Learning Module 5: Introduction to Geopolitics

LOS 5b: describe geopolitics and its relationship with globalization

Globalization is the interaction and integration of individuals, organizations, and governments on a global scale. It is characterized by the cross-border movement of goods, information, employment, and culture.

Globalization allows businesses to find the most optimal inputs for their products, whether in relation to quality or cost-efficiency. Moreover, globalization paves the way for global investors to engage in various aspects like engineering, production, supply chain management, and logistics.

Features of Globalization

Recall that political cooperation and non-cooperation serve as a perspective to evaluate geopolitical entities, mainly those at the national or state level. However, globalization emerges primarily from economic and financial collaborations, driven predominantly by non-state actors like corporations, individuals, and organizations.

Globalization is characterized by economic and financial cooperation, such as active trade of goods and services, capital flows, currency exchange, and cultural and information exchange. Actors involved in globalization are inclined to look outside their country for access to new markets, talent, or education.

Anti-globalization or nationalism is the promotion of a country's economic interests at the expense of or in opposition to those of other nations. Nationalism is characterized by limited economic and financial collaboration. Actors under this umbrella tend to prioritize domestic production and sales, minimize cross-border investments and capital movements, and limit foreign currency transactions.

Collaboration and globalization frequently go hand in hand (correlated). This means that political cooperation can promote or hasten globalization. Nonetheless, globalization also occurs in isolation.

Motivations for Globalization

Three potential gains from participating in globalization are:

i. **Increasing profits**: There are two ways in which this can happen:
   - **Increasing sales**: This can be done by selling one's products or services in new geographical regions.
   - **Reducing costs**: This can be done by sourcing cheaper inputs from different countries.

ii. **Access to resources and markets**: Companies looking for long-term access to resources such as people or raw materials may need to work together. They eventually end up globalizing to have access to these resources.

iii. **Intrinsic gain**: An activity's intrinsic gain is a byproduct or consequence that results in a benefit that overlaps profit. Accelerated productivity as a result of learning new techniques is a good example.

Costs of Globalization

Potential disadvantages of globalization include:

Unequal Accrual of Economic and Financial Gains

Jobs are created in a foreign country if a company moves a manufacturing plant to that country. Consequently, this may occasion job losses in the home country. In addition, the foreign country's businesses may have to compete with the corporation for workers and resources.

Lower Environmental, Social, and Governance Standards

Companies that operate in low-cost nations frequently adhere to the local regulations in those nations. Globalization can deplete human, administrative, and environmental resources if standards are lower in one country than in another. Under such circumstances, businesses ultimately lower their production standards.

Political Consequences

Globalization can lead to income and wealth inequality, as some countries gain jobs while others lose them due to businesses moving abroad. This inequality can reduce political and economic cooperation.

Interdependence

Increased economic and financial cooperation could make businesses more reliant on foreign resources for their supply chains. This, in turn, could make countries more reliant on foreign countries for certain resources.

Threats of Rollback of Globalizations

There has been an international threat of deglobalization since 2008, when America started a series of "America First" initiatives. These policies have their roots in nationalism, isolationism, and worries for the security of the country and the economy. Multinational firms are reluctant to alter their procedures in the face of immediate conflicts brought about by these policies that might be settled in the long run.

Even with the ongoing discussions about deglobalization, it seems implausible to completely undo globalization. The following techniques are employed by these businesses to strengthen their supply chains:

i. **Reshoring Essentials**: Encompasses the creation of local supply chains for vital goods to address emergencies effectively.
ii. **Reglobalizing Production**: Involves replicating and bolstering supply chains to ensure greater robustness in production networks.
iii. **Doubling down on Key Markets**: Involves expanding production in countries with

significant market presence while concurrently integrating external supply chains.

Question

Which of the following is least likely a motivation for globalization by non-state actors?

A. Intrinsic gain.
B. Currency exchange.
C. Access to resources and markets.

The correct answer is **B**.

Currency exchange is a characteristic of globalization but not necessarily a motivation for globalization by non-state actors.

A is incorrect. Intrinsic gain is a motivation for globalization by non-state actors. It is a side effect of an activity that generates a benefit beyond the profit itself. An example of an intrinsic gain is accelerated productivity that stems from learning new methods. Other motivations include increasing profits and access to resources and markets.

C is incorrect. Access to resources and markets such as talent and raw materials is a motivation for globalization by non-actors. Non-actors may also globalize to access market and investment opportunities.

LOS 5c: describe functions and objectives of the international organizations that facilitate trade, including the World Bank, the International Monetary Fund, and the World Trade Organization

The global trade decline in the 1940s had some negative impacts. The living standards of people fell, and unemployment became a chronic issue. Because of this, there was a need to create international organizations to oversee economic relationships among countries.

As a result of the July 1944 conference, two main multinational organizations emerged: the World Bank and the International Monetary Fund (IMF). Later, the International Trade Organization was formed to handle the trade side of the international economic organization.

International Monetary Fund

The IMF lends foreign currencies to its members to aid them during periods of crisis or important external deficits. The pool of gold and currencies contributed by members enabled this operation to succeed. The IMF's main job is to maintain the stability of the international monetary system. This system allows countries to trade goods and services by managing exchange rates and international payments.

Other objectives include:

- Acts as a platform for discussing international monetary issues.
- Encourages the expansion of global trade and champions job creation, economic development, and the reduction of poverty.
- Advocates for stable exchange rates and a transparent international payment system.
- Offers foreign currency loans to its members on a short-term basis with appropriate protections, assisting them in managing balance of payments challenges.

The IMF has expanded and redefined its operations since the global financial crisis of 2008 by:

- **Strengthening lending facilities**: The IMF has increased member nations' access to funding resources and simplified its lending approach to mitigate the negative perception of borrowing for countries seeking financial assistance.

- **Enhancing global, regional, and country economic monitoring**: The IMF has refined its oversight of worldwide, regional, and national economies, enhancing its ability to guide member states.
- **Addressing Global Economic Disparities**: The IMF facilitates discussions among nations using a shared framework to tackle global economic imbalances.
- **Evaluating Capital Market Trends**: The IMF has allocated more resources to scrutinizing global financial markets and delivers training to national officials on effective financial system management.
- **Identifying Financial Sector Weaknesses**: Through its assessment program, the IMF alerts countries to vulnerabilities and potential risks in their financial sectors.

The World Trade Organization

The World Trade Organization is unique because it's the only organization regulating cross-border trade relationships globally. Consequently, it replaced the General Agreement on Tariffs and Trade (GATT) of January 1995. However, the GATT still exists in the form of its 1994 version.

The functions of WTO include:

- Administrate, implement and operate individual agreements, solve disputes, and act as a platform for negotiations.
- Ensure transparency of trade policies by supervising global policy settings.
- Provide training and cooperation to low-income, least-developed countries. As a result, this helps them adjust to the rules of the WTO.
- Act as a source of economic analysis and research.

World Bank Group

World Bank Group's main objective is to enhance a good environment for normal economic growth and help developing countries curb poverty.

For growth and business appeal in developing nations, it's essential to:

- Enhance governmental structures and train their officials.
- Establish legal and judicial frameworks that are conducive to business.
- Safeguard personal and property rights and uphold contractual agreements.
- Build strong financial infrastructures to cater to needs from micro-loans to substantial corporate financing.
- Address and mitigate corruption.

Given the above requirements, the objectives of the World Bank Group include:

- Provide funds for projects in developing countries and financial and technical expertise aimed at helping those countries fight poverty.
- Ensure the capabilities of its partners, people in developing countries, and its own staff.
- Provision of analysis, advice, and information to its member countries to enable them to achieve the Lasting economic and social improvements their people need.
- Help create economic infrastructures to set up domestic financial markets and a well-functioning financial industry in developing countries.

Question

Among these trade organizations, which one regulates cross-border trade relationship.
across the globe?

A. World Bank Group.
B. World Trade Organization.
C. International Monetary Fund.

Solution

The correct answer is **B**.

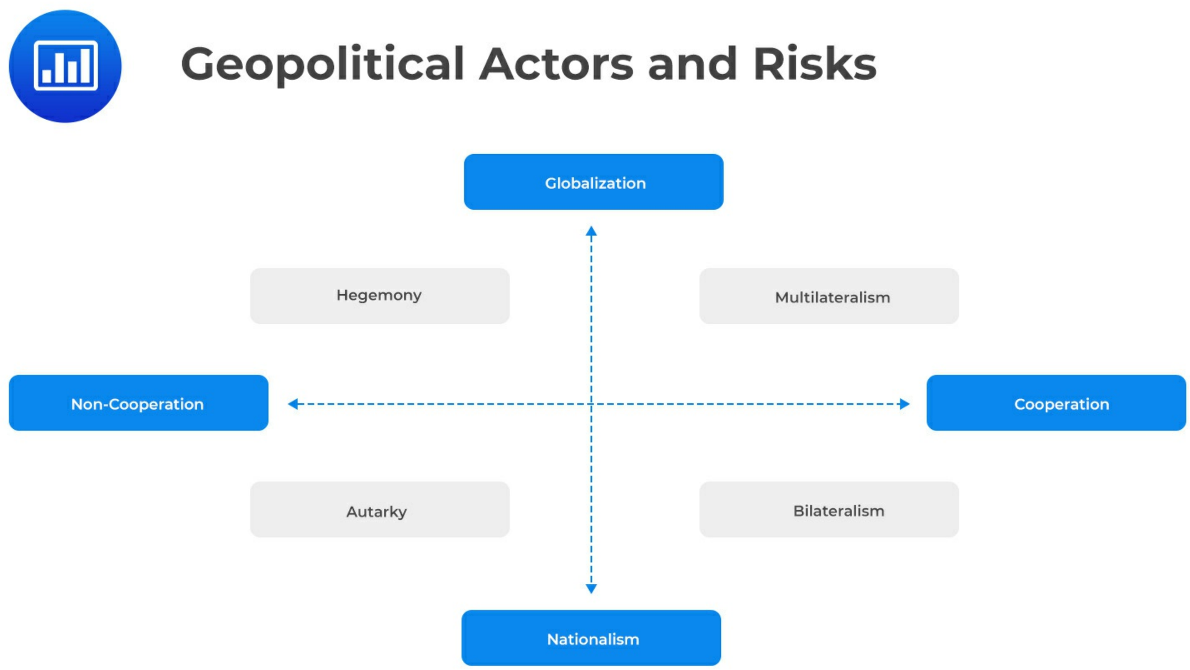
The World Trade Organization is the only organization that is in charge of cross-border trade.

LOS 5d: describe geopolitical risk

Geopolitical risk is the risk posed by tensions or acts between parties that impact the regular and peaceful development of international relations. When the geographic and political elements influencing country relations change, geopolitical risk increases. A change in legislation, a natural disaster, a terrorist attack, a heist, or a conflict could all result in a geopolitical risk shift.

Archetypes of Country Behavior

Based on political cooperation versus non-cooperation and globalization versus nationalism, there are four archetypes of country behavior: Autarky, Hegemony, Multilateralism, and Bilateralism.



Autarky

This refers to nations with little foreign trade or financing and seeking political independence.

Since they are self-sufficient, autarkic nations can exert complete control over the flow of products, services, and technology. This makes them politically stronger.

During times of autarky, a nation's political and economic growth can advance more quickly. A case in point is China in the 20th century. However, it can also result in a gradual loss of economic development. North Korea qualifies as a good example in this regard.

Hegemony

Hegemonic nations often lead regions or the world, exerting political and economic control to secure resources. Countries aligning with the hegemon gain access to the benefits it provides.

A country with a hegemonic system can influence global affairs, while countries aligning themselves with the hegemon's rules may enjoy rewards from the global leader. However, as a hegemon's influence dwindles, it may become more competitive and consequently increase geopolitical risk. An example is Russia's influence on natural gas supply, which influences countries that rely on its natural gas.

Multilateralism

These are nations that engage in rule harmonization and mutually beneficial trade agreements. Their businesses have several trading partners and are totally linked to global supply chains. A good example is Singapore. Among other benefits, multilateralism allows a country to access resources and markets globally.

However, such a country may become highly dependent on international cooperation for its economic growth. This makes them more vulnerable to geopolitical risk.

Bilateralism

Bilateralism is the practice of two nations cooperating in the political, economic, financial, or cultural spheres. Even though bilateral agreements are made one at a time, governments that engage in bilateralism may have relationships with several distinct nations.

Japan was once a bilateral country that built a strong export market for its products. Bilateral agreements are not enough to deal with global issues such as global tax avoidance.

LOS 5e: describe tools of geopolitics and their impact on regions and economies

Geopolitical tools refer to methods used by geopolitical actors to pitch their interests before others. The tools an actor chooses to use are ultimately the sources of geopolitical risk.

Tools of geopolitics may be separated into:

i. **National Security Tools**: Tools for national security are those that are used to exercise direct or indirect control over a state actor's access to resources, citizens, or borders. National security tools can either be active (used at the time of analysis) or threatened (not currently used, but their use is likely sufficient to call for concern). Armed combat is one example. This has two primary effects:
   - The destruction of physical infrastructure.
   - The migration from areas of armed conflict.

ii. **Economic Tools**: These are the steps used to support cooperative or non-cooperative positions through economic means. Common markets, global tariff rule harmonization, and multilateral trade agreements are examples of economic tools. Economic instruments may also be inherently non-cooperative. A non-cooperative strategy for establishing economic power is nationalization.

iii. **Financial Tools**: These are the measures taken to support cooperative or non-cooperative positions using financial mechanisms. They include enabling international investment and free currency exchange across borders, as well as restraining foreign investment and limiting access to local currency markets.
   Financial instruments may lower geopolitical risk if they promote collaboration. These same instruments may also lead to weaknesses in the global system by rendering other nations susceptible to changes in other nations' policies. An example would be the vulnerability to US monetary policy changes of countries that trade internationally using the USD.

Multi-Faceted Approaches

It is possible to combine cooperative political, economic, and financial systems. An example is cabotage. Cabotage allows a foreign firm to transport goods and passengers within a country. Numerous nations, even those that have multilateral trade agreements, place limitations on cabotage in all areas of transportation since cabotage requires coordination in areas like economic coordination and physical security.

International organizations may utilize a variety of geopolitical tools to achieve their goals. Many geopolitical actors are more likely to use cooperative tools and not non-cooperative tools/ initiate conflicts with other actors.

Question

Which of the following would *least likely* be classified as a geopolitical tool?

A. Natural tools.
B. Financial tools.
C. Economic tools.

The correct answer is **A**.

Natural tools are not geopolitical tools. Geopolitical tools are devices used by geopolitical actors to reinforce their interest with respect to others. There are three types of geopolitical tools that geopolitical actors use: national security, economic, and financial.

B is incorrect. Financial tools are geopolitical tools used by geopolitical actors. They are used to reinforce cooperative and non-cooperative stances via financial mechanisms such as free exchange of currencies across borders or limiting access to local markets.

C is incorrect. Economic tools are geopolitical tools used by geopolitical actors. They include multilateral trade agreements or common markets

LOS 5f: describe the impact of geopolitical risk on investments

The degree to which investors consider geopolitical risk when making decisions will significantly depend on their investment goals and risk appetite. While certain investors may welcome geopolitical risk, it may also be shunned by others in their decision-making process.

Types of Geopolitical Risks

The three primary types of geopolitical risk are:

i. **Event Risk**

   Event risk is based on predetermined dates, such as elections, the enactment of new laws, or other date-based events, such as festivals or political anniversaries. Investor expectations frequently shift as a result of political events. Political timelines are a common starting point for risk analysts when evaluating event risk.

ii. **Exogenous Risk**

   Exogenous risk is an abrupt or unplanned risk that affects a nation's willingness to cooperate and non-state actors' capacity to globalize. Unexpected revolutions, invasions, or the aftermath of natural calamities are a few examples.

iii. **Thematic Risks**

   Thematic risks are risks that are known, and they grow and evolve with time. Examples include the persistent danger of terrorism, climate change, migratory patterns, the emergence of populist movements, and cyber threats.

Evaluating Geopolitical Threats

In the financial environment, geopolitical risk is constantly present and has various effects on assets. An investor evaluates geopolitical risk in terms of the following three categories:

i. **Likelihood It will Occur**

The likelihood of the occurrence of risk is the possibility that it will materialize. The procedure of measuring likelihood is, however, difficult.

More collaborative and globalized nations are generally less likely to incur geopolitical risk due to higher political, economic, and financial costs incurred by the partners inflicting those risks. However, the same countries may also be more vulnerable to certain risks. For instance, risks that affect the countries they cooperate with may also affect them.

Internal political stability, economic need, and governmental actors' motivations all contribute significantly to the likelihood of disruptive action.

ii. **Velocity (Speed) of its Impact**

This is the rate at which geopolitical risk affects an investor's portfolio. We will look at short-term or "high velocity", medium-term, and long-term or "low velocity".

Short-term or high velocity may have an impact on the entire market. Exogenous or “black swan” events will likely fall under this classification. Black-swan events are unusual, unpredictable incidents that have a significant impact, for example, a world war.

Risks that have a medium-term impact may affect business operations, expenses, and investment prospects, resulting in reduced valuations. They often target particular industries and affect some businesses more than others.

Long-term risks might significantly affect the environment, society, government, and other areas. Long-term risks may make investors change their asset allocations. Their immediate effect on portfolios is, however, likely to be less significant.

Note: Some risks may affect investments with more than one speed of impact.

iii. **Size and Nature of that Impact**

The effects of risk on investor portfolios might take many different forms. When evaluating the significance of a risk to the investing process, investors should consider the magnitude of the risk's impact. A high risk may require a deep analysis of its drivers and motivations whereas a low impact risk may not require as much analysis.

The nature of the impact might be discrete or broad. A discrete impact is one that only affects one business or industry at a time. A broad impact, on the other hand, affects an entire industry, a nation, or the whole global economy.

Investors should consider all three geopolitical risk factors—likelihood, velocity, size, and nature of impact (together)—when evaluating geopolitical risk for portfolio management.

Note: A risk that is extremely probable but has minimal effect on a portfolio may not warrant in-depth research and investor attention. However, a risk that is less likely to occur but whose impact will be high may necessitate building a scenario for response, but without regular monitoring and assessment

Impact of Geopolitical Risk

The effect of risks on investment portfolios can present itself in numerous ways. As such, investors need to evaluate the magnitude of a risk's influence when determining its relevance in the investment process. High-impact risks warrant extensive study, while low-impact risks do not. External factors may also increase the size of a risk's impact, for instance, risk will have more impact on markets experiencing contraction or economic downturn.

The impact of geopolitical risks can be classified as **discrete** (impacting a specific company or sector) or **broad** (affecting larger sectors, countries, or the global market).

In managing portfolios with geopolitical risks in mind, investors should collectively consider all three geopolitical risk factors (likelihood, velocity, and size and nature of impact). A risk that's very probable but has minor implications might not require detailed scrutiny. Conversely, a risk with substantial consequences but a low occurrence chance might necessitate response planning without constant oversight.

Because geopolitical risks rarely develop in a linear fashion, we use scenario analysis and signposting (and not a single-point forecast) to monitor their likelihood, velocity, and impact on a portfolio.

Scenario Analysis

Scenario analysis is the analysis of portfolio outcomes across various situations or states of the world to help teams understand their position with respect to a risk that might affect them. By understanding their positions, teams can make good investment decisions at opportune times.

Scenario analysis might be qualitative, quantitative, or a combination of the two.

Creating a base case for an event is the first step in a simple qualitative scenario development. Investors can then think about the positive and negative possibilities from there to create best and worst-case scenarios.

The complexity of quantitative scenarios might vary greatly. A stylized scenario is a type of simple quantitative scenario in which a portfolio's sensitivity is evaluated in relation to one important aspect that is significant to it. Such an aspect could be interest rates, asset prices, or exchange rates.

Scenario construction is a great technique for tracking risks and determining valuable portfolio actions to take. However, it requires investors to consistently commit their time and efforts.

Tracking risks using signposts

A signpost is an indicator, a piece of data, or an event suggesting that risk is becoming more or less likely.

A signpost is analogous of a traffic light. If both quantitative and qualitative data indicate that a risk is minimal in terms of likelihood, velocity, or impact, then the signposts display a green signal, implying no immediate action is necessary. If the color changes to amber (suggesting a moderate level of risk in terms of likelihood, speed, or impact) it might be prudent to exercise increased caution and readiness for that specific risk. If a risk increases in terms of likelihood, velocity, or impact (turns red), it might be essential to formulate a response strategy.

The ability to recognize signposts should enable a team to distinguish between signal and noise and respond when signposts indicate increased risk. It might be difficult to find the correct signposts without some trial and error. It is therefore important for investors to differentiate between policy and politics. For instance, two leaders can differ politically but the policies they enact are the ones that will create a more durable portfolio impact.

Certain combinations of economic and financial market conditions can act as clear indicators of impending trouble. For instance, increased inflation and declining employment may indicate political turmoil.

Manifestations of Geopolitical Risk

Geopolitical risk can have different impacts on investor portfolios. High-velocity risks will manifest in market volatility through prompt changes in asset prices such as commodities, foreign exchange, stocks, and bond prices.

Low-velocity risk can lead to extended effects on investor inputs. Persistent disturbances can cause reduced revenue, increased expenses, or a combination of both, potentially diminishing a company's valuation.

Investors require higher compensation for their investments in countries or sectors perceived to be more prone to geopolitical risk.

Acting on Geopolitical Risk

Assessing a risk's likelihood, velocity, and impact might assist an investor in isolating the risks that may be the most significant.

Asset allocators can use a top-down approach to consider geopolitical risk in their asset allocation strategy. Risks' likelihood, velocity, and impact may impact key capital market assumptions and an asset allocator's positioning in some countries or regions.

Investors might consider geopolitical risk in multi-factor models at the portfolio management level.

The importance of geopolitical risk to an investment process is dependent on an investor's objectives, risk tolerance, and time horizon.

Question

Which of the following geopolitical risks is most likely a known risk that evolves and expands over a period of time?

A. Event risk.
B. Thematic risk.
C. Exogenous risk.

The correct answer is B.

Thematic risk is a type of geopolitical risk that is known, evolves, and expands over a period of time. Examples include climate change and ongoing threats of terrorism.

A is incorrect. Event risk is a type of geopolitical risk that revolves around set dates or date-driven milestones such as elections or political anniversaries.

C is incorrect. Exogenous risk is a type of geopolitical risk. It is a sudden or unanticipated risk that impacts a country's cooperative stance or the ability of non-state actors to globalize. Examples include invasions and sudden uprisings.

LOS 5a: describe geopolitics from a cooperation versus competition perspective

Geopolitics examines how geography influences national and international relations. Analysts in this field examine actors, including individuals, organizations, companies, and national governments, that engage in political, economic, and financial activities and their interactions.

State and Non-State Actors

The two main types of actors relevant to geopolitics are:

1. State actors.
2. Non-state actors.

State Actors

State actors often exercise authority over a nation's national security and resources. They do so through national governments, political groups, or country leaders. State actors include presidents, heads of government, and political parties.

Non-State Actors

Non-state actors engage in international political, economic, or financial activities without direct access to a nation's resources or security. Examples of non-state actors include non-governmental organizations (NGOs), multinational corporations, charitable groups, and even influential people such as corporate executives or cultural celebrities.

State and non-state actors are influenced by their relationships and factors impacting their allies and foes. As such, the international landscape consists of complex relationships that impact events, decisions, and financial trends. While there is no universal model for geopolitical actors, identifying and classifying a country's challenges and prospects can assist in predicting potential geopolitical risks.

Moreover, we may be able to estimate the possibility of geopolitical risk by comprehending and classifying the risks and opportunities a nation faces. Economic, financial, and national security concerns, as well as social, cultural, and non-state actors, significantly impact nations and their governments.

Features of Political Cooperation

Cooperation is the process by which nations get together to collaborate toward attaining a common objective. Political cooperation is the degree to which countries work toward agreements on rules and standardization for the activities and interactions between them.

At the most fundamental level, interactions between nations or national governments (State actors) can either assume a **cooperative** or **competitive/non-cooperative** form.

A cooperative nation participates in and supports international accords on commerce, immigration, and regulation. In addition, such a nation embraces standardization of laws, tariff harmonization, and the free flow of information, including technology transfer.

On the other hand**, a non-cooperative** nation has erratic, often arbitrary policies and limits cross-border trade in capital, goods, and people. Aside from all these, a non-cooperative nation engages in retaliation and contributes little to technological exchange.

Reasons for Cooperations

Reasons why a country may cooperate with others include:

1. **National Security or Military Interest**: National security means safeguarding a country and its people, economy, and institutions from external threats like terrorism and natural disasters. Geographical factors play a significant role in a nation's approach to national security and its level of cooperation. For example, countries with strong trade connections, like Singapore, or those serving as trade hubs, like Panama, can impact global dynamics due to their strategic locations.

2. **Economic Interest.** Social stability, another crucial element of national security, can be enhanced by increasing national wealth and reducing income disparity. It is becoming more vital for national companies to operate globally than before. Countries collaborating for economic gains usually have two main goals: they want to create fair opportunities for their businesses worldwide or secure essential resources through trade.

3. **Geophysical Resource Endowment**: Geophysical resource endowment, like favorable geography and climate, along with access to food and water, is crucial for sustainable growth. Different countries have varying levels of these resources, with some being self-sufficient and others heavily reliant on others. These disparities can create power imbalances. Nations with plenty of these resources might gain political influence over those in need. But if these resources benefit only certain groups, it can lead to unrest within the resource-rich country.

4. **Standardization**: Standardization is the process of defining protocols for the manufacture, marketing, delivery, or usage of a good or service. There is a great need for governments to work with others on the harmonization of the norms of engagement. The agreement of all concerned parties to abide by these protocols amounts to standardization. Standardization can take a variety of shapes, including operational synchronization, process standardization, and regulatory collaboration.
    - An example of operational synchronization is containerization, in which case standards are set for containers to ensure uniformity in size and shape. This increases international trade by reducing costs and time of shipping goods.
    - An example of process standardization is the Society for Worldwide Interbank Financial Telecommunication (SWIFT), established to provide a global financial infrastructure. The fact that financial transactions across borders had become costly necessitated the establishment of SWIFT.
    - An example of regulatory collaboration is the Basel Committee on Banking Supervision (BCBS), established to facilitate better supervision of the global banking sector and international capital flows.

5. **Cultural Considerations and “Soft Power”**. Cultural factors may bind countries together. These include enduring political relationships, migration trends, common experiences, or cultural affinities. Countries may use soft power, a nonviolent method of swaying the actions of another nation, in their international engagements. Soft power can be developed gradually through initiatives such as cultural programs, advertising, travel scholarships, and university exchanges.

Hierarchy of Interests

The national interest of a country encompasses its goals and ambitions. For some countries, geography plays a major role in defining their national interests. This can include seeking self-determination, striving for independence, establishing clear national boundaries, or desiring territorial expansion.

Meanwhile, other countries perceive national interest in a broader context, factoring in the economic and social aspects mentioned earlier. This holistic perspective may lead to conflict among a nation's multiple critical priorities, making the analysis of geopolitical players and their intentions more complex.

A country's national interest can be thought of as a hierarchy with survival as the top priority and less crucial factors below. Governments use this hierarchy to guide their decisions, choosing cooperation when it benefits the nation. When conflicting interests arise, the higher-ranked interest takes priority.

As an illustration, while tariff alignment might favorably impact a nation, the collaboration could come at a significant price if the countries involved have military disagreements. Should military objectives rank higher in these countries' interest hierarchies, they might find it against their national interest to collaborate, notwithstanding any possible advantages.

Power of the Decision Maker

The national interest hierarchy may become less consequential in a scenario where the priorities of a new government differ from those of the government that preceded it. Further, the duration of a nation's electoral cycle significantly affects priority classification. Each of the political parties and individuals making decisions at the national level has its own set of interests and influences. It is crucial to appreciate that the motivations of decision-makers can influence a nation's cooperative and non-cooperative decisions.

The Role of Institutions

Institutions are established organizations in a society. They can manifest as formal entities, like universities and legal organizations. Conversely, they can also be informal, such as customs or behavioral patterns important to a society.

Not all institutions are born from government initiatives; they can also emerge from NGOs, charities, spiritual rituals, familial structures, the media sphere, political factions, and educational methodologies.

Solid and robust institutions often lead to a more predictable political climate both domestically and abroad. This predictability fosters a conducive environment for nurturing collaborative alliances.

Countries with robust institutions that focus on government transparency, the rule of law, and property rights gain more respect and independence on the global stage. These institutions not only strengthen alliances but also ensure the longevity of these partnerships.

Question

Which of the following is *least likely* a reason why a country may want to cooperate with others?

A. National security.
B. Economic interest.
C. Political self-determination.

The correct answer is **C**.

Political self-determination is a reason why a country may be non-cooperative. Countries where political self-determination is more important than the benefits of any cooperation take a non-cooperative stance.

A is incorrect. National security is a motivation for cooperation. It involves protecting the country from such external threats as military invasion, cyber-security, and natural disasters.

B is incorrect. Economic interest is another motivation for cooperation. Countries choose to cooperate to secure essential resources through trade or to level the playing field for their companies or industries.