

POLITICAL RISK ASSESSMENT III

ANTICIPATING POLITICAL RISK



MICHEL-HENRY BOUCHET
CIFE SEMINAR ROMA-BERLIN-NICE 2023

1

1

TECHNIQUES TO ASSESS & MEASURE POLITICAL RISK

1. Economic intelligence: in-depth socio-political analysis
2. Checklist approach
To examine key political factors that affect a country's risk:
the **Prince Model**
3. Delphi technique
 - establish surveys
 - collect information and independent opinions
 - analyze results and make predictions
4. Ratings
5. Consultants on political risks



Michel H. Bouchet/SKEMA-CIFE 2023

2

1. INFORMATION SOURCES ON POLITICAL RISK: THE KEY ROLE OF **ECONOMIC INTELLIGENCE**

- | | |
|---|--|
| <ul style="list-style-type: none"> • MIG (UK) • HISCOX • PLATUS • AON • Global Risk Assessments <ul style="list-style-type: none"> • EIU • COFACE, OPIC & MIGA, EULER • Howell International • Control Risks Group: www.crg.com <ul style="list-style-type: none"> • WMRC • Freedom House | <ul style="list-style-type: none"> • Frost & Sullivan • US State Department + US CIA <ul style="list-style-type: none"> • Marsh Crisis Consulting • University of Maryland Center for Conflict Management • Muir Analytics (Threat Watch, Threat Report, Threat Survey) <ul style="list-style-type: none"> • NYA International <ul style="list-style-type: none"> • PRS-ICRG • TAC (France) |
|---|--|

Michel H. Bouchet/SKEMA-CIFE 2023

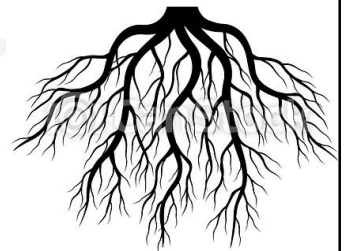
3

3

2. POLITICAL RISK ANALYSIS

Mapping out the **power structure** and identifying the roots of political legitimacy:

- ▶ ideological (North Korea)
- ▶ charismatic (Cuba, Venezuela, Nicaragua)
 - ▶ economic/financial (Brunei)
 - ▶ authoritarian populism (Thailand)
 - ▶ ethnic (Ivory Coast, Ghana)
 - ▶ religious (Iran)
- ▶ military (Burma, North Korea, Algeria)
- ▶ patron-client relationships (Togo, Congo, Gabon)



Michel H. Bouchet/SKEMA-CIFE 2023

4

4

3. POLITICAL RISK ANALYSIS: PRINCE MODEL

Frost & Sullivan: William D. Coplin and Michael K. O’Leary of the firm Political Risk Services.

PRINCE = Probe, Interact, Calculate, and Execute

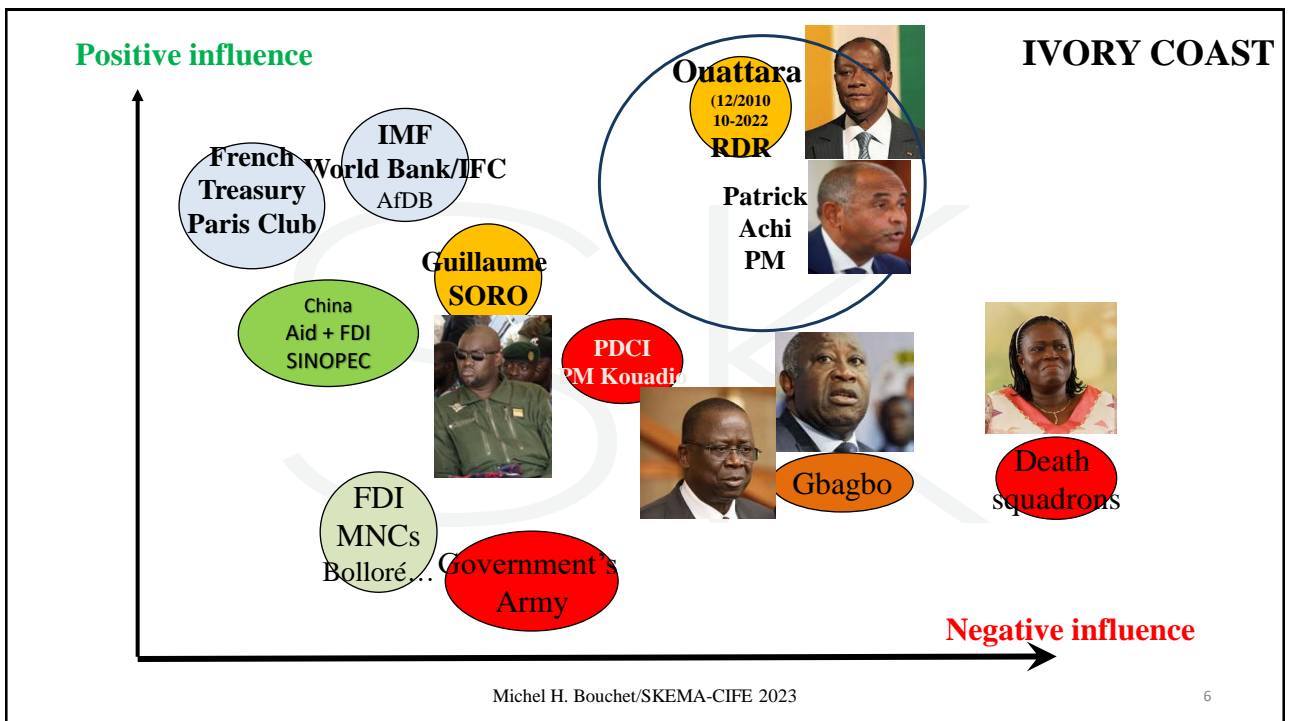
Emphasis on the power structure of a nation by identifying key individuals or groups that can influence a specific risk outcome: destabilization, nationalisation, expropriation...

Political risk forecasting model to produce probability of loss from political instability by relating relative importance in decision-making and relative political orientation towards radical or incremental change (+/-)

DATA= <https://www.cia.gov/library/publications/world-leaders-1/world-leaders-c/cote-divoire.html>

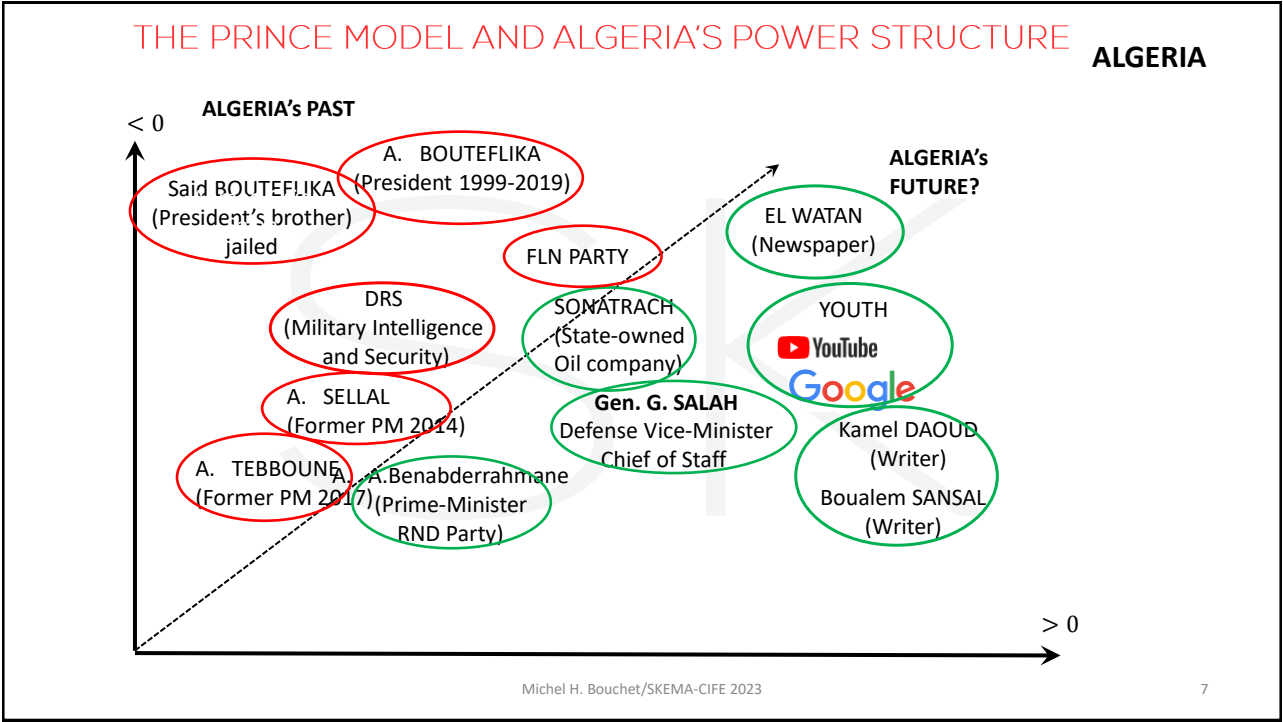
5

5

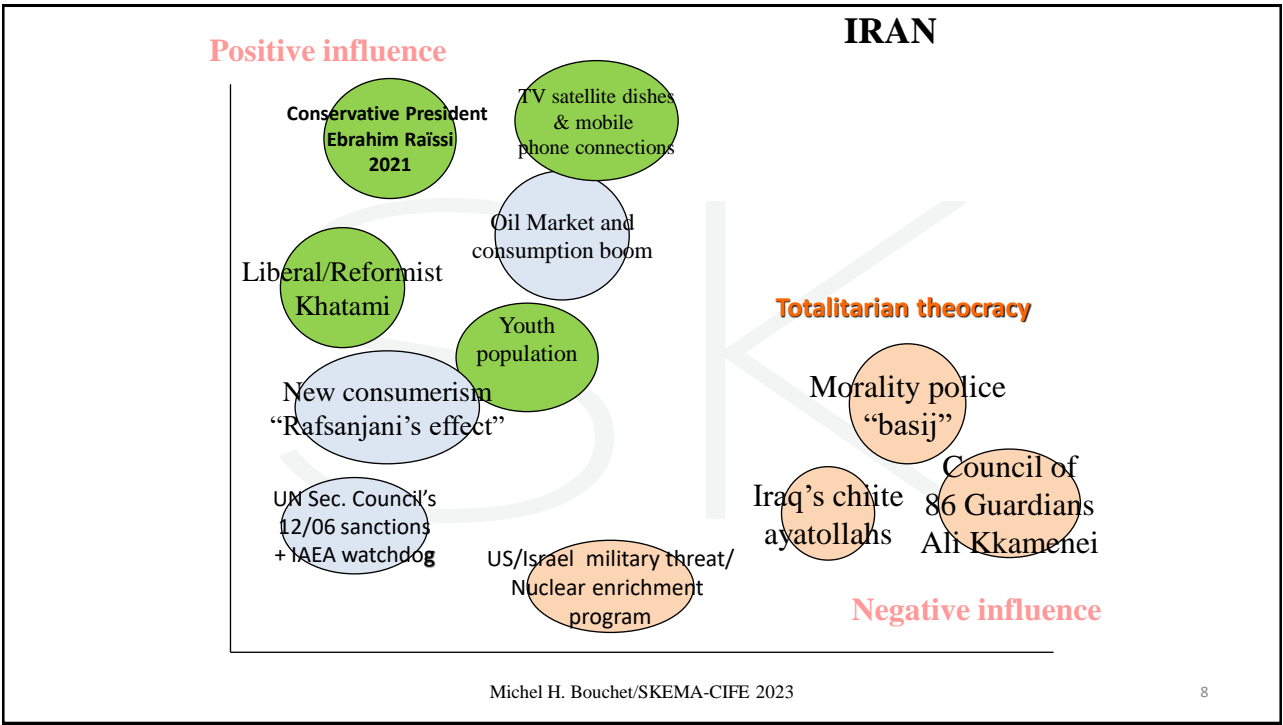


6

6



7



8

4. QUANTIFYING COUNTRY RISK

Ratings and Rankings:



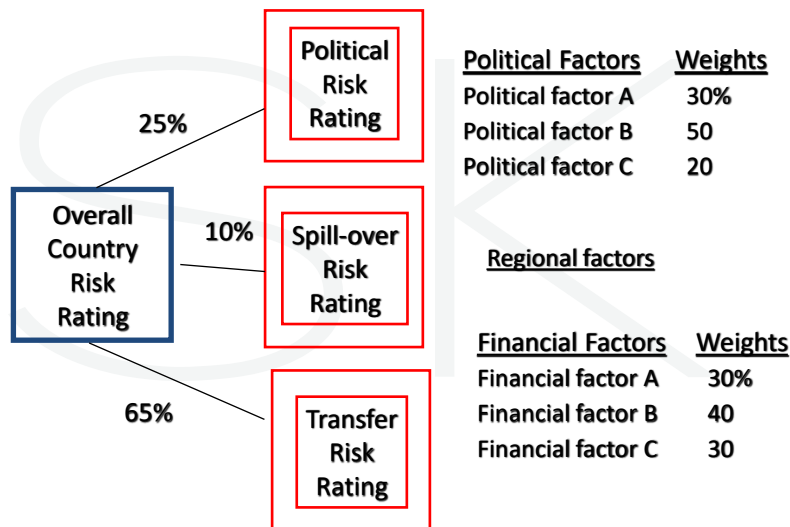
- ▶ Can one boil things down to numerical indices, when dealing with culture, politics, and ethnic tensions?
- ▶ ***Problem of “usability” of rankings: number fetishism leads astray by focusing on statistical Delphi-based analyses that are often subjectively biased, misleading and overly narrow. Lack of insight and qualitative research? (www.useit.com Jakob Nielsen’s website)***

Michel H. Bouchet/SKEMA-CIFE 2023

9

9

QUANTIFYING COUNTRY POLITICAL RISK



Michel H. Bouchet/SKEMA-CIFE 2023

10

10

POLITICAL RISK INDICES

- ▶ Heritage Foundation
- ▶ Freedom House
- ▶ Cato Institute
- ▶ Fund for Peace
- ▶ Transparency International CPI
- ▶ PWCs: Opacity Index
- ▶ LB: Legsi
- ▶ Asiarisk
- ▶ Marsh
- ▶ Fragile state index
- ▶ World Bank (Governance)
- ▶ Euromoney (25%)
- ▶ Institutional Investor
- ▶ IMD
- ▶ ICRG-PRS
- ▶ MIG
- ▶ WMRC
- ▶ University of Maryland
- ▶ Ibrahim Index of Governance

Michel H. Bouchet/SKEMA-CIFE 2023

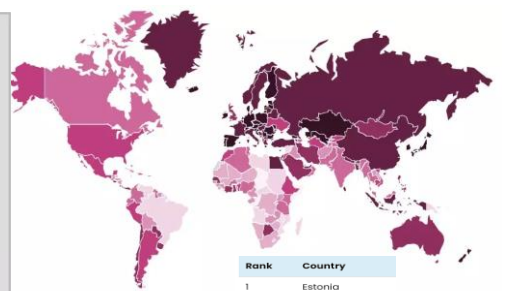
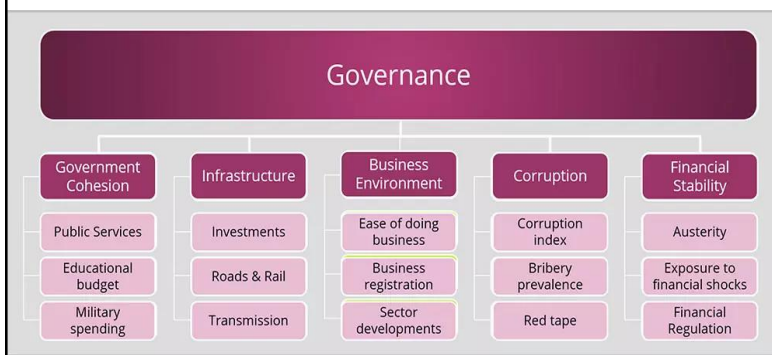
11

11

ASSESSING COUNTRY GOVERNANCE AND SUSTAINABILITY?

▶ <https://solability.com/the-global-sustainable-competitiveness-index/the-index/governance-capital>

▶ Governance Index: World Map



Rank	Country
1	Estonia
2	Ireland
3	Czech Republic
4	Finland
5	Germany
6	Japan
7	New Zealand
8	Liechtenstein
9	Iceland
10	Austria
11	Denmark
12	Uzbekistan
13	Spain
14	Slovenia

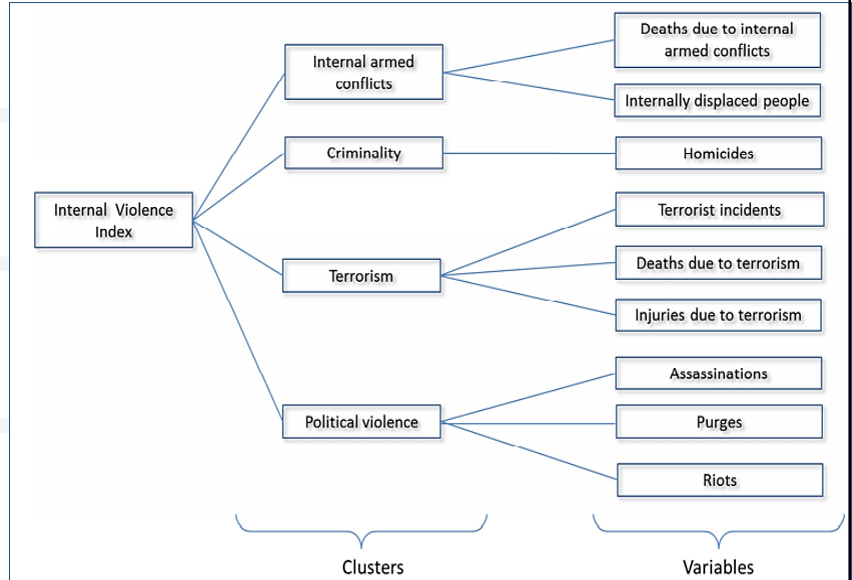
Michel H. Bouchet/SKEMA-CIFE 2023

12

12

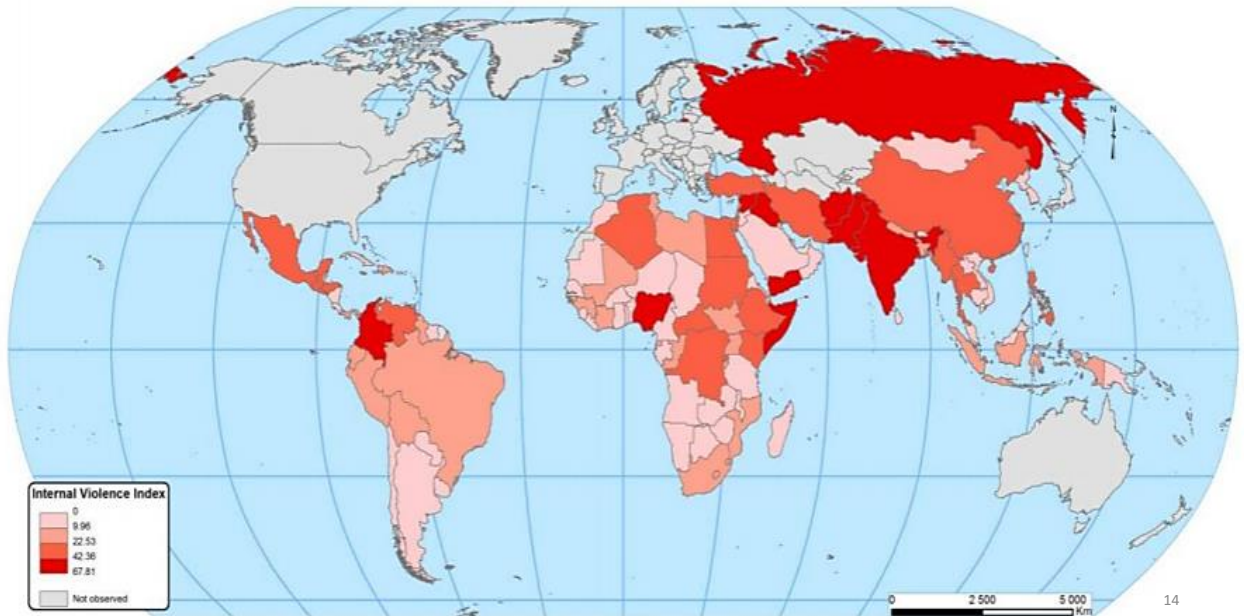
THE INTERNAL VIOLENCE INDEX

The composite index measures a narrow concept of fragility for 130 developing countries through their level of violence in its many different forms: internal armed conflicts, criminality, terrorism, and political violence: Iraq, Pakistan, Afghanistan, Yemen, Syria, and Nigeria.



SOURCE: FERDI April 2016: Feindouno / Goujon /Wagner

THE INTERNAL VIOLENCE INDEX

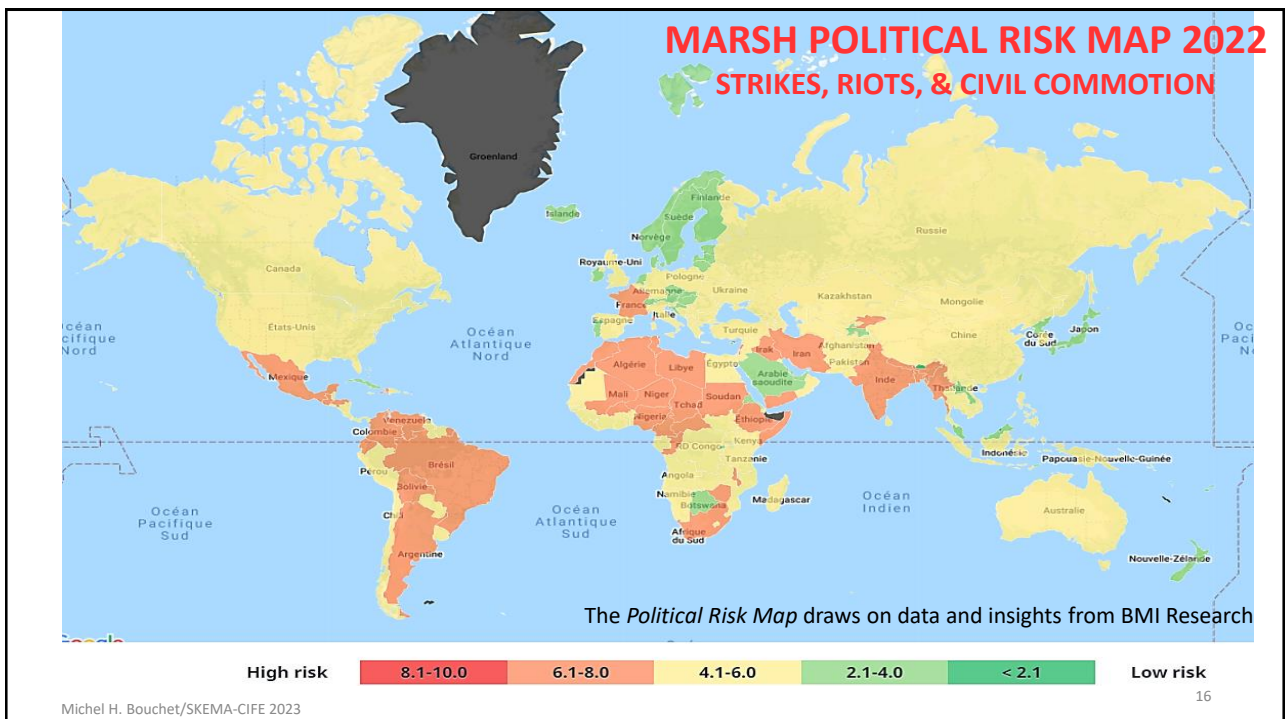


AON POLITICAL RISK MAP

- ▶ The Aon Political Risk Map measures political risk in 163 locations and territories.
- ▶ Risk ratings are standardized across each location, on a six-point scale ranging from low to very high, with all risks updated once per quarter.
- ▶ EU and OECD countries are not rated in the map!!
- ▶ Political risk is calculated as a simple average of six core risk measures :
 1. • Political Violence
 2. • Exchange Transfer
 3. • Sovereign Non-Payment
 4. • Political Interference
 5. • Supply Chain Disruption
 6. • Legal & Regulatory

Michel H. Bouchet/SKEMA-CIFE 2023

15



16

16

HERITAGE FOUNDATION: INDEX OF ECONOMIC FREEDOM

- ▶ **Economic freedom** = *absence of government coercion or constraint on the production, distribution, or consumption of goods and services beyond the extent necessary for citizens to protect and maintain liberty itself.*
- ▶ The Index includes a broad array of institutional factors determining economic freedom: corruption, non-tariff barriers to trade, the fiscal burden of government, the rule of law, regulatory burdens, restrictions on banks, labor market regulations, black market activities...

Michel H. Bouchet/SKEMA-CIFE 2023

17

17

THE HERITAGE FOUNDATION: ECONOMIC FREEDOM INDEX

We measure economic freedom based on 12 quantitative and qualitative factors, grouped into four broad categories, or pillars, of economic freedom:

1. **Rule of Law** (property rights, government integrity, judicial effectiveness)
2. **Government Size** (government spending, tax burden, fiscal health)
3. **Regulatory Efficiency** (business freedom, labor freedom, monetary freedom)
4. **Open Markets** (trade freedom, investment freedom, financial freedom)

Each of the twelve economic freedoms within these categories is graded on a scale of 0 to 100. A country's overall score is derived by averaging these twelve economic freedoms, with equal weight being given to each. More information on the grading and methodology can be found in the appendix.

Michel H. Bouchet/SKEMA-CIFE 2023

18

18

CRITERIA OF ECONOMIC FREEDOM

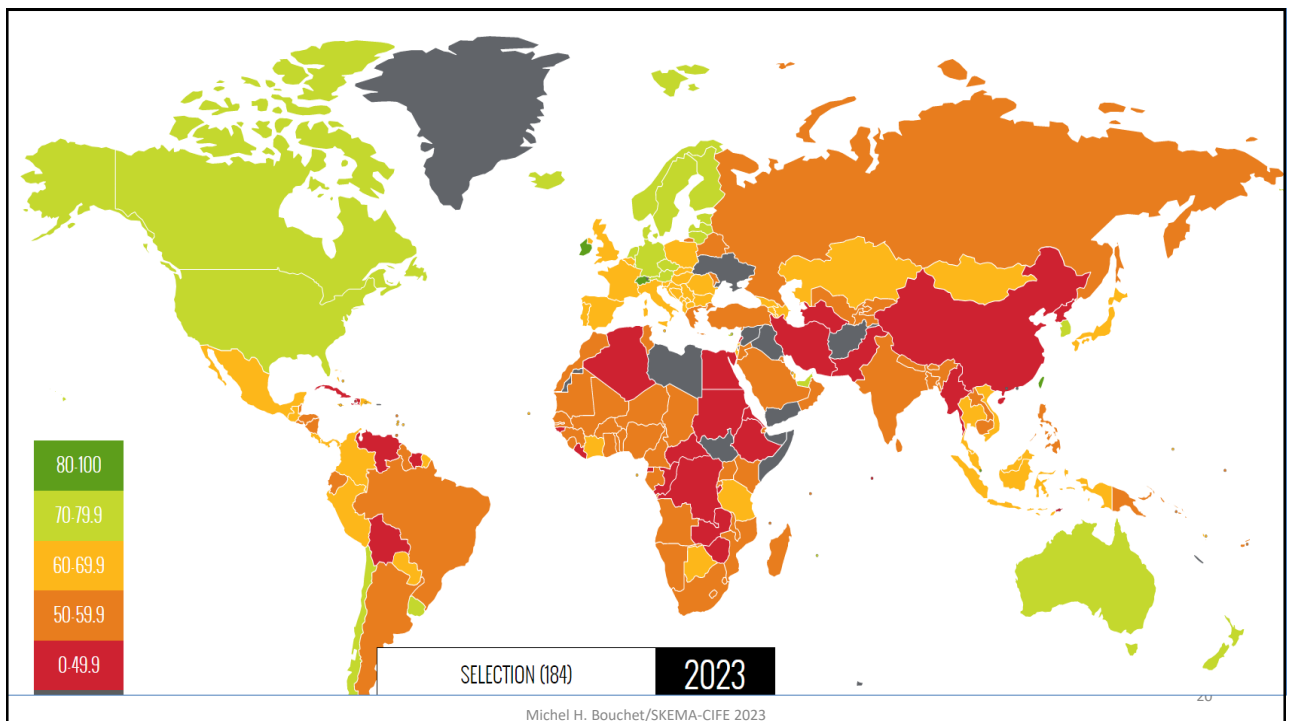
- To measure economic freedom and rate each country, the *Index* is based on 50 independent economic variables within 10 broad categories of economic freedom:

1. Trade policy,
2. Fiscal burden of government,
3. Government intervention in the economy,
4. Monetary policy,
5. Capital flows and foreign investment,
6. Banking and finance,
7. Wages and prices,
8. Property rights,
9. Regulation, and
10. Black market activity

Michel H. Bouchet/SKEMA-CIFE 2023

19

19



20

INDEX OF ECONOMIC FREEDOM 2023

« THE BEST »

Rank	Country	Overall	Change	rank	Country	Overall	Change
1	Singapore	83.9	-0.5 ▼	3	Ireland	82.0	0.0 —
2	Switzerland	83.8	-0.4 ▼	4	Taiwan	80.7	+0.6 ▲
MOSTLY FREE (79.9-70)							
Rank	Country	Overall	Change	rank	Country	Overall	Change
5	New Zealand	78.9	-1.7 ▼	17	Latvia	72.8	-2.0 ▼
6	Estonia	78.6	-1.4 ▼	18	Cyprus	72.3	-0.6 ▼
7	Luxembourg	78.4	-2.2 ▼	19	Iceland	72.2	-4.8 ▼
8	Netherlands	78.0	-1.5 ▼	20	Lithuania	72.2	-3.6 ▼
9	Denmark	77.6	-0.4 ▼	21	Czech Republic	71.9	-2.5 ▼
10	Sweden	77.5	-0.4 ▼	22	Chile	71.1	-3.3 ▼
11	Finland	77.1	-1.2 ▼	23	Austria	71.1	-2.7 ▼
12	Norway	76.9	0.0 —	24	United Arab Emirates	70.9	+0.7 ▲
13	Australia	74.8	-2.9 ▼	25	United States	70.6	-1.5 ▼
14	Germany	73.7	-2.4 ▼	26	Mauritius	70.6	-0.3 ▼
15	South Korea	73.7	-0.9 ▼	27	Uruguay	70.2	+0.2 ▲
16	Canada	73.7	-2.9 ▼				

Michel H. Bouchet/SKEMA-CIFE 2023

21

INDEX OF ECONOMIC FREEDOM 2023

« THE WORST »

REPPRESSED (49.9-0)							
Rank	Country	Overall	Change	rank	Country	Overall	Change
149	Haiti	49.9	-0.1 ▼	163	Suriname	46.1	-2.0 ▼
150	Liberia	49.6	+1.7 ▲	164	Lebanon	45.6	-1.7 ▼
151	Egypt	49.6	+0.5 ▲	165	Guinea-Bissau	44.6	-1.4 ▼
152	Pakistan	49.4	+0.6 ▲	166	Central African Republic	43.8	-1.9 ▼
153	Equatorial Guinea	48.3	+1.1 ▲	167	Bolivia	43.4	+0.4 ▲
154	China	48.3	+0.3 ▲	168	Algeria	43.2	-2.6 ▼
155	Ethiopia	48.3	-1.3 ▼	169	Iran	42.2	-0.2 ▼
156	Republic of Congo	48.1	-0.4 ▼	170	Burundi	41.9	+2.5 ▲
157	Democratic Republic of Congo	47.9	+0.3 ▲	171	Eritrea	39.5	-0.2 ▼
158	Zambia	47.8	-0.9 ▼	172	Zimbabwe	39.0	+5.9 ▲
159	Timor-Leste	47.2	+0.9 ▲	173	Sudan	32.8	+0.8 ▲
160	Maldives	46.6	-0.7 ▼	174	Venezuela	25.8	+1.0 ▲
161	Turkmenistan	46.5	+0.3 ▲	175	Cuba	24.3	-5.2 ▼
162	Burma	46.5	-3.1 ▼	176	North Korea	2.9	-0.1 ▼

Michel H. Bouchet/SKEMA-CIFE 2023

22

HERITAGE FOUNDATION

INDEX OF ECONOMIC FREEDOM

► Trade + Fiscal Burden, + Government Intervention, + Monetary Policy, + FDI + Inflation + External Competitiveness + Banking sector

Michel H. Bouchet/SKEMA-CIFE 2023

MODERATELY FREE (79.9-70)			
Rank	Country	Overall	Change
28	United Kingdom	69.9	-2.8
29	Barbados	69.8	-1.5
30	Portugal	69.5	-1.3
31	Japan	69.3	-0.6
32	Bulgaria	69.3	-1.7
33	Slovakia	69.0	-0.7
34	Israel	68.9	+0.9
35	Georgia	68.7	-3.1
36	Qatar	68.6	+0.9
37	Slovenia	68.5	-2.0
38	Samoa	68.3	0.0
39	Jamaica	68.1	+0.7
40	Poland	67.7	-1.0
41	Malta	67.5	-4.0

rank	Country	Overall	Change
56	North Macedonia	63.7	-2.0
57	France	63.6	-2.3
58	Serbia	63.5	-1.7
59	Saint Vincent and the Grenadines	63.5	-2.2
60	Indonesia	63.5	-0.9
61	Mexico	63.2	-0.5
62	Colombia	63.1	-2.0
63	Bosnia and Herzegovina	62.9	-0.5
64	Guatemala	62.7	-0.5
65	Dominican Republic	62.6	-0.4
66	Micronesia	62.6	+1.6
67	The Bahamas	62.6	-6.1
68	Bahrain	62.5	+0.5
69	Italy	62.3	-3.1

23

ECONOMIC FREEDOM

Hello GEGPA students!
How can you explain that the US **Economic Freedom Index** is worse than Chile!

Michel H. Bouchet/SKEMA-CIFE 2023

24

ECONOMIC FREEDOM



Hello GEGPA students!
How can you explain that Italy's Index of Economic **Freedom** is worse than Guatemala!!

Michel H. Bouchet/SKEMA-CIFE 2023

25

FREEDOM HOUSE: POLITICAL FREEDOM

- ▶ Since 1972, Freedom House has published an annual assessment of the state of freedom in all countries in the world, based on a checklist of questions on **political rights and civil liberties** that are derived from the Universal Declaration of Human Rights.
- ▶ Each country is assigned a rating for PR and a rating for CL based on a scale of 1 (best) to 7 (worst).

<http://www.freedomhouse.org/ratings/index.htm>

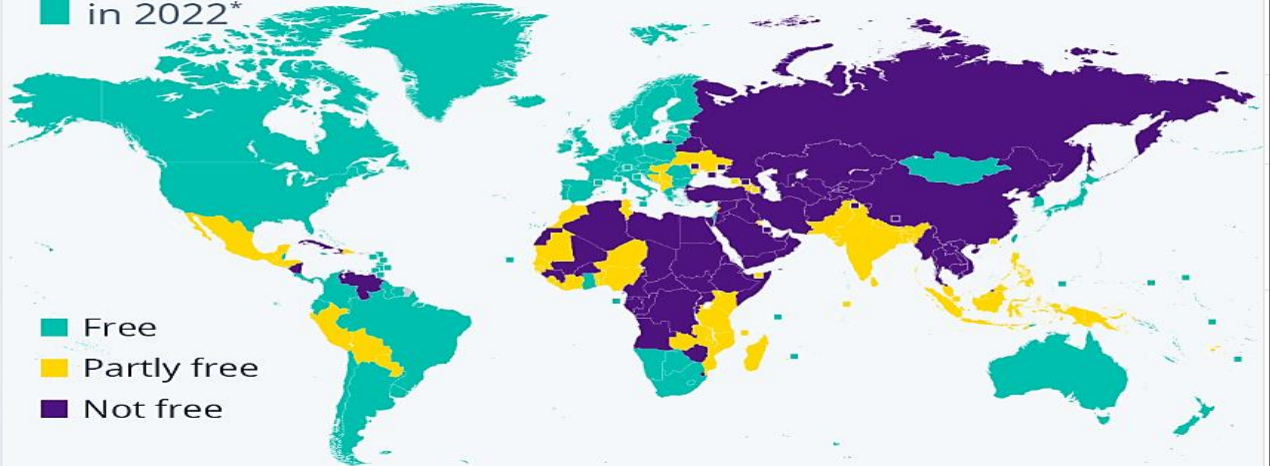
Michel H. Bouchet/SKEMA-CIFE 2023

26

26

The State of Freedom in the World

Countries' ratings on the Freedom House Freedom Index in 2022*



- Free
- Partly free
- Not free

* 195 countries and 15 territories were rated for access to political rights and civil liberties.

Source: Freedom House

27

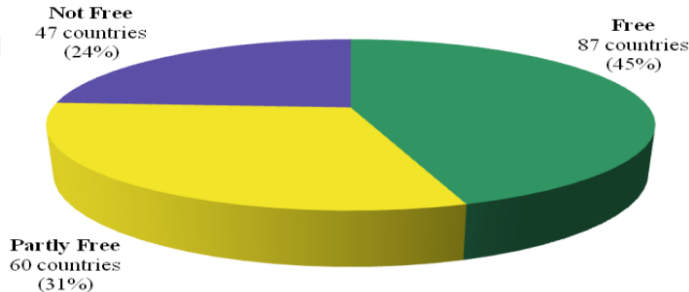
Free countries (87)

- ▶ Australia, Finland
- ▶ Malta, Slovenia
- ▶ Uruguay, Bulgaria
- ▶ Chile, Costa Rica
- ▶ Mauritius, Poland
- ▶ Indonesia, Benin
- ▶ Botswana, Brazil

Not Free countries (47)

- ▶ Cameroon, Congo
- ▶ Haiti, Iran
- ▶ China, Vietnam
- ▶ North Korea, Burma
- ▶ Cuba, Saudi Arabia
- ▶ Syria, Turkmenistan
- ▶ Libya, Sudan
- ▶ Somalia

Country Breakdown by Status



28

28

FRASER INSTITUTE- ECONOMIC FREEDOM

- ▶ Since 1975
- ▶ Annual Indices of Economic & Human Freedom in the world: reliable measure of cross-country differences in economic freedom, using third-party data to help ensure objectivity
- ▶ **Criteria:** government quality, legal structure, security of property rights, access to sound money, personal choice, freedom to exchange with foreigners and to compete in markets, quality of regulations and institutional strength...
- ▶ **The Economic Freedom Annual Report** is the measurement of **economic freedom**, ranking countries based on five areas: size of government, legal structure and security of property rights, access to sound money, freedom to trade internationally, and regulation of credit, labor and business. The report compares 165 countries and territories

Michel H. Bouchet/SKEMA-CIFE 2023

29

29

2021 FRASER INSTITUTE'S ECONOMIC FREEDOM WORLD MAP



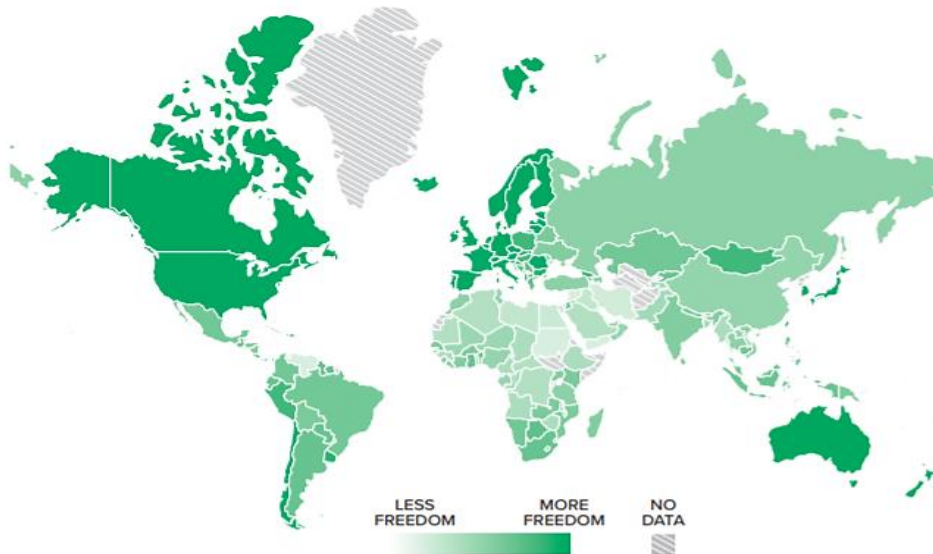
Michel H. Bouchet/SKEMA-CIFE 2023

30

30

FRASER & CATO INSTITUTE: HUMAN FREEDOM INDEX

The index ranks 165 countries and jurisdictions based on 79 indicators of personal, civil and economic freedoms (joint project with the Cato Institute in the U.S. and Germany's Friedrich Naumann Foundation for Freedom)



Michel H. Bouchet/SKEMA-CIFE 2023

31

31

THE MISERY INDEX =

SUM OF INFLATION AND UNEMPLOYMENT RATES; A CRUDE METRIC OF PAIN FOR THE AVERAGE CITIZEN

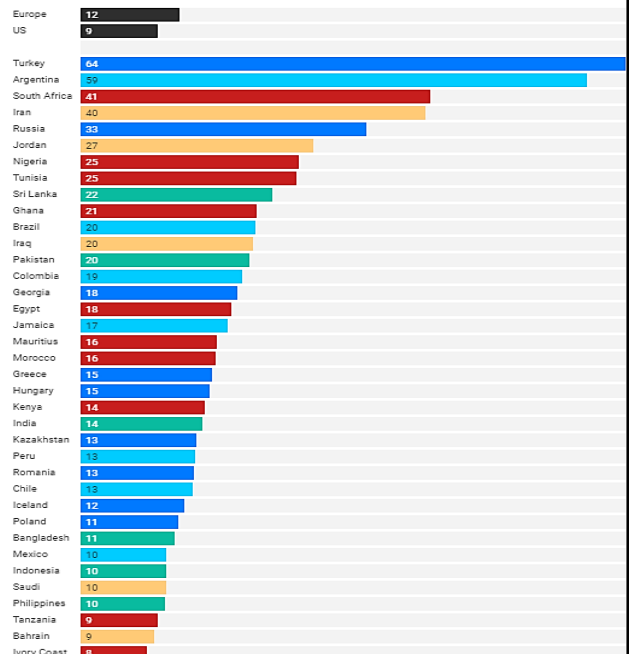
PROTESTS HAVE MANY DRIVERS (INEQUALITY, CORRUPTION, POLITICAL EXCLUSION) BUT HIGH MISERY INCREASES THE RISK OF PROTESTS

MISERY INDEX LEVEL SHOULD BE CONSIDERED RELATIVE TO RECENT HISTORIC PEAKS

Misery index in EM: Absolute metric for protest risk

Inflation rate plus unemployment rate (2022f, %)

Legend: Middle East (orange), Africa (red), Europe (blue), LatAm (light blue), Asia (teal), Developed (black)



Michel H. Bouchet/SKEMA-CIFE 2023

32

UNDP HUMAN DEVELOPMENT INDEX

► What is development?

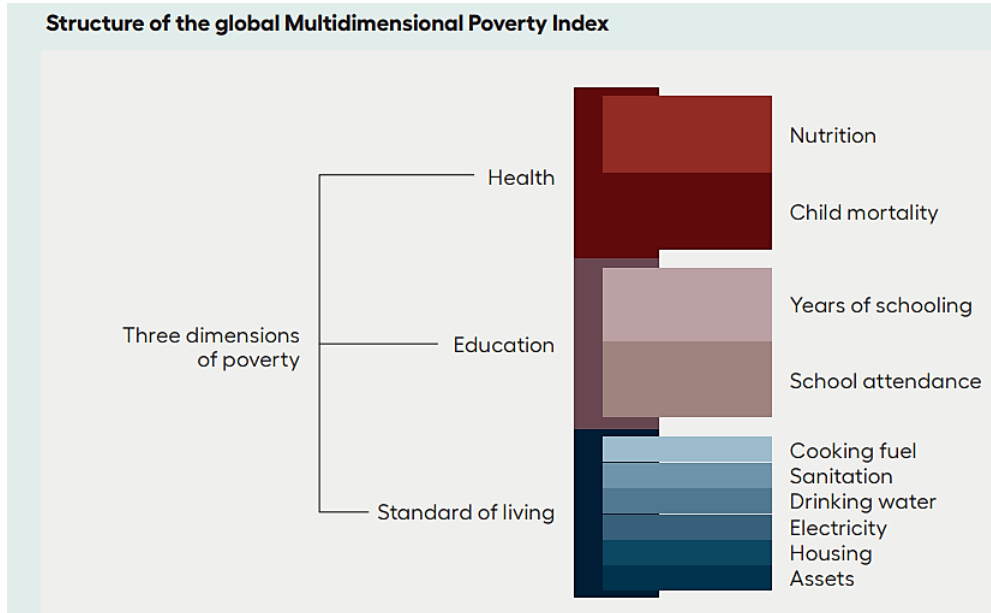
► **Economic growth** + those conditions that make growth **sustainable** over the long-term

=

► Σ life expectancy, education, health, infrastructure, institutions, governance...

HDI RANK	Value		Value		
	2019				
Very high human development			Low human development		
1	Norway	0.957	157	Mauritania	0.546
2	Ireland	0.955	158	Benin	0.545
2	Switzerland	0.955	159	Uganda	0.544
4	Hong Kong, China (SAR)	0.949	160	Rwanda	0.543
4	Iceland	0.949	161	Nigeria	0.539
6	Germany	0.947	162	Côte d'Ivoire	0.538
7	Sweden	0.945	163	Tanzania (United Republic of)	0.529
8	Australia	0.944	164	Madagascar	0.528
8	Netherlands	0.944	165	Lesotho	0.527
10	Denmark	0.940	166	Djibouti	0.524
11	Finland	0.938	167	Togo	0.515
11	Singapore	0.938	168	Senegal	0.512
13	United Kingdom	0.932	169	Afghanistan	0.511
14	Belgium	0.931	170	Haiti	0.510
14	New Zealand	0.931	170	Sudan	0.510
16	Canada	0.929	172	Gambia	0.496
17	United States	0.926	173	Ethiopia	0.485
18	Austria	0.922	174	Malawi	0.483
19	Israel	0.919	175	Congo (Democratic Republic of the)	0.480
19	Japan	0.919	175	Guinea-Bissau	0.480
19	Liechtenstein	0.919	175	Liberia	0.480
22	Slovenia	0.917	178	Guinea	0.477
23	Korea (Republic of)	0.916	179	Yemen	0.470
23	Luxembourg	0.916	180	Eritrea	0.459
25	Spain	0.904	181	Mozambique	0.456
26	France	0.901	182	Burkina Faso	0.452
27	Czechia	0.900	182	Sierra Leone	0.452
28	Malta	0.895	184	Mali	0.434
29	Estonia	0.892	185	Burundi	0.433
29	Italy	0.892			
31	United Arab Emirates	0.890			
32	Greece	0.888			
33	Cyprus	0.887			
34	Lithuania	0.882			
35	Poland	0.880			

UNDP: HDI AND THE GLOBAL MULTIDIMENSIONAL POVERTY INDEX



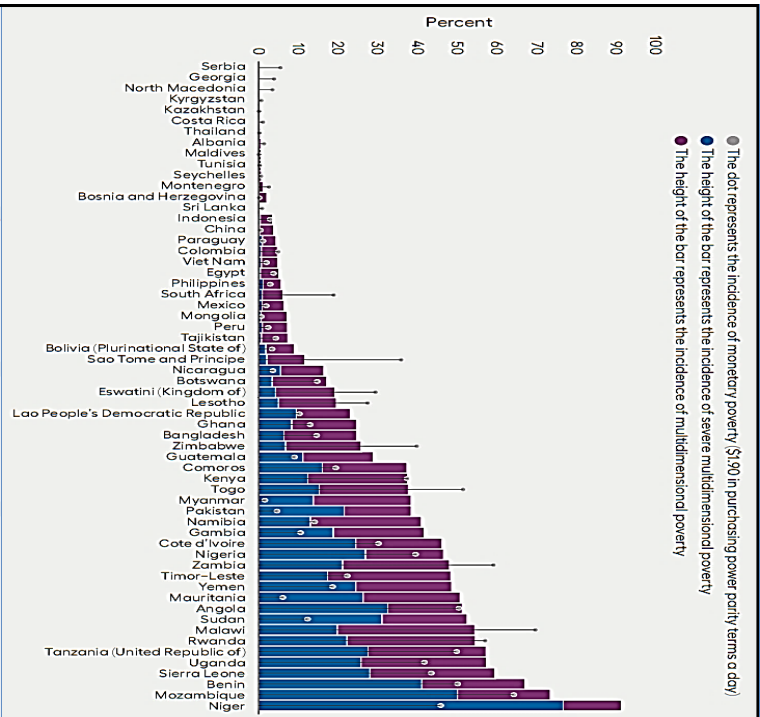
Michel H. Bouchet/SKEMA-CIFE 2023

35

35

INDEX OF MULTIDIMENSIONAL POVERTY

THE POOREST OF THE POOREST COUNTRIES ARE ALSO THE MOST CORRUPT AND INSTITUTIONALLY FRAGILE:
FAILED STATES AHEAD!



Michel H. Bouchet/SKEMA-CIFE 2023

36