

THE ANALYSIS OF POLITICAL COUNTRY RISKS: OPERATIVE PROSPECTS OF POLITICS AND BUSINESS IN THE TELEMATICS AGE

Frank-Michael Bahr

The paper provides an outline of recent progress in the advancement of telematic infrastructures in relation to foreign trade and foreign policy. By means of political risk analysis techniques, the social sciences respond to a concerted demand for forecasts from governments and international business. As a result, and due to an increasing importance gained by operative knowledge on political environments, a private market for political logistics supporting international operations has been established.

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Were Orpheus to descend to the underworld today, it would be the gnomes of Zurich who in their backrooms would be spinning the politico-economic web of global high finance and international power. There is today a demand for reliable, clear-cut and readily available techniques of socio-economic forecasting wherever foreign policy or foreign trade operations face the challenge of socially or politically uncertain futures.

Sociology and political science, and specifically their sub-disciplines, have long found it difficult to satisfy this need for forecasting techniques at both governmental and private levels. Yet today there are risk analysis procedures which have emerged at the intersection of state and private economic action. At what stage is the development of such prognostic methodology? Is it possible to speak of the completion of a developmental step by means of telematic instrumentation? The issue is not so much part of the public debate on electronic democracy as within the realms of project management in advanced, strategic corporate planning and of foreign policy conflict management. Techniques and evidence have gained prominence which in themselves do not so much apply to a particular context of specific projects, but rather satisfy the needs of operational handling in the fields of planning and safeguarding. In this capacity, these techniques have become part of the planning process.

In at least five countries, the risk for foreign investors would be greater than in the previous year, and economic losses stemming from political developments would be suffered, reported the New York company Frost & Sullivan in its *International Research Report for Business* in January 1985. Conversely, this risk would prove to be significantly lower in Argentina, Uruguay and in India. Swett & Crawford, an insurance company that covers companies investing overseas, would have noted this or similar forecasts with the greatest attention, as would have the C.I.A. and the Soviet representation at the United Nations. All three are subscribers to the Political Risk Services newsletter of Professors Coplin and O'Leary of Syracuse University, a further product of this rapidly growing business.¹ The INFER, OPINT and EVAL computer software programmes have been described as being exclusively dedicated to the analysis of "catastrophic events" for enterprises; i.e., the analysis of threats of violence.²

The work of these services does not appear at first glance to be new. Countries and economies have been investigated and evaluated for at least a century in terms of their solvency,³ the intention being to establish the likelihood of certain political events occurring which might influence the profitability of foreign economic involvement and the success of economic strategies. These include changes of government as well as strikes, terrorist acts of violence, limitations on the returns from investments and capital, and measures dealing with socio-political and currency policies, etc. Even Simon's casuistic definition of political risk presented only a small section of all latent factors which daily affect international economic relations.⁴

But today, the availability of these surveys and ratings and a good number of other services (which are not even necessarily publicly available) suggests that, apart from systematic observation of political developments around the world, what is involved here is structural change. The World Political Risk Forecasts service itself has over 900 clients for this new type of political consulting. Among over 100 subscribers to the Political Risk Services newsletter at the beginning of 1987 were those transnational corporations which were prepared to expend \$ US 254 per year to improve their information on the political world around them. The techniques of country political risk analysis are employed by such institutions as the Bank of America, the First National Bank of Boston, the World Bank, and by dozens of other banking and insurance organisations. They are also used by the Export Insurance Division of the International Trade Bureau in the Japanese Ministry of International Trade and Industry (MITI) and the Export Development Corporation of Canada. These last two represent the opposite pole on an imaginary line between commercially exploitable forecasting on the one hand and the political employment of this operational knowledge on the other hand.

The political importance of this forecasting is fairly obvious. For example, when South African obligations to foreign creditors reached

a volume of \$ US 20 billion, MITI decided in September of 1985 to increase drastically the insurance rates for exports to South Africa. Even in the Marshall Plan, however, political risks involved in economic transactions were partially covered by public funding. By the end of the 1960s such guaranties had been extended step by step to less developed societies as well, until finally the Agency for International Development granted extensive coverage of damage and loss stemming from wars, revolutions or expropriations. The London-based Union of Berne may serve here as another instance of stability for the development of risk assessment techniques. Founded in 1934 and officially termed the Export Insurance Committee of the International Union of Credit and Investment Insurers, it currently unites 40 members from 32 nations. Besides governmental and semi-governmental insurers, private companies such as Lloyds and the American International Group are regular or associate members. But the change which occurred from the end of the 'sixties is based on the forecasting power inherent in political risk analysis, in its precision and general availability. The foreign-trade instruments of insurance, securities and guaranties for capital and commodity exports are only slowly assuming their full dimensions with the development of methodologically reliable techniques of measuring and forecasting risks by means of an extensive infrastructure of political consulting. An intertwining of private and governmental foreign trade policies is, as it were, a by-product, but one that is desired. For instance, the domestic political need to create the American Overseas Private Investment Corporation (OPIC) made it abundantly evident that foreign aid, which was formerly purely a government matter, was now to be transferred to private-sector hands and interests. With the establishment of this agency by the Foreign Assistance Act of 1968, the Nixon Administration created a way of ensuring itself a head-start over undesirable competitors for the markets of the Third World:

OPIC seeks to serve directly the government's dual policy goals. It provides a form of assistance to the developing countries by assisting in the flow of U.S. investment, especially capital investment; at the same time, it seeks to ensure that the United States maintains both its market share in these developing economies and an adequate supply of raw materials.⁵

Foreign trade instruments were not alone in encouraging the linkage between government and big industry. Of equal significance was a new interest within the social sciences in preparing and planning political decision-making. Von Bredow correctly noted some time ago that all past attempts to formulate a theory of international relations were directly associated with the necessity of developing strategies of political action for specific international localities.⁶ Many things appear to indicate that on the level of preparing policies on foreign trade (for which, in the last analysis, the political risk reports are written) a breakthrough has taken place prompted by the negative experience of discarded scientific paradigms. In particular, it stems from the conflict-

analysis approaches of peace research, from the strategic studies of the 'fifties and 'sixties, from earlier, quantitatively oriented research on the causes of war, and from world-modelling and behaviourist efforts. But at what price?

The trend in favour of quantified results from political risk forecasting nevertheless still tends to be dominant:

We use numbers because our clients want them. Senior management always is saying, "tell me the bottom line".⁷

To be sure, the statistical quirks, the unexpected extreme values, present the most significant threat to continuity-oriented business and foreign policies. But it is precisely these which cannot in the last analysis be brought under control by quantification-oriented techniques. Conversely, this means that in formulating foreign trade policies overreactions can become more avoidable, independent action more streamlined and the crisis management of the 'seventies, which was known as muddling through, more systematic. President Nixon emphasised in his first State of the Union Message:

American foreign policy must not be merely the result of a series of piecemeal tactical decisions forced by the pressure of events. If our policy is to embody a coherent vision of the world and a rational conception of America's interests, our specific actions must be the product of rational and deliberate choice. We need a system which forces consideration of problems before they become emergencies, which enables us to make our basic determinations of purpose before being pressed by events, and to mesh policies.⁸

As with companies, 'futurible action', the term coined by de Jouvenel, gains the status of a specific subsystem in government which must be institutionalised if the political structure of the future is to be developed. In the political sphere, planning and forecasting are differentiated into an independent department operating according to its own rules and with its own methods: The future is no longer uncertain if it is, to the greatest extent possible, the product of one's own activity. The foreign policy routine of 'muddling through' has been augmented by the techniques of risk analysis, even if this change involves little more than standardised consulting in the formulation of foreign and foreign-trade policies. In contrast to the view expressed by Uwe Nerlich in 1967,⁹ the current foreign-policy planning sector can best be characterised as follows:

- 1) Foreign policy planning and forecasting are, in terms of their political purpose and consequence, different only in degree from planning and forecasting in other sectors.
- 2) Foreign policy planning and forecasting have been differentiated into independent themes and independent infrastructures.
- 3) They are necessary in all areas of action of foreign policy.
- 4) They are becoming more and more feasible with the development of telematic infrastructures. (The Foreign Office in Bonn, for

instance, has implemented an integrated information, documentation and communication system.)

- 5) Planning and forecasting do not take place only in subsystems within the organisation, but also in overlapping structures which function commercially and are controlled by the private sector.
- 6) Planning and forecasting are clearly part of the decision-making process both in temporal and in organisational terms.¹⁰

Information on coherent political factors is used in various fields of strategic planning (exploration, supervision, early warning). It may be used either in a non-formalised way, involving the experience consciously or unconsciously utilised by any decision-maker, or as highly formalised, standardised transverse or longitudinal section information precoloured in terms of form and content, as represented by the final product of an ideal-typical political risk analysis. In 1972, a study of 187 companies from the Fortune 500 group showed that only one quarter of these companies possessed an international information infrastructure for political decisions and only one per cent of the companies commissioned political research. But in 1980, nearly 60 per cent of 193 multinational companies used some sort of political consulting. The increased use of quantitative methods was encouraged by the problems involved in integrating qualitative, heterogenous information in the course of decision-making processes extensively discussed in a quantitative fashion. Political analyses were expected to have the same logical status as operational business analyses and indicator systems of planned foreign investments.

IRIS, the International Reporting Information System, is the most ambitious attempt to date to harmonise the logic of operational business calculation with the imponderables of political reality:

Even the CIA had not foretold the Shah's fall. But IRIS would do better.¹¹

This system was to be built around two Burroughs 7800 computers costing over \$ US 15 million. Their software, which was to be designed in collaboration with the CIA, did not, however, become operational. Ninety-six correspondents from all over the world were expected to input up to 10,000 reports on a daily basis, which then were to be evaluated and processed into forecasts under the supervision of a former high-ranking officer of the Department of State. Anthony Stout, one of the co-founders of the project, noted in an internal memorandum that IRIS was planned as:

an attempt to create an international information product which could meet a growing demand in the small but very rich multinational corporate and financial market for more accurate, current and detailed information on international political and economic development. This market — comprising several thousand large corporations, banks and insurance organisations — was shaken by the general failure of anyone to anticipate the collapse of the Shah's regime in Iran. This failure created a perception throughout the market of a need for more reliable information products

on international political economic-strategic situations and developments.¹²

Thus, for instance, IRIS investors included the biggest Swedish insurance organisation, Skandia Insurance Company, Stockholm, and S.G. Warburg, London, as well as the Norwegian ship-owner Fred Ohlsen, and Seascope, a London insurance company.

Prestigious names have always been associated with these services. The Kissinger Associate Services charge a fee of over \$ US 100,000 for their consulting. Henry Kissinger took six months leave from his commercial activities to take on a task entirely relevant in terms of foreign policy by temporarily returning to the Department of State and participating in a commission on U.S. strategies for Central America. It is certainly too early to talk of international politics being put in private hands, but even ex-CIA directors William Colby, Richard Helms, and Ray Cline occasionally found the door to consulting services. The British company, Control Risks, may be seen as an early transatlantic source of commercial political expertise.

The founders of IRIS included the ex-British prime minister, Edward Heath, together with the former president of the World Bank, Robert McNamara, and a number of former CIA officers. An interesting aspect of the IRIS conception was the intention of preparing and marketing individual studies and forecasts with the aid of its powerful computer. This deviated from the concept of the multi-client studies offered by the other commercial information agencies. Subscriptions costs were \$ US 100,000 for companies and \$ US 500,000 for governments. In an article in the London *Observer*, Jack Lundin expressed the opinion that the clients of IRIS might have obtained a forecast of the Falklands War. But IRIS failed in economic terms without having acquired a single client. However, the network of referential information now associated with, and anteceding, international economic relations is becoming increasingly dense; even though the consummation of this development via IRIS has failed for the moment, the methodological and political principle has attained recognition and has good prospects for the future.

NOTES AND REFERENCES

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2. These programmes have been described by R.M. Gulick, *Documentation of Decision-Aiding Software: Introductory Guide*, McLean, 1980, mimeo and may be obtained via the U.S. Defense Department's Advanced Research Projects Agency's Sciences Office.
3. For one of the earliest systematic approaches see Adolf Grabowsky, *Staat und Raum. Grundlagen räumlichen Denkens in der Weltpolitik*, Zentral-Verlag, Berlin, 1928.
4. Jeffrey D. Simon, 'Political risk assessment. Past trends and future prospects', *Columbia Journal of World Business*, 17, 3, 1982, p. 67. The difficulty of defining the term 'political risk, is connected with the fact that very different operations and

transactions of various sectors are expected to be covered by one uniform concept. An international corporation from the extractive sector, for instance, gives the following definition: Political risk is the risk or probability of occurrence of some political event that will affect the cash available to the shareholders from the corporation's investment in a project. The spectrum of possible intervening events also prevents the establishment of a scientifically sound, comprehensive definition. To this extent, all attempts at establishing scientific definitions, clarifying methods and performing globally valid calculations are directed toward working versions for the specific context of the client. This strong tie to a given context is sometimes emphasised in the literature as an overlapping characteristic of political risk analysis..

5. Dan Haendel, *Foreign Investments and the Management of Political Risk*, Westview Press, Boulder, 1979, p. 9.
6. Wilfried von Bredow, 'Antagonistische Kooperation als Form der Systemkonkurrenz', in Manfred Funke (ed.), *Friedensforschung. Entscheidungshilfe gegen Gewalt*, Bundeszentrale für politische Bildung, Bonn, 1979, p. 313.
7. Samuel Allis, 'Businesses scour foreign-risk forecasts despite doubts about validity of ratings', *Wall Street Journal*, 7 March 1980.
8. Quoted in Chester L. Cooper, 'Micawber versus de Jouvenel: planning and forecasting in the real world of Washington' in Nazli Choucri and Thomas W. Robinson (eds), *Forecasting in International Relations. Theory, Methods, Problems, Prospects*, W.H. Freeman and Company, San Francisco, 1978, p. 343.
9. Uwe Nerlich, 'Bermerkungen zur abgrenzung eines aussenpolitischen planungsbereichs', *Zeitschrift für Politik*, NF 14, 1967, p. 58.
10. With reference to studies of the Defense Department's Advanced Research Projects Agency (DARPA) and the Office of Naval Research (ONR), Andriole, for instance, reports: "in the mid-1970s a set of microcomputer based 'decision aids' was developed to assist intelligence and operations analysts with real problems. Grounded in the management discipline of decision analysis, these aids enable analysts to decompose and structure problems, make probability assessments regarding the likelihood of future events, and calculate the risks associated with decision outcomes 'interactively' on a desk-top computer in hours instead of days. In 1978 a microcomputer was flown to the Philippines to assist U.S. negotiators with the analysis of complicated trade off decisions that arose during the U.S.-Philippines base rights negotiations, and in 1976 a computer-based decision analysis was conducted to assist the U.S. Lebanon evacuation crisis management team" (Stephan J. Andriole, 'The computer-based crisis management technology: time was and time will', in Gerald W. Hopple *et al.* (eds), *National Security Crisis Forecasting and Management*, Westview Press, Boulder and London, 1984, p. 85).
11. Anthony Stout quoted in Bill Keller, 'Government experts fail as businessmen', *Philadelphia Inquirer*, 27 February 1982.
12. Quoted in Rohan Samarajiva, 'The failure of IRIS and the future of the customised business information market', *Transnational Data Report*, 7, 3, 1984, p. 171.