, civil war, state failure”; “Expropriation”; and “Regulatory risk”)

4. GEOPOLITICAL RISKS (CYBER AS A NEW FRONT)

Key questions: What is geopolitical risk? How does it differ from sovereign risk? What are the current sources of geopolitical risk? How might we get out ahead of geopolitical risk, analytically?

Readings:

Bremmer and Keat, *The Fat Tail*, Chapter 3 and Chapter 6 (“Geopolitics” and “Terrorism”)

Bochman, Andy. “Internet Insecurity,” *Harvard Business Review*, May 15, 2018.

Section II: How to Evaluate Political Risk

5. DIFFERENT COUNTRIES; DIFFERENT APPROACHES?

Key questions: Are some countries different than others with regard to political risk? What might make political risk analysis work differently in different contexts? What does that tell us about our scope of analysis? How might we design an index for thinking about risk?

Readings:

Francis Fukuyama, "America in Decay: The Sources of Political Dysfunction," *Foreign Affairs* 93, no. 5 (September/October 2014): 5-26.

Soares de Oliveira, Ricardo, *Magnificent and Beggar Land: Angola Since the Civil War*, London: Hurst Publishers, 2014, Introduction and Chapter 4.

6. TOP-DOWN MODELS OF POLITICAL RISK

Key questions: How do we model risk in comparative perspective? What are the benefits of doing so? What are the pitfalls?

Readings:

Howell, Llewellyn and Brad Chaddick. "Models of Political Risk for Foreign Investment and Trade. An Assessment of Three Approaches," *The Columbia Journal of World Business*, Vol. 29, No. 3 (1994): 70-91.

Evaluation of the Fund for Peace Fragile States Index

(<https://www.alnap.org/system/files/content/resource/files/main/FSI-Methodology.pdf>).

Rice and Zegart, *Political Risk*, review Chapter 5.

7. NO CLASS – FALL BREAK

8. QUANTIFIED MODELS OF SOVEREIGN RISK

Key questions: How do markets operationalize risk? Is there a difference between a subjective and an objective operationalization of risk?

Readings:

Bernstein, Peter L. *Against the Gods*. New York: Wiley, 1998, Chapter 15: "The Strange Case of the Anonymous Stockbroker."

Standard & Poor's, "Sovereign Rating Methodology," 2017, at shorturl.at/kyKW5.

9. BOTTOM-UP MODELS OF POLITICAL RISK

Key questions: How do we identify key stakeholders in risk situations? How might we assign them motivations? How can we predict the outcome of risk situations? What are the shortcomings of stakeholder models?

Readings:

Coplin, William and Michael Leary, *Everyman's Prince: A Guide to Understanding Your Political Problems*. North Scituate: Duxbury Press, 1972, pp. 1-26.

Bueno de Mesquita, Bruce, *The Predictioneer's Game: Using the Logic of Brazil Self-Interest to See and Shape the Future* (New York: Random House, 2009), Chapter 4 ("Bombs Away").

[Bolton's departure set to reorientate US foreign policy.pdf](#)

[Venezuela becomes proxy battle for global superpowers.pdf](#)

[Political forces at a glance.pdf](#)

[Venezuela Political Stability.pdf](#)

Section III: Applying Risk Analysis in the Boardroom

10. WARGAMING

Key questions: How can we brainstorm possibilities of risk? How can wargaming influence our brainstorms? What are the shortcomings of wargames as a mechanism for brainstorming?

Readings:

Ormerod, Paul and Shaun Riordan. "A New Approach to the Analysis of Geo-Political Risk," *Diplomacy and Statecraft*, Vol. 15, No. 4 (2004): 643-654.

Banks, David, "The Logic and Purpose of Analytical Wargaming," unpublished article. (to be shared on Blackboard)

11. SCENARIO PLANNING

Key questions: What is a scenario? What purpose does it serve? How does a scenario differ from a forecast? How best can scenarios be generated? How accurate must a scenario be to be useful?

Readings:

Schwartz, Peter, *The Art of the Long View: Paths to Strategic Insight for Yourself and Your Company*, Introduction (pp. 3-15); Appendix: Steps to Developing Scenarios (pp.241-248)

Pease, Bruce E. *Leading Intelligence Analysis: Lessons from the CIA's Analytical Front Lines*, Chapter 6 ("Asking the Right Question", pp. 97-106).

Saxo Group, "Outrageous Predictions 2020," at shorturl.at/mnuyz, read "2020 theme – engines of disruption", "Asia launches new reserve currency", "Hungary leaves the EU", "Democrats win a clean sweep", "Sweden breaks bad".

12. DIFFICULTIES OF FORECASTING

Key questions: Why attempt to forecast? Is prediction possible? Is forecasting a futile exercise? What are the risks of forecasting? What are the possible benefits? What are common fallacies of forecasting? How can we improve our forecasts?

Readings:

Tetlock and Gardner, *Superforecasting*, Chapters 1-3 and Appendix.

Hegre, Havard, et al. "ViEWS: A political violence early-warning system," *Journal of Peace Research*, 56(2) 2019: 155-174.

13. CASCADING RISK AND FEEDBACK LOOPS IN COMPLEX SYSTEMS

Key questions: Might some risks trigger others? Which kinds of risks are likely to do so? How do cascading political risks differ from cascading physical risks? Does risk assessment sometimes lose rationality?

Readings:

Kindleberger, Charles P., *Manias, Panics, and Crashes: A History of Financial Crises*, Chapter 2 ("Anatomy of a Typical Crisis") and Chapter 3 ("Speculative Manias"),

Timur Kuran. 1991. "Now Out of Never: The Element of Surprise in the East European Revolutions of 1989." *World Politics* 44 (October): 7-48.

14. RISK MITIGATION

Key questions: Having identified a political risk, what can be done about it? What should be done about it? How should we prepare for risks? How can we react to risks that come to fruition? What are the possible risks of risk mitigation?

Readings:

Rice and Zegart, *Political Risk*, Chapters 8 and 9 ("The Nuclear Triad..." and "Zulu Time").
Slywotzky, Adrian J. *The Upside: The 7 Strategies for Turning Big Threats into Growth Breakthroughs*, Chapter 8 ("Treasure Island: Reversing Risks to Grow"; pp. 207-233).

McNulty, Eric and Leonard Marcus, "What Boards Can Do to Prepare for Crises," *Harvard Business Review*, June 20, 2019.

STANDARDS FOR PERFORMANCE

Grades will be assigned by merit, according to the following scale:

A: Excellent. Student shows clear mastery of the material; has exceeded the basic course requirements; shows insight, innovation, and creativity that go beyond basic assimilation of the course material.

B: Well prepared. Student has completed the basic course requirements, shows understanding of the material and is prepared to contribute knowledgeably.

C: Prepared. Student may have done the reading, shows basic mastery of the material, and can contribute at a basic level, but may show little organization of key arguments or understanding of how key concepts interact.

D: Poor. Student has not completed the basic course requirements, is unable to discuss the material cogently, fails to posit arguments in a clear and knowledgeable fashion.

Grades in this course will be commensurate with your performance. Please do not expect that your presence alone will justify a passing participation grade. Responsibility for any email or document glitches is the student's. To the extent permitted by the University calendar, late papers will be accepted with up to three days' delay. However, each 24 hours of delay beyond the due date will imply a reduction of the maximum possible grade by one-third letter grade (i.e., an A paper that is one day late will receive an A-, an A- will receive a B+, etc.).

EMERGENCY PREPAREDNESS FOR DISRUPTION OF CLASSES

In the event of an emergency, American University will implement a plan for meeting the needs of all members of the university community. Faculty will communicate class-specific information to students via AU e-mail, Canvas and Blackboard, while students must inform their faculty immediately of any absence. Students are responsible for checking their AU e-mail regularly and keeping themselves informed of emergencies. In the event of an emergency, students should refer to the AU Student Portal, the AU Web site (www.prepared.american.edu) and the AU information line at (202) 885-1100 for general university-wide information, as well as contact their faculty and/or respective dean's office for course and school/ college-specific information.