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## GEOPOLITICAL RISK ASSESSMENT IN TIMES OF TURMOIL\*

*Ambassador L. Paul Bremer, III†*

### I. INTRODUCTION

We live in exciting, even revolutionary, times. Every day we are subjected to a barrage of new information about the rapid changes in the international order. The fall of communism, the collapse of the Soviet Empire, the rise of ethnic nationalism—all intrude on our daily consciousness.

Historically, periods of fluidity in international affairs offer great opportunities. Those statesmen and businessmen or women who can perceive the shape of things to come can seize the chance and make history—or a lot of money. But such periods are also characterized by

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In Washington, D.C., Ambassador Bremer served variously as special assistant or executive assistant to Secretaries of State Rogers, Kissinger, Vance, Muskie, Haig, and Shultz. He was appointed ambassador to the Netherlands in 1983 by President Ronald Reagan and in 1986 was appointed Ambassador-at-Large for Counter-Terrorism with the responsibility for developing and implementing America’s global policies to combat terrorism.

Mr. Bremer, who received his bachelor’s degree from Yale University, a CEP from the Institut D’Etudes Politiques of the University of Paris, and a master’s of business administration from Harvard University, is fluent in French, Dutch, and Norwegian. During his government career, he received the State Department Superior Honor Award, two Presidential Meritorious Service Awards, and the Distinguished Honor Award.

instability and uncertainty. For history teaches that ideologies with a world following cannot silently pass away, that empires do not quietly commit suicide, and that a dramatic redistribution of world power always entails risk.

This kind of a world presents special opportunities and challenges to businessmen or women who are forced by increasing globalization to pay more attention to the world outside the US. A company in Tulsa, or San Francisco or Chicago is likely today to find its competition coming from Mexico, or China or Spain. Even more dramatically, huge and dynamic overseas markets beckon. In the past five years, American companies have invested more than \$226 billion outside the United States. No wonder: the markets of Asia grew on average more than 9% per year, compared to 3% for the United States. India, with a population of almost 1 billion, already has a middle class of about 250 million. Over 300 million people are now counted in China's consuming class. Closer to home, the economies of Mexico, Argentina and Brazil have been dramatically reformed in the past five years. Despite ups and downs, they offer significant markets and investment opportunities. In sum, businessmen or women must look abroad because that is where the opportunities are.

But businesspeople cannot be expected to risk stockholders' equity, to take on significant debt or to enter into long-term contracts abroad without some appreciation of the broader environment in which they will do business. In short, they need to assess the commercial, economic and political risks of an overseas investment. Businesspeople are accustomed to weighing commercial risks when they make an investment decision. And they know that economic risks—irresponsible monetary or fiscal policies, uneven urban and rural growth rates, and currency depreciation—can also impact strongly on a business opportunity. Perhaps the most important and difficult area to assess is political risk, especially in the post-Cold War world. I would like to discuss the major causes of political risks in the years ahead and then offer some thoughts on how a business can assess the risks it faces doing business abroad.

## II. CAUSES OF POLITICAL RISK

The major cause of political risk is instability. In the coming years there will be both structural and substantive causes of that instability.

### A. *Structural Causes of Instability*

We have left behind the predictable, if somewhat frightening, days of a bipolar world. The Soviet Union no longer exists and for now Russia has few pretenses at being a world power, unable as it is even to regulate the affairs of society within its own borders. Because the world

is not presently threatened by the prospect of nuclear war between the superpowers, we should enjoy a level of geo-strategic stability.

But this does not bring us into a "unipolar" world, as some assert. Certainly America's military power is overwhelming compared to any other nation. Yet, despite America's worldwide power and interests, we are no longer able to dominate the international scene as we could before. Our economic strength relative to other countries has diminished. The dollar is no longer king. And we cannot dictate to other countries how they should behave.

We are moving instead to a multipolar world, characterized by a number of states, perhaps as many as nine or ten, each of which is strong enough to make itself heard on regional affairs and several of which will be important world powers. Obviously Germany and Japan will be in the latter category. France, Britain, Italy, India and China will also play measurable roles. So too will a reconstituted Russia and perhaps the Ukraine, though the impact of each will be limited until the early years of the next century. To this list must be added a reunited Korea, Indonesia, Brazil and perhaps South Africa and Iran.

History suggests that stability will be more difficult to achieve in a multipolar world. Thus risks, whether for statesmen or businessmen, will increase. A multipolar state system is inherently less stable than a bipolar one. Europe lived under a multipolar system from the Treaty of Westphalia in 1648 to the end to the Napoleonic Wars. Considering the dismal history of those 150 years, it would be charitable to say that the multipolar system was not a great success. Because the game of states was played with many power centers, relations among countries were fluid and difficult to predict. Miscalculations were easier to make—and were made. Deterrence was harder to establish—and it often failed. Too often there were strong incentives for aggression. For 60% of the time since 1648 the Great Powers have been at war.

During the 19th century, from the Congress of Vienna to the outbreak of the first World War, Europe lived under a balance of power system. A balance of power requires that a relatively small number of countries interact in a geographically restricted area. Too many nations and the calculations of balance become impossible; too few and the situation becomes a zero sum game in which one nation's achievements become another's loss. In this system hegemony, not equilibrium, becomes the object of international politics. Although the balance of power is maligned in America today, the system worked and gave the world a century without a major international war.

The breakdown of the 19th century order ushered in a major European civil war which lasted from 1914 to 1945. Only then, did the world re-establish a system wherein the interests of major powers were once again balanced. This often-criticized bipolar world of the last forty

years also worked. Smaller states were drawn into the orbit of the two superpowers via alliance structures. These in turn provided security and disincentives for aggression and destabilizing behavior.

Critics of the bipolar model assert that the superpower rivalry exacerbated local and regional conflicts, as nations chose up sides between America and the Soviet Union. Yet one could argue that the threat of superpower involvement was a powerful deterrent on regional and local conflicts. Local leaders were concerned that if their disagreements got out of hand, one or both of the superpowers would intervene. This fear played a role in damping down the spread of such conflicts. Moreover, the specter of escalating superpower involvement gave a strong impetus to international efforts to stop local conflicts quickly.

By this analysis, superpower disengagement could contribute to regional instabilities. Predatory regional powers may seek to exploit the power vacuums left behind, aggrandizing themselves at their neighbors' expense, as Iraq did in Kuwait, and Serbia in Yugoslavia. In sum, there is reason to conclude that the structure of post-Cold War politics will contribute to instability and risk.

### *B. Substantive Causes of Instability*

As if the structural problems of a multipolar world were not enough, a number of specific trends will contribute to political risk in the decade ahead. I would like to focus on just four.

#### 1. Nationalism

First, nationalism is on the rise. All the world's major powers are pushing more nationalistic foreign policies today than they were 10 years ago. This trend will continue and has implications for European and Asian stability.

Moreover, national feelings long dormant under a heavy hand of communism, are reemerging throughout the former Soviet Empire. One of the greatest tragedies of the Soviet Union was that its Republics were largely, but incompletely, organized along ethnic lines. During 400 years of Russian imperialism, many ethnic groups became mixed together in ways which will prove difficult to undo peacefully. Over 25% of the Soviet Unions population, some 70 million people, now live outside their ethnic homeland. One Russian in six does not inhabit Russia. Twenty percent of Ukrainians live outside the Ukraine. So as the ideological glue of international communism gives way, many peoples in the former Soviet Union turn automatically to nationalism as their organizing principle. It is certain that in the coming decade, ethnic tensions and violence will increase in the area of the former Soviet Union. We have seen only the beginning of the process—in Georgia, Tajikistan and Chechenya.

Self-determination, a fundamental principle of Western diplomatic policy since 1919, may add to instability by encouraging ethnic groups to seek their own political structures at the expense of others. Today only 10% of the world's countries are ethnically homogenous. So, despite growing ethnic identification, the preservation of a multiethnic model for nationhood is essential. The drama of Yugoslavia shows how hard this may be—a country with five nationalities, four languages, three religions and two alphabets. India, a nation rightly proud of its long democratic tradition, faces growing ethnic and sectarian violence. Sri Lanka is being torn apart by it.

## 2. Religious Extremism

If tolerance, in the form of democracy, might lead to instability in certain countries, religious intolerance may threaten others. Over the next ten years, religious extremism will contribute to a less peaceful world.

First, religious extremism can threaten relations between nations. For example, Iran has not yet emerged from its revolutionary period. Until it does, that country will continue to be a cause for justifiable concern among its neighbors, particularly the Arab states of the Gulf and perhaps also Turkey. Iraq's continuing domestic problems offer the religious extremists in Tehran another tempting target. Likewise, the Islamic terrorist government of Sudan poses a threat to its neighbors. If the Islamic extremists came to power in Algeria, that country would unsettle its neighbors.

Religious intolerance may also produce profound political shocks within countries, even to the point of threatening their internal cohesion. I spoke of India, where extreme Hinduism has grown dramatically in the last five years. Hopefully, the elections this April will show extremism has peaked as a force there.<sup>1</sup> Some Arab countries, notably those of the Maghreb—already Tunisia and Algeria and, perhaps in the future, Egypt—will be susceptible to Muslim extremism. In Israel, a fundamentalist Jewish interpretation of Biblical history complicates both the country's politics and international relations. Prime Minister Rabin's assassination is the most recent reminder.

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1. The Bharatiya Janata Party (BJP), which includes extremist Hindu elements, emerged as the single biggest party in India's elections. However, its coalition government lasted only twelve days before resigning in the face of a no-confidence vote. See Christopher Thomas, *India Premier Resigns After Party is Routed in Elections; Rao Quits as Ruling Congress is Shamed by Third Place Finish*, SAN FRANCISCO EXAM., May 10, 1996, at A2; *Monthly Review—Landmark Elections in Israel and India in May*, REUTERS WORLD SERVICE, June 1, 1996.

### 3. Proliferation of Weapons

Another source of instability and risk is proliferation of dangerous weapons and technologies. Unfortunately, science will continue to make available lethal weapons and the means to deliver those weapons across increasingly great distances, with improving accuracy.

In the years ahead, aspiring regional leaders will have at their disposal an awesome arsenal of weapons. Already nuclear, biological and chemical technology has spread to many countries. Yet the world looked the other way when Libya, Iran and Iraq used chemical weapons. Worse, the weapons work. Chemical weapons may have determined the outcome of the Iran-Iraq War. That lesson has not been lost on regional powers.

The Gulf War provided a number of unsettling lessons. One lesson was that the world's fifth largest army was no match for a highly technological army like ours—at least as long as the war was fought only with conventional weapons. Another lesson is that the international inspection regime, laboriously constructed over almost thirty years to prevent the spread of nuclear weapons, is a failure. Saddam Hussein was able to acquire a significant nuclear capability and to keep most of this program secret from the International Atomic Energy Agency and Western spy organizations *even after* the United Nations had been given *carte blanche* to investigate on the ground. The implication is that a country with a well-educated cadre and financial resources will be able to acquire nuclear weapons unless the international inspection and control regime is radically improved.

Controlling the spread of chemical and biological technology will be even more difficult. In both cases, legitimate economic and commercial activities are difficult to distinguish from illegitimate programs. A fertilizer plant can very quickly be retooled to produce lethal chemical agents. A pharmaceutical factory can easily disguise the production of biological materials. Modern technology easily jumps international boundaries. It was discovered two months ago that someone had put an accurate formula for the production of the deadly virus anthrax on the Internet, free for the taking by anyone who logged on. In sum, local and regional conflicts are likely to be more prevalent in the coming years and also more lethal.

### 4. Terrorism

In case this has not sufficiently depressed you, there will also be continued terrorism interacting with several of the other trends I mentioned.

Over the past two decades, terrorism sprung largely from unfulfilled Palestinian aspirations in the Middle East and from radical fringes of Western societies (groups like Action Directe in France, the Baader-

Meinhof Gang in Germany, and the Weathermen in the United States). The radical left groups, with some important but small exceptions, have been contained by good intelligence and relentless police work.

On the other hand, terrorism in the Middle East is likely to continue in the years ahead. It is a special paradox of the region that whenever in the past 45 years there has been progress toward peace there, terrorism increases (as we have seen over the past two weeks in Israel). That is because the radical groups do not accept that there can be a negotiated outcome. Their objective is to destroy Israel. So when talks or peace conferences start up, the terrorists' objective is to derail the process, by using terrorism to kill either Israelis (to undermine domestic support for the talks) or Arabs (to warn them of the price of accommodation). We can hope that if peace can finally be established in the Middle East, these criminals will be marginalized and eventually defeated.

Ethnic terrorism grew rapidly in the 1980s—in Spain, in Sri Lanka and in Peru. It is the one kind of terrorism against which the international community has had little success. Ethnic terrorism is particularly difficult to combat because the terrorists usually find safe refuge among fellow tribesmen and are therefore difficult to identify and control. And yet, given increasing ethnic tensions in the years ahead, ethnic terrorism will certainly spread. The most likely candidates are the string of countries located along the Southern rim of the former Soviet Union where ethnic and, in some cases, religious hatreds run deep. Already Russia has faced increased Chechen terror. There will be more.

Finally, terrorists will probably seek to use modern technology in more sophisticated attacks. Already laser targeting devices and long-delay fuses have been used. We have already seen the first, and ominous, major acts of chemical terrorism in the Tokyo subway system.

For all of these reasons, it is likely that, rather than ushering in a new era of peace and stability, the collapse of communism and the Russian Empire will coincide with a new period of instability. Or, one might say that the collapse of the Soviet Union was the answer to our prayers. It just wasn't the answer we prayed for.

### III. ASSESSMENT OF RISK

What can a businessman or woman do to investigate potential risks in the post-Cold War world? First, he must understand the nature of the risks—political and economic. And then he must assess those risks on a country-by-country basis.

The main *political* risks are:

1. Political and social instability or unrest caused by:
  - a. poor economic conditions;
  - b. religious, ethnic or national strife;

- c. dissatisfied elites or middle classes; and
- d. regional disparities or rivalries.

- 2. Civil war
- 3. International war

The main *economic* risks are:

- 1. slow real economic growth (economic growth too slow to keep up with population growth, at a minimum);
- 2. uneven distribution of wealth (by class, region, ethnic group, etc.);
- 3. uncontrolled inflation;
- 4. currency devaluations;
- 5. nationalization of private/foreign-owned enterprises;
- 6. default on national debt;
- 7. corruption;
- 8. undeveloped or underdeveloped body of commercial law or commercial court system.

While I have separated the political and economic risks into two discrete categories, it is obvious that there is an interplay between them. A country with poor economic growth is vulnerable to political and social unrest. A country with a brittle, undeveloped political system is less able to cope with the fluid demands of a global economy.

In sum, any businessman or woman contemplating serious overseas activities in the post-war world will need the analytical skills usually associated with diplomacy. Just as our diplomats, to be effective, in promoting American interests will need to be more knowledgeable about business.

#### IV. CONCLUSION

I realize that this presentation has been rather somber. But since I was asked to focus on the risks of international business in the post-Cold War era, I have necessarily emphasized potential problem areas. Nonetheless, the basic fact is that the world is a much safer place today than it was 10 years ago. And a much larger portion of the world understands that markets, not governments, are better arbiters of economic progress. There will be huge opportunities for businesses in the years ahead.

But this will be a turbulent decade. Many of the forces which dominate today's headlines will see to that—nationalism, ethnic strife, terrorism and religious extremism. For the past 45 years, the world avoided global war because there was a relative balance between two competing visions of society and their advocates. As the world's superpowers, America and Russia pulled into their respective orbits the countries of Europe and Asia, forming alliance systems which contributed to stabilizing those regions. True, war raged, more than 160 of

them by one count, in those years. And some 16 million people were killed. But the bipolar system did help contain most of those conflicts and the unimaginable consequences of a nuclear war were avoided.

The collapse of that bipolar system presents today's statesmen with an enormous challenge, at least as great as that faced by the post-Cold War leaders: how to assure that a new equilibrium is struck, one which takes into account the vigorous new forces at work while seeking to limit and contain the inevitable differences among nations. Businesspeople, too, have a huge stake in the outcome, for success or failure will dramatically impact the risks of doing business abroad.

