

3 Key Elements for Successful Geopolitical Analysis



By [Jason Voss, CFA](#)



In a world of bewildering informational complexity, an understanding of the ways that people, power, personal preferences and geography converge to influence future trends is essential to management success. Studying these convergences is better known as geopolitical analysis. Careful application of the precepts of geopolitical analysis not only provides insight into current events, but also sometimes leads to accurate predictions of future events. To some degree, many investors appear to be aware that geopolitics is important.

Yet, in my experience, people often misunderstand geopolitical analysis, thinking that it is simply an awareness of the internal politics of a nation and how that affects overall global politics. Instead, geopolitical analysis is much more holistic. Despite its seeming surface-level complexity, an understanding of geopolitics leads to simpler, clearer, and more accurate predictions of globally important events. In other words, understanding geopolitics is one pathway to investment management success.

GEOGRAPHY

Geopolitical analysis takes into account a nation's geography and the inevitable consequences of that geography. Important examples include an examination of the constraints imposed on a nation by its natural resources, its ease of access to the outside world, and its internal transportation systems. For instance, if a nation has limited access to natural sources of energy, then a constant concern will be how the nation can get energy sources and what must be exchanged for that access. Further, landlocked nations have fewer natural trading partners than those that have access to seas and oceans, and being landlocked will likely lead to stunted economic growth and cultural peculiarities. As for internal transportation, consider that a geographical advantage of the United States is that it has navigable rivers that flow north and south as well as east and west. Because water transportation is much less costly than overland transport, the US has a permanent cost advantage compared with other major countries.

Geography also either blesses or curses nations with neighbors. Ukraine, for example, sits poised between two much larger, better-resourced entities: Russia and Europe. Furthermore, when considering some of the previously-mentioned constraints (and ease of access to the outside world in particular), you can see that Russia has a much larger vested interest in Ukraine than does Europe. Ukraine's location constrains Russia's access to the oceans and thus its ability to trade and project power globally. Additionally, because the border between Russia and Europe is a vast plain, Russia requires buffer states to secure its national boundaries. So, if Ukraine is not in Russia's orbit, access to Russia's heartland will be largely unobstructed by geographic obstacles, such as mountains. For all these reasons, Russia is permanently interested in Ukraine in a way that European powers, such as Germany, are not and in a way that is almost unimaginable to citizens of the United States.

In short, geography provides almost unshakable advantages and disadvantages for nations. For analysts, the permanent quality of geography provides high levels of predictability.

CULTURE AND HISTORY

Geopolitical analysis also considers the cultures and histories of nations and even peoples within nations. In this regard, culture and history are studied as living entities, not static ones. Often, past relationships among nations and peoples are undifferentiated from the flow of current events — the cultural course, once set, is hard to change. Put another way, alignments and differences between cultures are hundreds of years in the making and their inertia allows for a high level of predictability in analyses. For example, knowing the cultural and historical enmity between Turkey and Greece allows an analyst to better assess the likelihood of Turkey's admittance into the European Union. Or an understanding of the Chinese and Japanese cultures and their mutual histories allows a deeper understanding of why China might balk at Japan modifying its constitutional stance on national defense.

NATIONAL NEEDS AND EXPECTATIONS

Geopolitical analysis also relies on an understanding of a people's basic needs as well as expectations about basic needs. Expectations about needs are largely created by a nation's geography, its history, and the resulting culture. Understanding differences in expectations about basic needs helps to explain why different countries, such as Brazil and Luxembourg, have different national agendas. In other words, geopolitical analysis treats a nation's politics as almost entirely determined by its unchanging geography, its unchangeable history, its long-lived cultural distinctions, and the expectations of people about what qualifies as basic needs. Basic needs of Russia include its famous need for access to a warm-water port and its need for energy to heat homes during its long winters.

APPLYING GEOPOLITICAL ANALYSIS

For a concrete example of how geopolitical analysis works, consider how it would apply to Greece. First, consider its geography and the constraints of that geography. Greece occupies a very mountainous peninsula with very little arable land and few natural resources, yet it rests in the middle of one of the world's most important seas, the Mediterranean. Because mountains protect and insulate a nation, it is not surprising that Greece as a nation has retained a distinct cultural identity through thousands of years and that it has been conquered only via sea invasion. Further, Greece's lack of natural resources and its mountainous terrain constrain its capital base. (Lenders would want to factor this in before lending!) Given that Greece cannot be an important exporter of agriculture or of natural resources, you would expect Greece to be an exporter of culture and for its economy to be based on its unique geographical position, poised as it is in the middle of an important sea. Not surprisingly, the Greeks throughout history have been known for their seafaring, and they are still one of the world's leading shippers.

From the 14th through the 19th centuries, the Ottoman Empire (now Turkey) occupied Greece. Thus, you could reasonably expect the history of Greece and Turkey to be one of mutual suspicion and enduring enmity. This observation helps one to understand the politics of Cyprus, a nation divided by the Greeks and the Turks. Greece's geography and consequent capital-base constraints also make it a natural candidate for allegiances that protect the nation. Again, analysts using geopolitical analysis would not be surprised that the nation has partnered with more powerful nations since the ancient classical period of its history.

A similar geopolitical analysis can also illuminate potential global hotspots. The narrow Strait of Malacca is the seaway used to deliver much of China's energy. Given China's growing energy needs, analysts should expect China to be focused on the nations around the Strait and for those same nations to be thinking carefully about China. Will there be a conflict in this region? It is impossible to absolutely predict such an outcome, but given the constraints of geography, culture, history, and expectations about needs, you can reasonably conclude that a conflict is likely in the future.

The world is ever more interconnected by the global networks of transportation, communications, culture, and capital. An understanding of the nature of these interconnections, as illuminated by geopolitical analysis, is an important part of the future success of investment managers.