

Examiner's guidance, POL1005 Geopolitical Risk, Fall 2018

TASK 1 (counts 50%). Choose three of the following four tasks.

- (A) In (geo-)political risk analysis, what is meant by the term ‘black swan’? Is it reasonable to describe the 2013 *In Amenas* terrorist attack as a black swan?
- (B) Give an account of what Carlson et al. (2013) mean by the argument that the UN’s Convention on the Law of the Sea (UNCLOS) creates a system of *layered sovereignty*. Is this argument of relevance to the conflicts in the South China Sea?
- (C) Take as your point of departure Gilpin’s (1987) book chapter on ideologies of political economy. Give an account of key elements of *economic nationalism* (the ‘nationalist perspective’). What economic-nationalist measures are associated with U.S. President Donald Trump?
- (D) Take as your point of departure today’s major powers. Of the theories accounted for by Pollins (2008), which describe the relationship between economics and war/conflict, which do you consider to be the most relevant one for international politics today? Justify your choice.

TASK 2 (counts 50%). All four subtasks must be performed.

Geopolitics and geoeconomics

- Define geopolitics and geoeconomics, and discuss the extent to which these two terms overlap.
- Present one recent example where global or regional major powers have used geoeconomic instruments. How has this affected international economic actors?
- Caldara and Iacoviello (2018) argue and find that recent geopolitical risks have affected international economic actors/investors considerably. But why is it that, in particular, the *threat* of adverse geopolitical events – and not only their *realization* – causes negative economic effects?

- Many argue that the alleged relative decline of the United States, and the alleged disintegration of *Pax Americana*, are major causes of current geopolitical risk. Others argue that *Pax Americana* is more durable than what the ‘pessimists’ believe. Give an account for both of these viewpoints. Which of them do you agree with the most?

The exam consists of two tasks. In Task 1, students must choose three of the sub-tasks; in Tasks 2, all four sub-tasks must be performed. Apart from being assessed based on how well each of the sub-tasks are performed – as well as based on the total quality of answers – grades are also determined by an overall assessment of various general dimensions. First, how extensive is the student’s *knowledge* of the required readings? – and how well does the student *apply* this knowledge to the tasks at hand? Second, how well does the student *clarify* important concepts? Are concepts only presented without sufficient explanations? Third, how is the text’s *level of precision*? Does the student in a precise way present arguments and facts? Fourth, how *plausible* are the arguments and conclusions put forth? Fifth, how *relevant* is the overall text? – is superfluous information minimized? Sixth, how *balanced* is the text? Does the student give reasonable time and weight to the various sub-tasks, or are some answered in length while others are not? Seventh, does the student sufficiently emphasize *analysis* over description? Eighth, is the text – overall – *independently-crafted*, or does it merely amount to recitations of lecture notes? Does the student present interesting and plausible reflections?

Students should also note that, following the general grade descriptions in the social sciences at NTNU, grades are given not only based on an assessment of a text’s *absolute* quality; the *relative* quality of a text is also important (i.e. its quality compared to the texts of other students).

The general grade descriptions for the bachelor’s level in the social sciences at NTNU read as thus (in Norwegian only): <https://innsida.ntnu.no/wiki/-/wiki/Norsk/Karakterbeskrivelser+for+samfunnsvitenskapelige+fag>

A: Fremragende. Kandidaten behersker pensum på en fremragende måte. Begreper, teorier og empirisk kunnskap anvendes svært sikkert, selvstendig og reflektert ved drøfting av faglige problemstillinger. Korrekt bruk av kilder og referanser.

B: Meget god. Kandidaten behersker pensum meget godt. Begreper, teorier og empirisk kunnskap anvendes meget sikkert, selvstendig og reflektert ved drøfting av faglige problemstillinger. Korrekt bruk av kilder og referanser.

C: God. Kandidaten behersker pensum godt. Begreper, teorier og empirisk kunnskap anvendes sikkert og selvstendig ved drøfting av faglige problemstillinger. I hovedsak korrekt bruk av kilder og referanser.

D: Brukbar. Kandidaten har ufullstendige pensumkunnskaper. Begreper, teorier og empirisk kunnskap anvendes ujevnt. Visse mangler når det gjelder bruk av kilder og referanser.

E: Kandidaten har klart mangelfulle pensumkunnskaper. Vesentlige feil eller mangler når det gjelder anvendelse av begreper, teorier og empirisk kunnskap. Viser også svak forståelse ved drøfting av faglige problemstillinger.

F: Kandidaten behersker selv ikke elementære deler av pensum. Store hull i kunnskapen eller feilaktig gjengivelse og anvendelse av sentrale begreper og teorier.

With regard to Task 1A, the first part – about the concept of black swans – is well covered by Lecture 3. At a minimum, I would expect students to know that these are rare and inherently unpredictable events that have a great impact. But this is not sufficient. Good texts go further, for instance by presenting real-world examples and – vitally – by discussing the relevant texts we discussed in the lecture (Taleb & Blyth 2011; Jervis 2009; Blyth 2006). In particular, some of Jervis's points of clarification, if not criticisms, of the concept could be brought into the discussion; as could scholars' references to different idealized "worlds" – worlds of risk, of fat tails, of uncertainty (and/or linear vs. complex systems).

In the second part of 1A, students are effectively required to apply these theoretical terms to the *In Amenas* case. This they have to do fairly independently; although the terrorist attack was comprehensively presented in Lecture 2, I did not explicitly talk about it in terms of black swans. Drawing on the required readings (Statoil 2013; Lambrechts & Blomquist 2017), students are expected to: (i) have a solid

grasp of the event itself, and of the developments leading up to the event; and (ii) have a solid grasp of the risk-assessment and risk-management strategies Statoil and the joint venture implemented beforehand. I expect, therefore, that the assessment of whether or not this was really a black swan is closely connected to what we know about events before and around the attack, as well as Statoil’s post-attack evaluation. I expect, *inter alia*, that students briefly refer to pre-attack worries relating to the “Arab Spring” uprisings; geographical/geopolitical issues related to the Libyan War and Libya’s porous border with Algeria; transportation issues; Statoil’s use of external risk consultancies; the company’s evacuation procedures; its local hiring policies; and the joint venture’s reliance on Algerian authorities for the plant’s “outer” security. But based on this knowledge, I also expect a brief but independently-crafted analysis of the black-swan content of this event. Good students may well be able to convince the reader that this really was a black swan – or that it wasn’t. Or that it was a mix – a partial black swan, if you like. Good texts should also reflect, based on Jervis’s thoughts, that what was perhaps a black swan for Statoil, given its enormous impact on the firm and its relative unexpectedness, was not necessarily so if we count as black swans only events that change the direction of the world as such. In addition, terrorist attacks do happen rather frequently, but the timing and the mode of such attacks are less predictable.

The key to the first part of Task 1B, which is covered by Lecture 12 and the first few pages of Carlson et al. (2013), is to problematize the definitions of maritime rights, considering that they “create” borders at sea delineating areas over which the state in question have rights and responsibilities that vary with distance from the baseline (physical territory). This easily creates what the authors refer to as multiple spheres of overlapping rights, and it forms a basis for “creeping jurisdiction” and hence interstate conflicts. We can expect students to refer to these definitions (territorial waters, contiguous zone, exclusive economic zone, extended continental shelf), along with an outline of what sovereignty entails for each one of these.

Here as well, the concepts must be applied, in this case to the South China Sea conflict. Here, I expect a solid grasp of that conflict (based on Lecture 12 and Fravel 2012), including who the key players are (in particular, China, the U.S., Philippines, and Vietnam) and why this sea is so important (e.g. geostrategic location, trade routes, natural resources). Of utmost importance, however, is to contribute with an

independent discussion of whether or not the UNCLOS framework and rules are a factor in this dispute. Solid texts problematize this, for example by pointing both to any effect this framework has on relative predictability and relative stability of the dispute and on the potential for some states – notably China – to consciously utilize the very vagueness of definitions (layered sovereignty and scope for creeping jurisdiction) to expand its territorial and geostrategic control. The creation of “facts on the ground” (e.g. island expansion and oil and gas exploration) is also a relevant dimension here.

The first part of Task 1C is covered by Lecture 4 and by Gilpin (1987). This is a rather straightforward exercise for those who have read Gilpin’s book chapter well. Some might choose to discuss the nationalist perspective by comparing it in part to the liberal and the Marxist perspectives. Although this is fine, it is no requirement. Others might draw as well on other texts, such as Bremmer (2009) and Irwin (2017). That is perfectly fine as long as Gilpin’s text provides the foundation for the discussion. That text emphasizes several things; at a minimum, students should understand that, within this theory or ideology, the state takes precedence over the economic sphere; economic activities and markets, though obviously essential for state power, are subordinate to the state’s interests, in particular when these spheres ambitions collide. The economic sphere is not and should not function independently, according to this view; its ultimate task is to enhance state power and hence national security. Good texts should also refer to the importance of industrialization – and to the dangers of a “liberal” international division of labor – within this theoretical framework. I also expect students to provide a link between economic nationalism and International Relations realism, with its comprehensive focus on the substantial effects of the international anarchy and relative power. On the global (and regional) arena, economic nationalism tend to correlate with interstate (commercial) conflict (this is particularly so for the version of economic nationalism that Gilpin refers to as “malign”); states see international trade and investment as basically a zero-sum game where one state’s gain is another’s loss. Of concern is thus the trade balance, as it was for the mercantilism of early eras; national-security interests dictate that a positive trade balance – in particular vis-à-vis one’s rivals – is vital.

The latter idea, of course, provides a natural link to the second part of this sub-task. In Lecture 5, I spent some time talking about U.S. President Donald Trump’s (purported) economic-nationalist agenda. The point of departure is Irwin’s (2017)

review of protectionist measures implemented or suggested by Trump. He specifically lists the U.S. withdrawal from the Trans-Pacific Partnership; the (at the time) suggested renegotiation of NAFTA; trade warnings against allies; threats that outward FDI would be taxed; national-security screening of inward FDI; and the trade threats against China. I also discussed an expansion of that list, focusing in particular on the more general notions of the president such as the “America first” slogan, the zero-sum thinking, and the constant references to the need to get better deals on trade. Good texts refer to many of the measures suggested or implemented by Trump – and preferably they also problematize them, for example by referring to Irwin’s arguments that they will have substantial negative economic effects (and/or by using ideas from Gilpin’s review of the liberal economic ideology).

Task 1D is covered in Lecture 8 and, of course, in Pollins (2008). Given the formulation of the task, students obviously have a fair amount of leeway. What I seek are two things: (1) a brief, precise account of the chosen theory; (2) a justification for highlighting this theory (including relevant references to current affairs). Apart from these strictures, we can expect a wide variety of answers. In Lecture 8, I reviewed the war-chest theory (growing economic power can be converted into increased military spending and the creation of a ‘militarized’ mindset); lateral pressure theory (growth leads to a geographical expansion of interests, which in turn might lead to conflicts over resources or markets); diversionary-war theory (foreign-policy crises are substituted for a focus on economic problems at home, creating a “rally ‘round the flag” effect); power-transition theory and theories about hegemonic stability and change (conflict between system leader and rising power over system leadership); power-cycle theory (partly similar but partly broader than the power-transition theories); peace (or war) by trade theories (the cost of conflict, and perhaps thus its likelihood, rises with increasing international trade, though increased trade might also augment interstate friction); theory of the long wave and leadership cycle (very broad economic cycles are correlated with system-wide peace and conflict); and theories about the conflict-reducing role of globalization. Sound and plausible application of the chosen theory is also key, as is a fair grasp of current events in world politics. I expect many students to focus partly or fully on China’s growth, whose implications for international conflict can be analyzed by several of the theories above. Others might choose instead

diversionary-war theory, for instance by evaluating Russia's geopolitical expansion in light of domestic issues.

Task 2 consists of four different though partially interlinked sub-parts, the topics of which are covered by Lectures 7–11. In the first part students are asked simply to define the concepts of geopolitics and geoeconomics. As for the first of these, one might expect students to reproduce the brief definition provided in Lecture 7, that “geopolitics is the study of how geography, politics, strategy, and history combine to generate the rise and fall of great powers and wars among states.” This is not sufficient, though; I expect students to use their own words and to demonstrate their knowledge that geopolitics essentially concerns the competition for political control or influence over geographic space – i.e. over (others') territories. It has also become more common, it seems, to liken geopolitics to international politics in general – in particular to interstate competition. The second concept – geoeconomics – is more comprehensively defined and treated in the required readings (Baru 2012; Blackwill & Harris 2016; Luttwak 1990; Wigell & Vihma 2016). When discussing the definition, students might refer to or problematize the causal direction; that is, and in the words of Baru (2012), is geoeconomics about the “the geopolitical consequences of economic phenomena” or “the economic consequences of trends in geopolitics and national power”? The lectures have used the former definition, in line with the book chapters by Blackwill & Harris (2016). Thus, central geoeconomic instruments include, again according to Blackwill & Harris (2016), trade policy; investment policy; economic sanctions; cyber strategies; aid; monetary policy; and energy and commodity policies.

With regard to whether or not the two concepts overlap, the former definition of geoeconomics (which I draw upon in my lectures) makes it (in part) into a subset of geopolitics; economic instruments are by a given state in order to influence other states (whatever the specific goals might be), thereby ideally enhancing the power position of the former state. Geopolitics is the broader concept; geopolitical goals can be attained by way of utilizing means that range, *inter alia*, from economic measures (in which case the issue is also one of geoeconomics), to political or diplomatic measures, to military measures. Good texts might draw on Luttwak's (1990) classic text, and on his prediction that the end of the Cold War would witness a continuation of what he called the “Logic of Conflict” (but more through the use of economic rather than military means – i.e. by the “Grammar of Commerce”). In Luttwak's view, geoeconomics is

geopolitics by way of economic means. For Blackwill & Harris, geoconomics is *War by Other Means*. What is probably a bit confusing still to many students is the fact that Wigell & Vihma (2016) present a clearer distinction between the two concepts (essentially arguing that geopolitics' means are military). I do not myself like that separation – but it is OK if students base part of their discussion on it, as long as they build up a sound logic.

The second part of Task 2 asks students to present a recent real-world example of the use of geoconomic instruments. An abundance of such examples exist, of course, and in the lectures I have talked about many of them. Some are clear-cut, such as the Western sanctions against Russia, the U.S. sanctions against Iran, and the blockade instituted by Saudi Arabia and its allies against Qatar. Others are maybe a bit more subtle. This concerns, *inter alia*, the current “trade war” between the U.S. and China. Here, good texts must be careful to tell the reader why this trade conflict has, or might have, a geopolitical (and not only an economic) side to it. Others might draw on one of the required readings (Abdelal 2013), outlining European-Russian pipeline politics. Here as well students must be explicit and precise about the geopolitical content – the geostrategic goals – of Russia (and/or the EU), in particular as Abdelal heavily emphasizes the *commercial* logic of Russian gas exports. (Yet other students will likely write about China’s Belt and Road Initiative, based on Yu (2016)). Equally important it is to spell out explicitly how international economic actors (essentially businesses) are affected. It is not enough simply to tell us that geoconomics is at play; we also need to know whether particular firms or industries – or national, regional, or the world economy – lose or win as a consequence of the case in question.

The third part of Task 2 is perhaps a little bit tricky. The key here, as outlined by Caldara & Iacovello (2018), is that when adverse geopolitical events (e.g. wars, terrorist attacks) become a reality, uncertainty is removed. The *threat* of such events, to the extent that it is severe and realistic, increases uncertainty and tend to dampen overall economic activity for potentially affected economic actors. Similar ideas were presented briefly in Lecture 1, based on a handful of short articles from *The Economist* and *Financial Times*. Moreover, really good texts will draw on Ferguson’s (2008) historical analysis of market actors’ reaction (or non-reaction) to the threat of large wars. The run-up to the Second World War is of particular interest in this regard, as

the all-important confidence of investors dropped significantly in the last few years and months before the (European part of the) war broke out (or were realized). Markets are heavily linked with psychological mechanisms.

The fourth part of Task 2 draws directly or indirectly on the bulk of the lecture series (while Lecture 6 dealt specifically with *Pax Americana*). Of course, I do not expect that students outline all of the various arguments we have discussed in class, but I do expect that texts provide precise discussions grounded in a selection of the required readings. I also expect that students directly confront the sub-issue about the decline of the U.S. and the alleged disintegration of the U.S. hegemony being “major causes of geopolitical risk.” That is to say, students must spell out why these developments, according to some, affect international business.

As for the “pessimists,” the short newspaper articles (*The Economist* and *Financial Times*) reflect on various things, including internal developments in the U.S. (e.g. partisan politics), the effects of the 2008 financial crisis (which gave the Western-led order a legitimacy challenge), and the increase in nationalism. But of course, structural changes in the international system must be highlighted. This concerns shifts in relative power, most notably the growth of China and the concomitant *relative* decline of the United States. The theoretical underpinnings for why this is a challenge in terms of world order is found in Pollins (2008). Others supplement this view, arguing that the current direction of the United States introduces the risk of trade contraction (Irwin 2017) and that, following the financial crisis, the world has been devoid of leadership – a G-zero world (Bremmer & Roubini 2011). Others are more optimistic. Ikenberry (2008) points to the robustness of the *Western* liberal system, claiming that one of its main characteristics is its openness to new entrants (such as China), which yields great opportunities to climb the hierarchy of states; thus, China won’t necessarily harbor any huge incentives to change the current order. Nye (2017) also argue that China’s growth does not necessarily present insurmountable problems – partly because she understands that efficient international public-goods provision is vital both for itself and for the system as a whole, and partly because the United States is still clearly the most powerful state in the system (which is also the view of Brzezinski (2013)). However, Nye also warns that the rosy picture hinges on other factors as well, such as internal developments in major states, a view he shares with Colgan &

Keohane, who review the recent growth of populism and argue that liberal elites have been relatively ignorant of the concerns of non-elites.