

PGDM (IB), 2018-20
Geopolitics and Risk Analysis
IB-402

Trimester IV, End Term Examination: September 2019

Time allowed: 2 Hrs 30 Min
Max Marks: 50

Roll No:

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except Roll No will be treated as **Unfair Means**. All other instructions on the reverse of Admit Card should be followed meticulously.

SECTION A – (10 marks * 3 questions) = 30 Marks

A1. Discuss the important aspects of contemporary world order. (10 marks) (CILO1).

OR

A1. Discuss about two geopolitical hotspots in South-East Asia (10 marks) (CILO 1).

A2. What are some of the transformative developments in India-US relations in the last twenty years? (10 marks) (CILO-2).

OR

A2. Why do the following matter geopolitically? (10 marks) (CILO 2)

a) G-20, b) BRICS, c) ASEAN.

A3. Discuss the relevance of geopolitics in international business management. (10 marks) (CILO 3).

OR

A3. Examine the impact of geopolitics on commodity and energy markets (10 marks) (CILO 3).

SECTION B – CASE STUDY (2*10=20 Marks) (CILO 1 & 2)

[Case: From G-20 to G-Zero]

B1. Do you agree that the world is becoming ever more volatile? Discuss pertinent reasons. (10 marks) (CILO 1 & CILO 2).

B2. Discuss the significance of emerging countries in solving the "problems without border." (10 marks) (CILO 1 & CILO 2).

From G20 to G-Zero

By Ian Bremmer

There are three big unfolding geopolitical stories: China's rise, Middle East turmoil and the redesign of Europe. The three countries with most to lose from these trends are Britain, Japan and Israel

As G8 leaders prepare to gather in Northern Ireland on 17 and 18 June, we are reminded of days when American, western European and Japanese officials could credibly claim to set an international agenda. Then came the financial-market meltdown of 2008, a catastrophe that made unavoidably obvious that most "problems without borders" can no longer be addressed without substantive support from China, India, Brazil, Saudi Arabia and other emerging powers. Members of the G20 gathered in Washington in November 2008 and London in April 2009 to claim their seats at the world's most important bargaining table.

Yet, despite positive early results—the product of a crisis that appeared to threaten all the major powers at the same moment—the G20 has not produced much of value. We shouldn't be surprised. Without the urgency that only a crisis can create, it soon becomes obvious that it's much more difficult to build agreements that impose costs and risks on 20 negotiators than those that demand compromise from seven or eight.

This is especially true for a group that does not share a common set of assumptions about the proper role of the state in an economy, or about the value of the rule of law, transparency and freedoms of speech, press and assembly. Competing values create competing interests.

Further undermining these institutions is the problem that voters in developed countries such as the United States, Britain, Germany, France and Japan expect their elected leaders to focus on domestic challenges

rather than problems abroad. The United States will remain the world's most powerful and influential country for the foreseeable future, but Washington is now fully occupied with battles over budgets, debt, immigration reform and how best to create jobs. European leaders are locked in a multi-year struggle to bolster the eurozone. Japan's government, under its new prime minister, Shinzo Abe, has launched a grand experiment to reawaken the animal spirits trapped inside its once-dynamic economy. Meanwhile, next-generation powers such as China, India and Brazil are too busy managing the fallout from recent economic slowdowns and edging towards the next stage of their respective domestic development plans to welcome the burdens that come with new international responsibilities.

The result is a lack of global leadership, one that has developed just as growing numbers of transnational problems—Middle East turmoil, intensified territorial disputes in Asia, climate change, conflicts in cyberspace and poorly regulated cross-border financial flows—are gathering momentum. The world needs leaders, those with the wealth and power to keep the peace, to persuade other governments to take actions they wouldn't otherwise take, to pay for projects that others can't afford and to provide services no one else will pay for. There are many countries now strong enough to block international action, but none is both willing and able to bring about lasting positive change.

This is not a G7, G8 or a G20 world. This is the era of G-Zero.



A more volatile world

Because of the expanding global leadership vacuum, the world is becoming ever more volatile. Fights over commercial and investment rules and the clash between the state-driven and free-market varieties of capitalism are generating frictions between America and China, as hostile exchanges in the undergoverned expanse of cyberspace are making matters worse. In years to come, no ties will be more important for global peace and prosperity than those that bind these two countries, the world's most powerful developed and developing states, and no issue would exacerbate the G-Zero dilemma more quickly than a dramatic worsening in their relations.

In addition, the risk of confrontation in Asia has grown – between China and Japan (the world's second- and third-largest economies) in the East China Sea, and between China and several south-east Asian countries in the South China Sea. In the Middle East, Syria's civil war grinds on as Turkey, Russia, Iran, Saudi Arabia and Qatar stoke the fire with arms and money and as US, European and Chinese leaders resist pressure for more direct involvement. Spillover from Syria has triggered another surge in sectarian violence in Iraq. Despite a brief French intervention in Mali, Islamist militants are on the offensive from Libya to Nigeria. This is another region in which rivalries among local heavyweights and a lack of global leadership ensure that the pain will get worse before tangible progress can be made.

Finally, if a wobbly US economic recovery and a war-weary American public weren't enough to discourage a more ambitious US foreign policy, changes in the US energy sector will add their own effect. Hydraulic fracturing, or "fracking", is opening access to liquid energy deposits locked inside once-impenetrable rock formations, and breakthroughs in horizontal drilling methods are making the technology much more profitable. As a result, US oil imports from Opec producers have fallen by more than 20 per cent in just three years and natural gas prices inside the US have fallen 75 per cent over the past five. The US Energy Information Administration estimates that, by the end of this decade, more than 80 per cent of the crude oil consumed in the US will come from North and South America. The International Energy Agency has forecast that by 2020 the US could become the world's largest oil producer, and that by 2035 the country could be almost energy-self-sufficient.

This development will exacerbate what I call the G-Zero problem by encouraging Washington to continue to shun deeper involvement in Middle East hot spots. Syria's civil



New rising sun: early-morning cleaning at the Maserati showroom on Jin Bao Jie in Beijing

war reminds Americans how costly engagement in the region can be, and the Obama administration will continue to help Syria's opposition fighters only from the sidelines. Some will say that less US involvement is a good thing, but who else has both the deep pockets and the military muscle to end the slaughter in Syria, even temporarily?

This trend will also shift the balance of power between energy exporters and consumers and help undermine political and economic stability among energy producers with poorly diversified economies. In countries such as Russia, Saudi Arabia and Venezuela, higher prices in recent years and a resulting spike in revenue have allowed governments to protect their domestic popularity with subsidies and other social spending projects. However, as a surge in US supply lowers demand for more expensive Russian natural gas, Russia, which earns well over half its government revenue from energy exports, will find itself in a tight spot. In 2007, Russia needed an oil price of \$34 per barrel to balance its federal budget. By 2012, the target climbed to \$117 per barrel. Easing demand in Europe will erode Russia's finances in years to come, putting the current government to a significant test. In addition, though neighbours such as Ukraine and Poland remain deeply dependent on Russia for affordable supplies of natural gas, each appears to have enough shale deposits of its own eventually to kick this habit.

Washington is ready to help. In 2010, the US government created a programme to transfer unconventional gas technologies to friendly countries – such as Poland and

Ukraine – in part to reduce Russia's power over its neighbours.

That's good news for the US and some of its friends, but the destabilising effects of a shift in the balance of market power between energy producers and consumers can also generate shocks from unexpected sources as some of the world's most potentially volatile countries struggle to adapt.

Look to the regions

Some governments will adapt more effectively than others to the G-Zero and the instability that it creates. Because global leadership is lacking and international co-operation has become all but impossible to co-ordinate, some governments are turning to regional solutions that are more likely to produce results. For instance, because the World Trade Organisation's Doha round of global trade talks essentially has ground to a halt, China and the United States are looking to extend their influence and expand their trade ties by turning to regional agreements that are easier both to negotiate and to dominate.

China has completed more than a dozen major deals in recent years and hopes to form a commercial bloc that includes the ten members of the Association of South-East Asian Nations (Asean), plus South Korea, Japan, India, Australia and New Zealand. The US has responded with a push to finalise and expand the Trans-Pacific Partnership (TPP), a free-trade agreement that includes a dozen countries in Asia and the Americas. The Obama administration has also announced plans to begin work on a transatlantic trade

deal that will open new areas of commercial exchange with the European Union.

This is good news for trade generally, and for all who participate in these agreements. By establishing new and more comprehensive rules for trade and investment, the TPP and transatlantic agreements will set new standards for future global trade talks. They could push the WTO to launch another round of multilateral bargaining under more comprehensive terms. This is also good news for those who believe in the power of trade to lift the entire global economy, because the opportunity costs are rising for those unwilling to come to the table.

Trade agreements of this sort are also likely to undermine less ambitious deals. TPP, in particular, is exacerbating trends visible in Latin America. Chile and Peru are original members of TPP, Mexico formally joined last year, and Colombia and Panama have opened talks to join the club. Most TPP members in Latin America have already signed free-trade agreements with the United States, the EU and even China. As TPP moves towards completion, it will draw these countries (which are already more business-friendly and open to trade than the Mercosur members – Argentina, Brazil, Paraguay, Uruguay and Venezuela) more fully into its orbit. As a result, frictions within Mercosur, particularly between Brazil and Argentina, will both deepen and become more visible.

A little help from new friends

Diversification has always been an essential tool for managing risk, but in a world lacking clear leadership, one in which shocks have become all too common, governments must avoid over-reliance not simply on one export product, but also on security and commercial relations with a single dominant ally. Growth is good, but resilient growth is better, and the best way to build resilience is to diversify one's friends and partners. Some countries are better positioned to manage this than others.

Though its economy has slowed over the past year, Brazil enjoys an expanding middle class, a broadly diversified economy, ample energy reserves and growing national self-confidence. Crucially, it also has an increasingly diverse portfolio of trade and investment partners. Trade with the US remains robust, yet Brazil's imports from China have risen more than twelvefold since 2000, and its exports to China have grown even faster. Four years ago, China became Brazil's largest trading partner, helping Brazil absorb the shock of the financial crisis and US recession. Thanks to still-expanding ties with the US, China and a growing list of other partners, it has become a "pivot state".

Asia is home to a number of pivot states, in part because many of China's neighbours want to avoid too deep a dependence on China and its markets by reaching out to US companies and investors. Indonesia, home to more than 240 million people and a well-diversified economy, maintains strong trade ties with China, the US, Japan and Singapore. Vietnam draws most of its machinery from China, its aid from Japan, its arms from Russia and its biggest export market from the US. Singapore has 18 free-trade agreements with 24 separate partners.

Africa, home to the world's fastest-growing middle class, has become a pivot continent. For years, African governments were forced to turn almost exclusively to western institutions such as the IMF and the World Bank

China has been forced to build new partnerships in the Middle East

when they needed financial help. China has become Africa's largest trading partner, though it still accounts for just 25 per cent of foreign direct investment in the continent, and the Gulf monarchies and other Asian states are deepening their interest. Multinational and state-owned companies from developed and developing states now compete for access to African consumers and the most favourable investment terms.

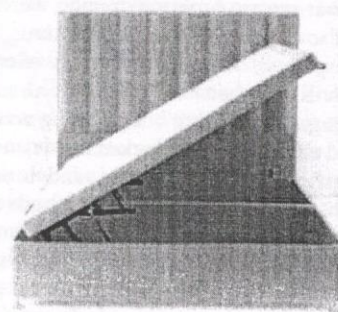
Beyond a general diversification of relationships, we have seen the emergence in recent years of a new set of (sometimes unlikely) strategic alliances. Henry Kissinger is reported to have asked, "Who do I call when I want to call Europe?" China's leaders have an answer: when they want to engage Europe, they call Berlin. In fact, China and Germany have the makings of at least a mutually profitable partnership, if not a beautiful friendship. They have a few important things in common. They are export-driven and have the world's two most favourable trade balances, and each champions a "responsible" approach to debt and deficit that sometimes leads them to criticise the profligacy of other powers – particularly the Americans and the Japanese. Each presents itself as a model of efficient governance in its respective region.

More importantly, both governments have ample incentive to deepen their commercial relations. Germany represents an important destination for outward-bound investment by Chinese firms and the safest debt in Europe. Berlin also has considerable influence over eurozone decision-making and EU foreign policy, and is more willing than London or Paris to avoid direct criticism of China's human rights record. For Germany, China

represents an inviting economic opportunity, particularly given the bleak prospects of many of its historical European trading partners. German exports to China grew at an average annual rate of nearly 16 per cent between 1995 and 2012.

Next, while US dependence on imported oil and gas is easing, China's is intensifying, forcing Beijing to build new partnerships in the Middle East, as well. The primary beneficiary of this trend will be Iraq. (After two US-led wars on Saddam Hussein and years of US occupation, the irony is unmistakable.) The feeble state of the rule of law inside Iraq and the country's increasingly unstable security environment have given many a multinational oil company pause, but China's state-owned behemoths, which ultimately answer to a single, energy-starved shareholder back in Beijing, are moving in. The embattled Iraqi prime minister, Nouri al-Maliki, welcomes the investment. Given present trends, Iraqi oil will account for more than half of China's oil imports by 2030 – and there is a growing risk that China and its economy will become ever more deeply implicated in the continuing upheaval in the Middle East.

Elsewhere in the region, Qatar, a Persian Gulf emirate with a population of fewer than two million people, is using its considerable wealth and growing influence to make new friends and punch above its weight in Middle Eastern politics. No country has provided more direct material support for the Syrian



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► rebels, or has proven a more reliable foreign ally for Egypt's Muslim Brotherhood-led government. Qatar has also become much more involved in the politics of other North African countries, such as Tunisia and Morocco. Though technically the Doha-based al-Jazeera, the Middle East's most influential satellite television network, is no longer a state-run company, it remains a willing instrument of Qatari foreign policy.

Finally, there is another emerging power extending its influence in sub-Saharan Africa. Brazil's drive to expand its diplomatic and economic relations on the continent – especially with the resource-rich, Portuguese-speaking Angola, Mozambique, Cape Verde and São Tomé e Príncipe – began to intensify a decade ago under the former president Luiz Inácio Lula da Silva. Brazil's trade with Africa has expanded by more than 500 per cent in the past decade. The country's growth and the active promotion of its own national champion firms has deepened the relationship, as the state-owned oil company Petrobras becomes a critical player in Angola's oil sector and the Brazilian mining champion Vale invests in a world-class coal project in Mozambique. President Dilma Rousseff announced in May, during celebrations to mark the African Union's 50th anniversary, that Brazil would cancel or restructure \$900m worth of debt from 12 African countries.

Greater influence in Africa boosts Brazil's claim as a leader in South-South development. The votes of African countries can help Brazil gain greater influence within international institutions and might one day help provide the country with a permanent seat on the UN Security Council.

The isolated few

For some countries, making new friends, even in a G-Zero environment, is not so easy.

There are three big unfolding stories in international politics and the global economy: China's rise, Middle East turmoil and the redesign of Europe. The three countries with most to lose from these trends are, respectively, Japan, Israel and Britain. These three also happen to be America's most reliable allies in the world's three most important regions, yet self-involved Washington can't protect them from the worst effects of these sweeping changes.

China's rise leaves Japan in a tight spot. Access to China's expanding consumer market is critical for Japanese companies, yet Beijing's new foreign policy assertiveness, particularly in territorial disputes involving Japan, is fuelling patriotic fury inside both countries. China and Japan are not sliding towards war, but the growing antagonism between them is reversing progress in their

commercial relationship – a problem that will hurt Japan much worse than China. In response, Japanese policymakers want to diversify, to hedge bets on China by strengthening trade and investment ties elsewhere in Asia. Unfortunately, while neighbouring South Korea has already signed free-trade agreements with the US, the European Union and Asean and has launched talks with Canada, Indonesia and Vietnam, Japan has been slower to diversify its trade ties and remains dangerously exposed to over-reliance on Chinese markets.

Japan's decision to join talks on the Trans-Pacific Partnership may eventually pay enormous dividends, but that is a long-term project and the country still has near-term economic problems to address. As for its security, while Washington can help defend Japan's territorial claims in the East China

A UK landing outside the EU will pay a heavier price than many realise

Sea, it cannot protect Japanese companies operating in China from the cost of doing business in a sometimes hostile environment. That is the greatest immediate threat to Japan's economic stability.

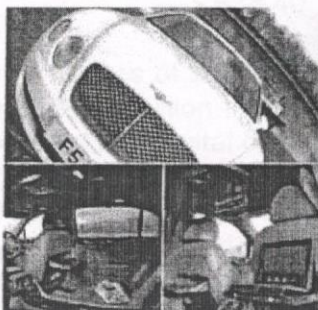
Israel's anxieties bear more directly on its national security. Syria's civil war has spilled over into Iraq, Turkey and Lebanon. The risk is also rising that Iran, the object of biting sanctions and intense international pressure over its nuclear programme, will lash out in unpredictable ways, including at Israel, using proxies such as Lebanon's Hezbollah, which is fighting in support of the Assad regime in Syria. In addition, Arab states, those that have new governments following the region's recent upheavals and those that resisted demand for change, are eager to safeguard their popularity at home and will try to satisfy public demand for a harder line on Israel. And although Washington will continue to act as the ultimate guarantor of Israel's security, an Obama administration focused on domestic priorities and on expanding its presence in Asia will have fewer resources to

spend on helping to resolve the various conflicts taking shape along Israel's borders.

Then there is Britain, where, according to a poll conducted in May by ICM Research, just 30 per cent favour continued membership of the European Union. If the UK eventually lands outside the EU, it will pay a heavier price than many Britons now realise. Shedding many of Europe's rules and regulations and its Common Agricultural Policy would pay early dividends, but waving goodbye to a club whose members buy half of Britain's exports would damage the country's core economic strength, and dozens of bilateral trade deals would have to be renegotiated. Outside Europe, Britain would lose much of its international political clout. Even if Britain remains a member, its unwillingness to help shape the eurozone redesign and fully engage on new financial regulations will leave London as a taker rather than a maker of the new rules of the European game. And as Washington eyes new opportunities in Asia and begins work on a trade deal with the EU, the special relationship with a Britain outside Europe will look a lot less special to future American presidents.

Leaders enjoy summits. Their choreographed pageantry commands the attention of the world's media, allowing presidents, prime ministers and chancellors to play the global statesman, and provides a welcome holiday from political attacks back home. Even the protests outside the gates seem to underline the power of those within. Summits can be useful in a crisis. But the G-Zero era of instability has only just begun and the new global order will take shape off camera, the result of decisions made and relationships formed among the leaders of individual states who are doing their best to absorb new shocks and make new friends. ●

Ian Bremmer is the founder of Eurasia Group. His most recent book is "Every Nation for Itself" (Portfolio/Penguin, £14.99). He will be taking part in Zamyn's cultural forum "After the G8: Is It Going to Be G-Zero or a Positive Number?" at Tate Modern, London SE1, on Tuesday 11 June (6pm). For more details visit: zamynforum.org/events Listen to an NS podcast with Ian Bremmer at: newstatesman.com/podcast




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