

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Economics



Bachelor Thesis

Political Risk and Doing Business

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Thesis title

Political risk and doing business

Objectives of thesis

The aim of the thesis is to study the aspects of political risks and doing business and to study the nature, forms, groups, types and classification of political risks affecting doing business and to describe how to manage doing business under political risks. At the end to provide recommendations for governments and business companies in order to develop the techniques used in doing business under political risks.

Methodology

The thesis will be divided into two parts. The first part is theoretical, and the second part is practical. As a result, the theoretical and practical methods are widely used in the process of researching data. To achieve the aims of the thesis a set of methods, knowledge principles and research techniques are used. The thesis depends on observation, generalization, comparison, deduction and induction, descriptive and comparative analysis.

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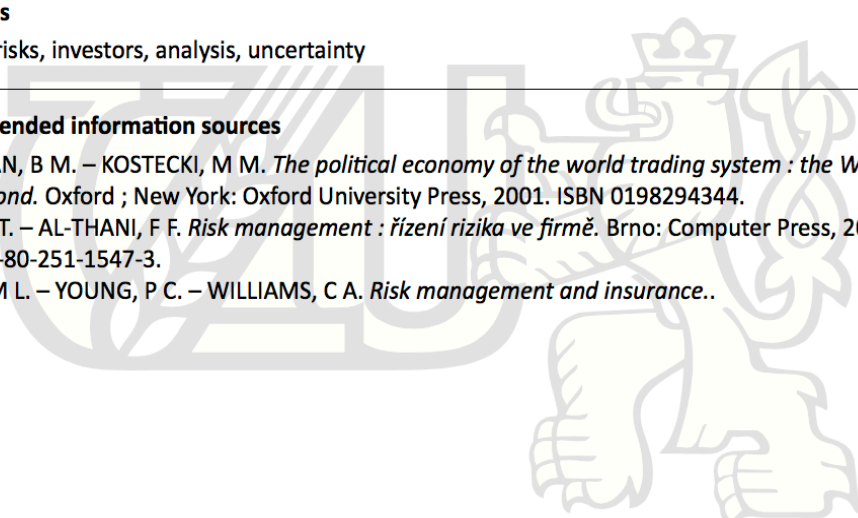
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Declaration

I declare that I have worked on my bachelor thesis titled "**Political Risk and Doing Business**" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on 28.1.2019

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Politická rizika a podnikání

Souhrn

V mnoha zemích politická rizika ovlivňují vývoj ekonomiky a podnikání. Existuje mnoho příkladů různých zemí, například případy Ruska, Blízkého východu a mnohonárodních příkladů. Tato práce se zabývá teoretickými aspekty politických rizik a podnikáním. Poskytuje různé definice a pochopení, ukazuje povahu politických rizik, jejich formy, povahu, skupiny, typy a klasifikaci. Uvádí také některé obecné pohledy na řízení politických rizik, pojištění zboží pod politickými riziky, globalizaci a podnikání pod politickými riziky a konečně ukazuje vztah mezi politickými riziky a trhem. Práce se také zabývá praktickou stránkou tohoto tématu. Hlavním cílem této práce je analyzovat dopady politických rizik na proces podnikání, a to jako příklady: případ Ruska a případ Středního východu a následně i nadnárodní příklady. Práce je rozdělena do dvou částí. První část je teoretická a druhá část je praktická. Pro dosažení svých cílů práce závisí na pozorování, zobecnění, porovnání, dedukci a indukci, deskriptivní a srovnávací analýze. Pro dosažení maximální přesnosti a vědecké podstaty autor používá metody faktorové analýzy a metody statistické analýzy pro ekonomické funkce.

Klíčová slova: politická rizika, podnikání, investice, investoři, problémy, nejistota, Rusko, analýza, podnikatelé, zahraniční, Blízký východ, nadnárodní.

Political Risk and Doing Business

Summary

In many countries political risk affects the progress of economy and doing business. There are a lot of examples of different countries, for example the cases of Russia, the Middle East and multinational examples. This thesis deals with the theoretical aspects of political risks and doing business. It provides different definitions and understandings, showing the nature of political risks, their forms, nature, groups, types and classification. It also gives some general views about managing political risks, the insurance of goods under political risks, globalization and doing business under political risks and finally shows the relationship between political risks and market. The thesis deals also with the practical side of this topic. The main objective of this thesis is to analyze the impact of political risks on the process of doing business by taking as examples: the Russian case and the case of the Middle East and then multinational examples. The thesis is divided into two parts. The first part is theoretical, and the second part is practical. To achieve its aims the thesis depends on observation, generalization, comparison, deduction and induction, descriptive and comparative analysis. To reach the maximum accuracy and scientific essence, the author uses the factorial analysis methods and statistical analysis methods for economic functions.

Keywords: political risks, business, investments, investors, problems, uncertainty, Russia, analysis, businessmen, foreign, Middle East, multinational.

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1. Introduction

Political status of any country all over the world is always changing whether for national reasons or for international reasons. In cases of political crisis or instability countries face “Political Risk”, which by its turn affects doing business nationally, regionally and globally. This makes the topic of the thesis “Political Risk and Doing Business” of great importance, especially that the issue has become as a phenomenon from which almost all countries are suffering from in their economies.

Regarding that our specialty is deeply connected with the field of economy, it will be of great benefit to study the political risks and their influence on business works. As students and future workers, we need to have a profound view and analysis of this issue, especially that new factors appear day after another. This is actually why we are going to handle this study.

Living in the era of globalization makes political risks of a country affecting not only doing business in the country itself but also in other countries having economic relations with it. Because of that, the thesis shows a deep understanding of political risks and doing business. It gives a look at various aspects of the problem being studied. A statistical presentation is provided to picture the situation. In addition to that, the examples of Russia, the Middle East and other multinational examples are discussed to visualize the influence of variety of factors and reasons behind the issue and to see different countries having totally similar obstacles and what are the approaches used to overcome the problems in each one.

The acceleration of events on a global scale in foreign policy, and regulations social, and change in the structure of power in international relations, and demand growing by the host countries for international projects, control and supervision of the work of the company’s projects multinational create a big need of a profound knowledge : of the methods for evaluating investment of foreign opportunities, of comprehensive surveys of the market, of cash flows and analysis of foreign exchanges, of econometric analyses and of theories of competitive advantage. Although, all of these methods are not designed to predict revolutions and social and political upheavals that occur in the world.

By the end of the seventies of the last century, the Iranian Islamic revolution, as it happened in other countries. In the early eighties the Iran-Iraq war began. In the nineties was the invasion of Kuwait (Second Gulf War). In the beginning of this century, the Gulf War Third (and some of America's allies with them) and the occupation of Iraq.

During this period, it occurred the collapse of the socialist camp and the disintegration of the socialist countries, the Soviet Union and Yugoslavia, and Czechoslovakia. There was the

first Palestinian intifada, then the second, and popularized the term terrorism not enough to make international investment decisions. Added to this labor disputes, changes in the laws and regulations of the host country for these companies, and discriminatory taxes, and the inability or the deportation of the profits of these companies to the mother country. It of the problems that also contributed the lack of clarity of the right vision of the seriousness of the host country for investments.

A set of predictions and expectations are brought to explain the ability to avoid some bad and negative consequences if forecasting them previously. In addition to that, positive expectations are effective because they guide the direction of investments properly. So, concerning done works related to our issue, all these points are presented in this thesis.

2. Objectives and Methodology

2.1 Objectives:

- to study the theoretical aspects of political risks and doing business;
- to study the nature, forms, groups, types and classification of political risks affecting doing business;
- to describe how to manage doing business under political risks;
- to conduct empirical research of Russian case in political risks and doing business;
- to conduct empirical research of the case of The Middle East in political risks and doing business;
- to show multinational examples of political risks;
- to present the practical results of studying this topic, by providing forecasts and expectations;
- to provide recommendations for governments and business companies in order to develop the techniques used in doing business under political risks.

2.2 Methodology

The thesis will be divided into two parts. The first part is theoretical, and the second part is practical. As a result, the theoretical and practical methods are widely used in the process of researching data. The theoretical method allows carrying out different facts, revealing various patterns and providing factual materials such as: classification, analysis and models.

It allows also using variety of methods, for example: system approach and statistical method. The practical method allows making: observations, description, measurement and comparison. It also helps recording phenomena and facts and shows the connection between them.

To achieve the aims of the thesis a set of methods, knowledge principles and research techniques are used. The thesis depends on observation, generalization, comparison, deduction and induction, descriptive and comparative analysis. To reach the maximum accuracy and scientific essence, the author uses the factorial analysis methods and statistical analysis methods for economic functions.

3. Literature Review

3.1 General Understanding of Political Risk Relating to Doing Business

3.1.1 Definition of Political Risk in Relation with Doing Business

In order to understand the meaning of political risks, first we need to understand what the word “risk” means. Generally talking, from the term “risk” we understand the possibility of the occurrence of some adverse events entailing various types of losses (for example, receiving a physical injury, loss of property, income below the expected level, etc.).

Entrepreneurial activity comprises a certain amount of risk, which should take the entrepreneur to determine the nature and extent of the risk. RF Law “On enterprises and entrepreneurial activities” defines entrepreneurship as “a proactive, independent activity of citizens and their associations, carried out at your own risk, under their own financial responsibility and aimed at making a profit.” Thus, the law established that the implementation of business activity in any way is associated with the risk. (Deresky, 2011)

In the business activities the term "risk" is commonly understood as the probability (threat) of losing some of their resources, revenue, or the appearance of additional costs resulting from the implementation of specific operational and financial performance.

Or risk - is an activity associated with the overcoming of the situation of uncertainty in the inevitable choice, during which it is possible to quantitatively and qualitatively assess the likelihood of achieving a presumed result, of failure and deviation from the target.

The phenomenon of "risk" can be identified by the following elements, the relationship which constitutes its essence:

- The possibility of deviation from the intended purpose for which it was carried out the selected alternative;
- The likelihood of achieving the desired result; lack of confidence in achieving this goal;
- The possibility of material, moral, and others. losses associated with the implementation of the selected alternative in the conditions of uncertainty.

Some definitions of “Political risk”

- Political risk - is the possibility of loss or reduction of profit margins, which are the result of state policy. Thus, the political risks are associated with possible changes in the course of the government, the changes in the priority directions of its activity. Accounting for political risk is particularly important in countries with unsettled law, the lack of tradition and a culture of entrepreneurship.

Political risk is inevitably inherent in business activities, that we cannot leave, and we can only be truly assessed and taken into account by it.

Political risk - the probability of undesirable consequences of possible political and other decisions related to political events, able to bring one or other damage to the participants in the realization of their interests. Most often, the political risk they say in situations where decision-making regarding, for example, international business, is required to take into account the negative impact of factors related to the instability of the political situation, the regime or the government, with political unrest. Accounting for risk assessment, including the political, has recently become a prerequisite for selection at the professional level solutions, as it is believed that the risk should be taken into account even when it is practically eliminated because event management - it is in many cases risk management. Risk is generally recommended, but high risk is unacceptable, though sometimes “we cannot wait ... at the risk of losing everything.” (National Research Council, 2005)

Political risk – is the likelihood that some political factors (and missed solutions, events, etc.) have a negative impact on the results of business activity. The objective of political risk assessment is to reduce the possible business losses. Analysis of political risks primarily used for foreign investors. The concept of "political risk" has appeared in the lexicon of American corporations in 1959, after coming to power in Cuba, Fidel Castro. One of the first studies on this issue - the book F. Root "US business abroad and political risk", where political risk has been analyzed, which is exposed to the activities of American companies in other countries. (Harrington, Matthew, 2002)

3.1.2 The Nature of Political Risk affecting Doing Business

When talking about foreign economic activity there are always circumstances that could disrupt the implementation of any operation. These circumstances do not depend on the will of the parties to the contract and are catastrophic, the probability of their occurrence is difficult to determine, and the damage caused by them in the millions or even billions of dollars. It is not a disaster, but between them and these events often draw analogies. These unexpected events are called political risks and are inherently adverse consequences of government intervention in economic processes.

Political risks are often associated with wars, revolutions, uprisings, the change of government and other political events that are catastrophic and destructive. Such an understanding of the nature of political risk is incomplete, primarily because it cannot be considered a political risk in isolation from international economic relations. Political risk arises in the implementation of foreign economic activity, and for a company operating in the international market, it is one of the environmental factors of uncertainty.

Events called political risks, so diverse that it is very difficult to give them a full and accurate description. The complexity stems from the very nature and the diversity of international economic relations, which take subjects of foreign economic activity. (Bjelland, 2012)

We can identify the most important characteristics of political risk: it involves political factors, events or measures affecting the relationship, based on the contracts of private law, which hinder the implementation of commitments between private contractors and public and private partners and affect the implementation of property rights private entity.

3.1.3 The Forms of Political Risk in connection with doing business

Political risk can take different forms, ranging from armed conflicts to small administrative orders, provided that these events directly affect the implementation of the signed contracts. The event list is not limited and can be supplemented in the course of development of the world economy and international relations.

Sometimes, the political risk is identified with the country or sovereign risk, but this is a controversial opinion. Country risk - a broader concept, it includes the political, commercial, economic, financial, even natural risks - that is, all the parameters of the environment faced by the enterprise engaged in international activities. Sovereign risk, in turn, is associated with the loans provided by the Government, and is defined as the probability of default on international loans, which arose in certain events occurring in the debtor country when these

events are fully or partially under state control and totally are beyond the will of private actors.

Political risk is always accompanied by the foreign economic activity, even in operations between the countries of the Organization for Economic Cooperation and Development, where political and economic conditions are most stable. In a sense, it is an indicator of the impact of policies on the economy, reflecting the possibility of state intervention in economic processes. And, despite the increasing degree of integration of the economies, states continue to protect national interests, so there is always the likelihood of political or economic measures against foreign entities. (Kobrin ,1979)

3.1.4 Groups of Political Risk

Political risks can be divided into four groups:

1) The risk of nationalization and expropriation adequate compensation;

The risk of nationalization in practice has been interpreted very broadly by entrepreneurs - from expropriation to compulsory redemption of the property by the authorities, or just limit investors access to asset management. In determining the risk of nationalization of the complexity lies in the fact that in any country the authorities never advertise the possibility of expropriation or nationalization. As a consequence, in any document legally not exactly defined than, for example, is different from the nationalization of the confiscation.

2)The risk of transfer associated with the possible restrictions on the conversion of the local currency;

For the risk associated with the transfer of local currency into foreign translations, an example would be a situation where the company operates profitably, making a profit in the national currency, but is not able to change it into the currency of the investor, to pay for the loan. The reasons can be many - for example, to force a long queue for conversion.

3)The risk of rupture of the contract because of the actions of the authorities of the country in which the company-contractor;

The risk of rupture of the contract provides for the situation where no help nor provided for in the contract penalties or arbitration: the contract is broken due to circumstances beyond reasons of the partner, for example, due to changes in national legislation.

4)The risk of war and civil unrest.

The last of the group of political risk - is the risk of war and civil unrest, which may make entrepreneurial firms suffer greater losses and even go bankrupt.

3.1.5 Types and Classification of Political Risk in Relation with Doing Business

There are two levels of political risks;

1) The macro-level

The macro-level of political risks; generally speaking, has the same impact on all the foreign actors in any country. These are included in the country risks analysis, but a differentiation must be formulated between the country risks analysis; which deals with the national-level risks and contains also the financial and economic risks, and the macro-political level.

Macro-political risk affects all the economic agents of the country, without exception, and is measured at the political, social, economic, legal parameters in each country. It applies only to companies that have certain characteristics, and its evaluation is performed for each operation separately.

2) The micro-level

The micro-level of political risks deals with firms, sectors and or project specific risks. It refers to political actions in a host country that can adversely affect selected foreign operations. Micro risk can come about from events that may or may not be in the reigning government's control.

Micro-level political risks are project-specific risks. In addition to the macro political risks, companies have to pay attention to the industry and relative contribution of their firms to the local economy. An examination of these types of political risks might look at how the local political climate in a given region may affect a business endeavor.

Micro-political risks are more in the favor of local businesses rather than international organizations operating in the nation. This type of risk process includes the project-specific government review Committee on Foreign Investment in the United States (CFIUS), the selection of dangerous local partners with political power, and expropriation/nationalization of projects and assets.

To extend the CFIUS example above, imagine a Chinese company wished to purchase a U.S. weapons component producer. A micro-level political risk report might include a full

analysis of the CFIUS regulatory climate as it directly relates to project components and structuring, as well as analysis of congressional climate and public opinion in the United States toward such a deal. (Alon, Gurumoorthy, Mitchell, Sleen, 2006)

This type of analysis can prove crucial in the decision-making process of a company assessing whether to pursue such a deal. For instance, Dubai Ports World suffered significant public relations damage from its attempt to purchase the U.S. port operations of P&O, which might have been avoided with more clear understanding of the US climate at the time.

The level of risk - is a quantitative assessment of the situation (which reflects the degree of uncertainty in decision-making), taking into account the damage caused by the possible adverse consequences of decisions. In practice, the level of risk characterizes the degree of responsibility or irresponsibility of the one who chooses the way of solving the problem.

After presenting the two levels of political risks table (1) below shows different types of risks influencing the process of doing business, sample effects on investors and exporters and we see also samples of variety of political risks.

Table 1 . Type of Risks with Sample Effects on Investors and Exporters

Type of risk	Sample effects on investors	Sample effects on exporters
Changes in laws and regulations 	<ul style="list-style-type: none"> Increased expense of meeting local standards leads to lower profitability or non-viability of the foreign affiliate. 	<ul style="list-style-type: none"> Increased expense of meeting local standards leads to lower profitability for the exporter.
Import/export restrictions 	<ul style="list-style-type: none"> Foreign affiliate's operations are disrupted or paralyzed with a possible total loss of the investment. 	<ul style="list-style-type: none"> Goods are produced by the exporter but are never delivered and paid for.
Foreign exchange restrictions (transfer and conversion risk) 	<ul style="list-style-type: none"> Foreign affiliate is unable to make payments in hard currency to the parent company, or to suppliers and lenders. While restrictions are in place, the value of cash held in the foreign market (as local currency) quickly depreciates relative to the country's currency. 	<ul style="list-style-type: none"> Foreign buyer is unable to pay the exporter. Exporter cannot repatriate. Funds to supplier. If these funds are paid in the foreign market.
Breach of contract by a government counterparty 	<ul style="list-style-type: none"> Contract breaches (such as non-payment, unilateral price and/ or quantity changes, or unwarranted contract termination) cause losses for a foreign affiliate. severe losses can render an affiliate economically unviable, leading to the total loss of the investment. 	<ul style="list-style-type: none"> Losses result from contract breaches such as non-payment, unilateral price and/or quantity changes, or unlawful contract termination.
Expropriation 	<ul style="list-style-type: none"> Parent company loses equity investment and income stream from foreign a affiliate. Ability of parent company to meet loan covenants and financial obligations is compromised. 	<ul style="list-style-type: none"> Inventory and physical assets, which the exporter is using to perform work directly in the foreign market, are permanently lost. Company is unable to use lost assets to perform scheduled contract work in other foreign markets
Political violence (war, civil war, revolution, terrorism, civil disturbance and similar upheavals) 	<ul style="list-style-type: none"> Unsafe conditions lead to abandonment of investment. Physical assets, such as equipment or inventory, are damaged or destroyed. Interruption of business results in the foreign affiliate, or customers of the foreign affiliate, defaulting on payment or other contractual obligations. 	<ul style="list-style-type: none"> Foreign buyer is unable to take delivery. Of goods or is unable to pay. Violence forces exporter to breach contract terms, leading to contract termination by the buyer or to a call on a performance bond. Physical assets, which the exporter issuing to perform work directly in the foreign market, are damaged or destroyed, thereby jeopardizing the exporter's performance.

Source: Export Development Canada, 2015

3.1.6 Different Notes of Political Risk Classification:

In practice, the assessment of political risk is given for different time horizons, the choice of which is determined by the specificity of the decisions requiring accounting risk assessments.

The political risk is assessed at different levels: global, regional national, and in some regions within certain countries (territories, regions, republics, for example, in Russia). In recent years, increased interest in global risk. This can be seen, in particular, the subject of discussions at the annual conference of the Council on risk management of international business. This is reflected in the trends associated with the aspirations of some influential circles in the West to a "global coordination" of relations between the two countries.

The tendency to create "the world's confidence in the field." However, there is great danger of increased "vulnerability" of some states from those who will control this "field" and define the rules to be followed by participants in the events. In general, it can be expected that the more will grow "coordination" at the global level in the economy, the more will decrease the level of political organization at the global level due to the emergence of an increasing number of small states, not finding for themselves a place "under the sun" as a result of the collapse of the former great powers.(World Economic Situation Prospects, 2018)

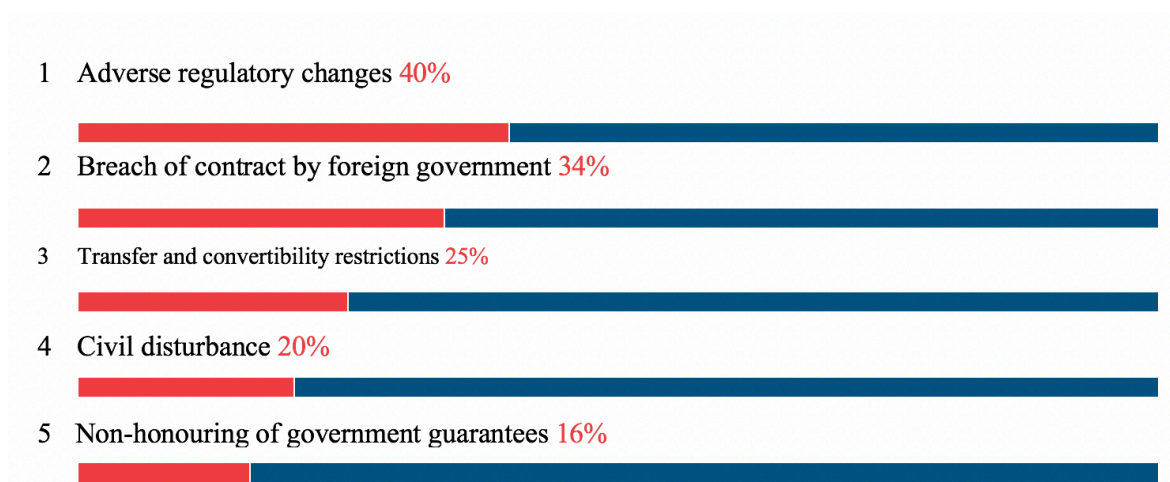
The level of political risk at the same time must be increased. When political risk assessment at the national level are commonly used comparative data when quantitative assessment, characterizing the level of risk in the country, converted to the corresponding ratings. Rating of the country - is its place in the overall set of comparative countries, reflecting the degree of desirability of the state of the respective situation. Sometimes they talk about the differences "political climate". The difficulty lies in the fact that ratings are usually tied to a specific number of countries considered (and their number is not fixed).

In practice, the country's rating is determined by taking into account its place in the group of countries that are arranged in a specific sequence, taking into account relevant political risk assessments, which are defined in points. The most commonly used 100-point scale, where countries with a minimum level of political risk receiving the highest evaluation scores. Political scientists who are involved in the political assessment of the level of risk in their use in practice, often use of risk assessment methods based on the use of probabilistic

models. Probability estimates are transformed into point, on the basis of which is determined by the rating of the country (or other strategic areas of activity). (Bekefi, Epstein, Yuthas,2008)

It is worth mentioning that there are five top political risks and a number of significant multinationals have reported loses as a result of these risks in the years (2013, 2014 and 2015) and the figure bellow shows these risks and the percentage of their influence.

Figure 1. The Top Five Political Risk



Source: Export Development Canada, 2015

3.1.7 Different basics of classification:

By types of entities that generate a risk, allocate the risks caused by the actions of the government, parliamentary opposition, non-parliamentary opposition groups, unorganized interest groups, foreign governments.

Depending on the organization, affecting the implementation of commercial or investment operations, political risks can be divided into: the risks arising from the actions of the government of the host country, the host country government enterprises and supranational authorities.

Based on structural and functional elements of the political risk is divided into five categories:

1. Risk transfer: restrictions on export of products or resources;
2. Operational risk: it affects freedom of enterprise managers;
3. The risk of modification of regulations;
4. The risk of loss of property, such as nationalization;
5. Contractual risk (breach of contract).

The most common classification is based on the separation of political risk arising from unforeseen events influenced by the overall situation in the country and the risks caused by the actions of the authorities. This classification brings together almost all kinds of political risk:

- 1 Unforeseen events (revolution, a change of government, a change in government, war, political unrest, civil war, the damage caused by foreign employees);
- 2 Actions of the authorities;
- 3 Political (confiscation of assets, embargoes, changes in legislation, the rupture of relations, illegal or politically motivated due to review the guarantee, the termination of contracts with private customers as a result of the authorities' actions);
- 4 Administrative characterized Mr. (revocation of licenses, hindering the implementation of export-import operations);
- 5 Macroeconomic (prohibition on the conversion or transfer of funds abroad, carried out drastic changes in the economic condition of policy).
- 6 Microeconomic and financial nature (unilateral termination of the contract the state enterprise, the default on the part of government customers, failure to arbitration awards, non-delivery of products).

3.1.8 Managing Political Risk and Doing Business

- Estimates of political risk are used, above all, at the stage of decision-making, but in recent years they are applied and their implementation time, which is reflected in the relevant purposeful activity - risk management. We are talking about the need to influence the course of events in such a way as to avoid the creation of critical situations related to excessive risk.
- Risk management - a process associated with the identification, risk analysis and decision-making, which include maximising the positive and minimising the negative consequences of risk events.
- American Project Management Institute (PMI), develops and publishes standards in the field of project management, significantly reworked sections governing risk management procedures. The new version of the PMBOK (the adoption of which is expected in 2000) described six risk management procedures. (Project Management Institute, 2007)
- The risk management process of the project includes the following procedures:
 - 1) Risk Management Planning** - choice of approaches and planning activities to project risk management.
 - 2) Identification of risks** - identification of risks that could affect the project and documenting their characteristics.
 - 3) Qualitative risk assessment** - qualitative analysis of risks and conditions of their origin in order to determine their impact on the success of the project.
 - 4) Quantitative assessment** - quantitative analysis of the likelihood and impact of risks on the consequences of the project.
 - 5) Risk Response Planning** - defining the procedures and methods to mitigate the negative consequences of risk events and the use of possible benefits.

6) Monitoring and control of risks - risk monitoring, identification of the remaining risks, the implementation of the project risk management plan, and evaluating the effectiveness of risk minimisation.

3.1.9 Political Risk Insurance Providing Good Medium for Business

The company, a leading foreign economic activity - export and investment - depend heavily on the action of various environmental factors. Geographically remote suppliers, the limited information about their financial and economic situation, the differences in legislation and legal systems, cultural traditions, and even customs - all this increases the risks of exporters and investors.

1. The burden of political unpredictability

- The company, a leading foreign economic activity may be assessed by an expert of political risks - in-house or by contacting the analytical service. Obtaining peer review gives the opportunity to choose the most effective way to manage such risks.
- The Company may use precautionary measures to prevent possible damage - to include in the contract protection clause, use financial instruments, factoring, selection of appropriate forms of payments, attracting sureties and guarantees, etc. However, given the potential catastrophic political risk, companies often prefer to share the responsibility with third parties. For example, the bank giving the loan to the buyer and bearing the risk of non-repayment. Closes the same person in the chain of the exporter (investor) - Bank almost always is an insurance company that provides protection against political risks.
- Political risk insurance because of their special character is a specific type of property and credit insurance and called the insurance of export credits against political risks.
- Under the insurance of export credit insurance in addition to political risks and understand the insurance of commercial risks. This separation principle is not only due to the differences in their nature, but also because of the use of completely different management mechanisms. Political risk assessment options, billing, the insurer's action in the event of a threat of an insurance case are different from the insurance portfolio management practices in the insurance of commercial risks. The main criteria for distinguishing between these two types of insurance a contractor status in the recipient country - that is important, whether the buyer is public or private enterprise.

- Under state buyers are understood agencies, institutions, organisations and companies, which are responsible for the obligations borne by the State and which cannot be declared bankrupt in a legal manner. Accordingly, the private buyer recognises a company that is solely responsible for its own obligations and which may be deemed insolvent.
 - The choice of this criterion is the possibility of bankruptcy proceedings with respect to the debtor companies, it is not accidental: the most important stage in the settlement of damages is the presentation by the insurer recourse for the return of the amount to the person guilty of the insured event. If the buyer has the status of a private company, the recoveries shall be in accordance with the legislation on insolvency (bankruptcy) or other available means. This method is used by insurers of commercial risk, i.e. the risk of default loan private debtor. If the counter party in the transaction is the state of foreign trade, the recovery mechanism is quite different, and it is a question of political risk insurance.
 - For a long time, it was thought that it is impossible to enter into circulation recourse in political risk insurance, as the guilty party in favor of foreign states. But practice has shown that accessible way is the conclusion of agreements for repayment of payments or part of the insurer in the programs for restructuring the debt of these countries.
2. Thus, the insurance of export credits against political risks may speak in the case of non-payment partner, having state status, or in the case of damage to the property interests of the exporter in the implementation of political risk when the counter party is a private enterprise. (Citron, Nickelsburg, 1987)
 3. The path to the gentleman's agreement
 - In practice, it highlights the investment insurance against political risks. This is because, firstly, the investment operations are usually longer duration than export, insurance coverage, and the period is sometimes stretched to 20 years. Secondly, their volumes can reach very large values, hence, the extent of the damage can be impressive. Thirdly, investment operations to a greater extent than exports, inherent risks such as the risk of expropriation, nationalisation, confiscation. Not all insurers can take their insurance, as this requires considerable financial resources, the availability of skills in working with these risks, good reinsurance protection. (Biswas, 2018)
 - Joint implementation schemes coinsurance market participants (large risk sharing between insurers) and re-enables to carry out the largest foreign trade, promoting the development of international economic relations, the strengthening of ties between

subjects of different ethnic origin (public and private insurance companies, banks, enterprises).

- Specificity of political risk insurance was largely determined by the development of this type of insurance. The impossibility of the mathematical evaluation of the probability of occurrence of insurance events and summarising statistical basis for this type of risks, the catastrophic extent of the damage and the absence of the first-time treatment recourse mechanisms - all this led to the fact that since its inception in the 20ies of XX century until mid 70ies of political risk insurance was virtually a monopoly of state-owned companies. Losses from the realization of this type of insurance was so high that private companies in this type of insurance is not engaged. State same company had the opportunity to use the budget to cover the negative performance.
- Export credit agencies - ECA (Export Credit Agency) gradually began to appear in all Western countries. The first agencies were in Germany (Hermes) and the UK (ECGD - Export Credits Guarantee Department), other countries soon followed suit. (Stephens,1999)
- The rapid growth of international trade after World War II led to the revitalization of the State to strengthen the position of domestic producers in world markets. Given the prohibition of the GATT (General Agreement on Tariffs and Trade - General Agreement on Tariffs and Trade) to subsidize exports, the state began to use insurance as an indirect way of promoting exporters (along with subsidized credit, the provision of state guarantees, etc...). (Marceau, 2015)
- In the 90 years of the twentieth century came the "peak" creation of state credit agencies, which resulted from the opening to the outside world of the former socialist countries (Hungary, Romania, Poland) and active involvement in the international economic relations of developing countries (Colombia, Chile, Brazil). The desire of governments of these countries to promote national exports and increase the competitiveness of their products on world markets is reflected in the use of instruments to promote foreign trade.
- Increased competition in the world markets has led to the fact that the developed countries (especially countries - members of the Organization for Economic Cooperation and Development, OECD) have limited the state stimulation of export of goods. Within the framework of the GATT in 1978 was concluded a "gentleman's agreement" (consensus) of the permissible range of concessional lending. It stipulated the minimum size of the down payment (15% of the contract amount), the frequency of the timing of

payment of the loan, the differentiation of credit conditions for the three groups of countries (rich, average, poor), the minimum interest rate, the maximum term of the loan, and so on. D. In its development is not the last role played by ECA members of the International Union of insurers of export credits and investments which, in turn, entered into a Bernese agreement (Consensus OECD, 1978), provides for limitations on the duration of insurance cover five years (later the term was increased). Consensus is observed by the signatory countries, with some amendments, which allowed the terms "gentlemen's agreement", but its stabilising role in the regulation of export credit, of course, great. The ratio of the ECA to the Berne Convention is quite inconsistent: States require compliance with uniform rules of export insurance, and insurers in the state of competition in the market often shy away from the conditions of the agreement. (Shaffer, Wolfe, Le, 2015)

- Gradually, in the ECA began to show a tendency of translation of certain types of insurance activities (mainly political risk insurance of short-term) on a private basis, which means that the partial privatisation of state-owned companies (as did the British ECGD and Belgian ONDD in 1991), and private companies, acting on behalf of States began to observe the process of expansion of the spectrum of activity in political risk insurance, carried out at their own expense (Coffee, Euler Hermes). Thus, the state of their actions has actually recognised the competition from private insurers and indirectly confirmed the existence of the right to private companies for political risk insurance. (Gordon,2008)

3. The private sector

- For a long time, the private sector to be ignored. Only after the Second World War began to take Lloyd's syndicates to insure political risks, but it happened rarely and sporadically. One of the first private companies to take a political risk insurance on a regular basis, became AIG (American Inter-national Group). (Paul, 1987)
- Subsequently, private companies have found their niche in the political risk insurance market.
- Private insurers, not having the financial power of the state companies, we were able to provide other benefits to exporters and investors. First, they use an individual approach to each risk and, therefore, use a more flexible scale of premium rates. Secondly, they

take on insurance - on a par with the export - and import operations, as well as the compensation deal, not insured by ECA. Third, they have virtually no restrictions on the country: in the selection of the risks they are not guided by political motives and interests of the State and the economic substance of the transaction and the expected return. The cost of insurance from a private insurer is not much greater than or equal to the cost of insurance coverage in the state agency. (Torre, Neckar, 1981)

- One might say that private insurance has developed in opposition to the state, but it only contributed to the spread of political risk insurance, and the emergence of new practices that risk management techniques.

4. Features of public and private forms of political risk insurance

- ~ For government ECA characterised by the following:
- ~ activity subject to the public interest;
- ~ term policy is valid up to 20 years;
- ~ Risk analysis is carried out on the principle of "country risk";
- ~ Foreign companies cannot act as insurers;
- ~ insurance coverage are common conditions;
- ~ premium rates are calculated on the wage scale;
- ~ uniform methods of foreclosure.

Private insurers are distinguished:

- the desire to preserve profitability and balanced insurance portfolio;
- the policy does not exceed 12 years;
- risk analysis on the basis of "risk - operation" or "risk - the project";
- there is no discrimination on a national basis;
- Individual insurance coverage;
- billing for each contract separately;
- individualised foreclosure program.

- Disadvantages of a form of insurance offset by strengths in others. Perhaps the prospect of political risk insurance development consists precisely in the interaction of public and private insurers and schemes and reinsurance seem to be most effective form of this cooperation. They will without a special burden on the state budget and without the threat of violation of the liquidity of a private company to take on insurance risk of various origins. This cooperation is also facilitated by the fact that the fundamentally important conditions of insurance coverage in the policy of government agencies and private companies are almost identical.

3.1.10 Globalisation and Doing Business under Political Risk

Efforts since the end of last century, the processes of globalisation is largely influenced by the nature of international economic activity, including changes undergone and political risks. Among such modifications are:

- Political risks are more long-term (this applies to both export and investment operations) due to the fact that the expansion and strengthening of economic relations between countries contributed to the development of long-term forms of cooperation.
- In addition, activation of investment activity means an increase in the share of investment of political risks (confiscation, nationalisation, transfer);
- The emergence of new lending instruments (eg project funding), the emergence of new forms of payments caused the emergence of new risks (eg the risk of non-disclosure of a bank letter of credit);
- It changed (and continues to change) the geographic distribution of risk. Companies with international distribution of production capacity, are able to carry out ex-tailors the delivery of the closest points to the buyer;
- The activities of transnational corporations create new risks. For example, how should the political risks in the implementation of internal corporate sales between TNK companies located in different countries? So-called "global companies" perceive the world as a single market and a greater risk of transfer, and the "multinational companies" that divide the world into many independent markets - risk control; (Cleary, Malleret, 2008)

- It changed the state's role in the global economy. It is increasingly moving away from direct involvement in foreign economic relations, strengthening its regulatory and supervisory functions, and this directly affects the political risks. Globalisation is also accompanied by the establishment of international economic organisations of uniform rules of foreign trade and the harmonisation of requirements for the customs and tax policies. (OECD,2004)
- Thus, under the influence of globalisation processes, political risks have not decreased, but modified. Awareness of this fact is very important in the development of risk management policies and, above all, in its assessment

3.1.11 Political risk and market

- In this part, the issue discussed is how political risks threaten markets. The problem is shown using the situation of China in the year 2013 as an example.
- Political instability in emerging markets, especially China, was one of the main risks for the global markets in the year 2013, a well-known economist, head of Eurasia Group Ian Bremmer. So, here we see what was said about the case at the time.
- It was believed that the threat of political instability in 2013 for emerging markets as a whole significantly underestimated. This was actually what was said by an economist at the Reuters conference in New York. The biggest concern was China, whose relations with neighboring Japan began at that time to deteriorate. In addition, the investment environment in China was becoming more uncertain.
- The level of uncertainty about investing in China was many times higher than, for example, in the US, but no one ever said that he preferred to postpone investments due to uncertainty in China, stressed Bremmer. However, in reality there was a problem, and investors were beginning to fear the "unstable" countries more.
- Since the financial crisis of large emerging economies such as China, Brazil and India, supported by the growth of the global economy, with some countries growing at 10% per year. However, in 2012, the results began to decline: Now it is expected that China's growth will be limited to 8%, while growth in Brazil - only 3% of the small. "At a time when global growth is, in principle, weakened, investors will no longer put GDP growth at the forefront and will invest in the most quiet and reliable regions. And it will not bring benefits to China and many other emerging markets, - said Bremmer. - Countries should demonstrate the ongoing political and economic

development, if they are to remain attractive to global investors. " (The BRICS Report, 2012)

- Bremmer called the country that this is clearly not doing: Russia, Ukraine and Venezuela. According to the economist, "this is a real problem." A professor at New York University's, Roubini added that the political problems in China could lead to a sharp slowdown in the economy. The expert is concerned about the possibility of a "hard landing" in China, showing that his concern is the new Chinese leaders seem to be very cautious, and they can carry out reforms is much slower than necessary". (Roubini, Bremmer, 2010)
- According to the scientist, China has seen significant risks in the second half of 2012, when GDP growth could slow to 6% - this is not a "hard landing", but slowing, which could undermine the global recovery. (Hasenstab, 2015)
- According to Reuters, China's economic growth accelerated to 7.8% in the fourth quarter of last year, after seven quarters of weaker growth. (Harjani,2012)
- HSBC Bank experts are optimistic about China's future, believing that the country related to China, also will be able to significantly accelerate growth. "The growing influence of China is the engine of the" great turn "in economic activity from the weakening of the old world to the new world dynamic. Currently, the benefits recovered countries geographically close to China and play an important role in satisfying its huge demand for raw materials, - noted in the report of the bank. - Countries that have increased the share of exports to China and reduce exports to the West, mainly received the rapid growth of economic activity over the last ten years. (Garnaut, Fang, Song, 2013)
- Analysts believe that the "old world" (that is, the major developed countries of the West) will have to strengthen ties with China, to spur their development. Now the share of US exports to China is only 0.7% of GDP, while in the UK, this percentage is even smaller. (Samuelson, 2012)
- As for the other major developing countries, they also showed some success at the end of last year. Brazilian production increased for the first time since the beginning of the fourth quarter of last year, with the rate of growth was the fastest since the first quarter of 2011. In India, the growth of production also accelerated, while in Russia the growth rate as a whole remained stable.
- In the fourth quarter the volume of services sector of the BRIC countries increased slightly faster than in the third quarter, when it was registered the annual

minimum. Thus, among the countries of the "quartet" there is a generally positive picture is an improvement over the third quarter, which gives hope for the best and summaries HSBC. However, economic success is possible only if political stability in developing countries. (Larinova, Kirton, 2018)

4. Practical Part

4.1 Russian Example of Political Risk and Doing Business

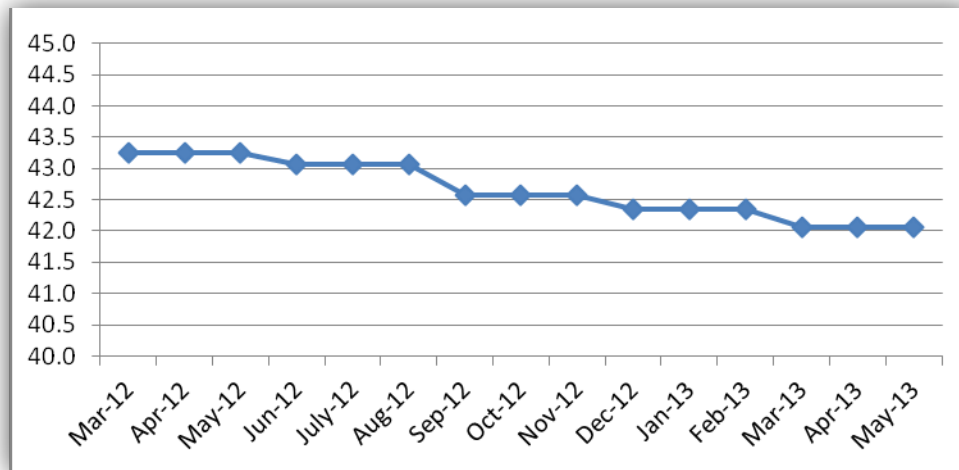
Recently, in Russia a unique situation with political risk is witnessed. Putin's rule considers that these risks are associated not with the fact that the modernization strategy can be reversed, but with the continuation and strengthening of the current trends in the development of the political regime.

The challenge for Putin's modernization is not a choice between democratization and liberal economic reforms. History knows many examples of not just reform, but the economic miracles were committed by authoritarian regimes (Taiwan, Chile, etc.). However, such reforms could take place only if the demonstrations consistent political will of the elites, relatively honest and competent judicial authorities of the state bureaucracy and more or less to curb corruption. As for Russia, then to the extent that the regime becomes more vertical or mono centric, factors likely create problems of its efficiency promoting the modernization project. Thus, the only recipe for successful modernization in Russia is liberal structural reforms and democratization, which will help to curb bureaucratic arbitrariness.

It is important to note that foreign investors place greater importance on political rather than economic risks. In a study of 154 foreign investors, which in 2005 held a company of PBN, 5 main obstacles to investment in Russia are clearly political in nature: corruption (referred to 72% of respondents), administrative barriers (66%), the selective application of the law (56%) imperfect and contradictory legal basis (51%), the conflict between business and government (29%), increase state control over the economy (23%). At the same time consensually recognized advantages of investing in Russia primarily economic in nature: the Russian market (88%), high rates of economic growth (77%), skilled cheap labor (55%), and only the fourth factor is political - macroeconomic stability (46%). (Meissner, 2016)

Summarizing about the same list of barriers to doing business, Standard & Poor's rating agency adds unpredictable mechanisms for the implementation of economic policies and actions of regulatory agencies. The concentration of political power, in other words, mono centric regime, has become the main feature of contemporary Russian politics. It carries both positive and negative implications for the business environment and investment climate. At the same disadvantages, as it often happens, it is closely linked with the merits, often being their continuation. Figure (2) below shows the assessment of political risks in Russia from March 2012 to May 2013.

Figure 2. Russia: Political Risk Assessment



Source: (Euromoney, 2013)

Among the positive effects include the following:

- President's high popularity and loyalty to him of all the institutions of power reduces the risk of political instability: the probability of the "orange revolution" is relatively small;
- The executive has tremendous freedom of action for the implementation of structural reforms in the economic and social spheres;
- A high degree of control over regional politics: the appointment of governors and risks of abuse of power at the regional level are reduced substantially;
- A healthy fiscal policy and petrodollars accumulated in the stabilization fund, to create a regime sufficient protection against the risks of destabilization in case oil prices fall on the script in 1998. (Davis, Ossowski, James, Barnett, 2001)

Negative consequences mono centrism can be summed up by the observation that mono centric regime objectively narrows the base of support for the modernization and creates an incentive for action illiberal elements in the political class and bureaucracy, accustomed to tight control over the business and collecting tribute from him. This definition of "packs" a whole set of political risks for business. As we show below, these risks are absolutely inescapable; most importantly, that their combination significantly complicates strategic planning of investment in Russia.

The list of political risks, you can start with a few unexpected angles: changing social and political climate. Most of the people coming into the ranks of the ruling class (the majority of the pro-Kremlin faction in the Dumas, officials at the central and regional power devices, etc.), adhere to the statist and dirigisme approach to the economy. Periodically put forward the idea of state capitalism, it is proposed to spend oil revenues for investment purposes, set tighter state control of various economic activities. Moreover, not all such plans promptly disavow state. It is important to note that these ideas are supported by the majority of public opinion, which remains largely paternalistic.

Thus, liberal ministers in the government are transformed into almost a minority besieging armies deregisters aggressive and populist. Recent events show that the Liberals are able to defend their position: this indicates the resolution of contradictions between Alexei Karin and Michail Frodo on the issue of VAT (its reduction was offset by the direction of the provision of the stabilization fund in the federal budget), as well as promises that Vladimir Putin gave business leaders at their recent meeting in the Kremlin. So, the Liberals still have the upper hand, but there is little doubt that the contradictions between them and deregister will remain in the future. (Keen and Smith, 2007)

It is often argued that the mono centric regime can act more effectively, especially against the backdrop of the chaos and turmoil that characterized Russian policy of the past decade. However, many factors of development of the Russian mono centric policies raise serious doubts about the effectiveness of such a regime:

- Mode feedback loses the ability to absorb negative information. With limited opposition in the parliament, controlled by federal TV channels and curb the Kremlin governors often underestimate the possible effect of their policies. A striking example of this phenomenon is Kremlin's inability to foresee the negative public reaction to the monetization of social benefits. Cancel popular election of governors and Duma deputies will cut two more channels of communication between the government and the people. (Krastev, Leonard, Wilson, 2007)

- It increases uncertainty in decision making. In fact, the president's cabinet, formed in spring 2004, it is often divided in their approaches to macroeconomic policy. Just three examples: the prolonged uncertainty in the decision about the merger of "Gasport" and "Grown Oil" and the fate of long disputes on fiscal policy (reducing the VAT to 13%, the proposed Prime Minister Frodo, and set on the liberalization of tax administration measures proposed by liberal ministers Kudrin and Graf, mutually exclusive proposals on the use of tax

mechanisms: minimizing pressure on the business (such as limiting the number of tax checks) against a repressive approach (implying confiscation of property and the abolition of the statute of limitations on tax crimes). (Dobby, 2011)

As practice shows, the final result is often winning a reasonable solution, but such uncertainty associated largely with "manual" control of the country by the President (who objectively cannot respond quickly to a lot of diverse issues) generates fears and doubts in the business community and It slows the pace of structural reforms. These reforms are still being planned and run, but to implement them can be achieved only on manual control of the President and his closest aides.

- To enhance the role of administrative irregularities. According to an old Russian proverb: "fan of the king but does not favor huntsman." Without proper checks and balances, with limited public control every level of bureaucracy succumbs to the temptation to use the power to slow down or reverse the implementation of decisions already taken at the top. Thus, the business is forced to corrupt behavior. An illustrative example of this - the decision on the construction of an oil pipeline to the Pacific Ocean, which is blocked in all possible ways. (Kangaspuro, Smith, 2006)

Counter weights bureaucratic abuses extremely weak. Some representatives of big business with political ambitions ("oligarchs"), may have been interested in reducing the level of corruption in the country, as hoped for own "embed" in the global establishment - however, we should not forget that "the oligarchy" largely contributed to the growth of corruption in the state apparatus. In the words of Mikhail Khaddar, the corruption began with us, on us and over. But the very development of the "Yokes case" showed that the "oligarchy" is losing the struggle for influence in the state apparatus. As for other possible balances (the legislature, civil society, etc.), They are too weak to play that role effectively.

Returning to the subject of the business climate, it is possible to ascertain the presence in Russia more statist approach to two related issues: control over oil and other natural resources, and the admission of foreign direct investment into the country. These approaches are manifested in various ways:

- "Yokes affair", which was preparing for large-scale transactions with foreign partners;
- Restricting access of foreign companies to the strategic oil fields;
- Required the approval of any purchase of assets in Russia by foreign companies at the highest level, such as the sale of a minority stake in Lukoil, the deal "Siemens" with "Power

Machines", the transaction is an independent gas company Novatek now Total; (Russia Country Report, 2018)

- The formation of large state-owned players in the oil and gas sector (Gasport extremely opaque purchase of the former private company). In fact, we are talking about the accelerated development of "state enterprise" system, in which private investors (foreign and Russian) is given with respect to a secondary role. (Energy, 2018)

Thus, the arrival of foreign investors are still welcome, but only with the approval of the authorities and their agreement on the conditions that do not allow to get a real impact on the management of the largest Russian companies (acquisition of a minority stake, the entry into a partnership with Russian companies, more susceptible to pressure from the authorities, the use of the PSA mechanism). This approach has already led to a general shift in the priorities of the government. In the first years of this century, the Russian government has sent a distinct positive signal to foreign investors, after the "Yokes case" it does not feel obliged to take into account when deciding the possible reaction of foreign investors. (Shulga, 2001)

It seems that the investment attractiveness of the country remains one of the significant factors for the Russian government, but it ceased to be an absolute priority over other tasks (as was the case in 2000-2003, when it was explained that the adoption of many of the liberal laws, even not directly related to the economy - for example, the introduction of jury trials). Attention is drawn to the statement of President Igor Shovel, aide that although no one wants a repeat of the situation with Yokes, but if necessary, "we have the same steps used in the future, even if it would adversely affect the investment climate in Russia." (Elagin, 2014)

Thus, we can say that the trust between government and business is undermined. "Yokes affair" and anti-oligarch campaign of 2003 actually became a demonstration of the new unwritten "rules of the game" for the Russian business. As subsequent events showed, these rules include:

- Rejection of the political ambitions and activities;
- Tight fiscal discipline, including a ban on the use of "holes" in tax law (as the court statistics, in recent years, the proportion of claims that are won by the tax authorities, has increased dramatically);

- "Social responsibility" of business, including "prompted by" the authority's donation for social projects;

- Encouraging public-private partnerships, i.e. directed state investments.

Completely predictable reaction of the business, which we see in our research and communication with entrepreneurs, was the loss of motivation to business. In the past decade, Russian businessmen was peculiar, so to speak, can-do-ism belief in his ability to achieve in spite of obstacles of every kind, but now it is inherent caution and self-doubt.

Many complain that they have to "get" the bureaucratic pressure and threats. According to one prominent Russian businessman, "each of us has in his pocket 10 grams of heroin, even if pockets did not," i.e., any business can be "run over" under any pretext. The last meeting of President Putin with the leaders of the business community is encouraging, and not the specific measures are particularly important, he suggested (e.g., reduction of the period of limitation for privatization deals to three years - the actual closing of the privatization dossier in a situation where the statute of limitations on many transactions took place or already passed, and much of the privatized companies in that time has passed legally into the hands of bona fide purchasers), and demonstrated they will make up the damage caused business confidence to power. In the same row, and the statement of President Dmitry Medvedev, the head of the administration of that "state capitalism - the way to a complete monopoly and stagnation in the economy." But the consequences of the crisis of confidence will be felt for a long time. (Blakkisrud, Kalsto, 2016)

So far in Russia is possible not only to establish clear rules of the game in the relationship between government and business - they are diffuse in nature, it is largely based on informal factors - but also to build a reasonable system of "balance of interests" between them, similar to that established in the US (is not without conflict) during the presidency of Theodore Roosevelt (guarantee of private property combined with efficient current antitrust law).

To summarize, we say that Russia has not ceased to be an attractive area for business and investment. However, political leadership is sending mixed signals business. Communist revenge for a long time is not possible (in this respect the rights of Anatoly Chubais when he said in 1996, that hammered the "last nail in the coffin of communism"), but no less important problem is the challenge posed by the bureaucracy. Much now depends on how much power will be able to demonstrate the will and restore its viability, to solve the acute problems and restore confidence in relations with business - community. So far, the business

makes positive steps towards preserving the balanced over it "sword of Damocles" that increases the level of risk. (Littell, 2005)

4.2 Political and Security Risk Threatening the Middle East Economy

The oil-rich countries of the Middle East are displaying increasing instability while at the same time creating greater trade and investment links and dependencies with the developing countries. (Sethi, Luther,1986)

In a British report for 2017 under the title "The 2017 Risk Map", we see that predicting the future is a key to the wealth and influence of economic, commercial and political institutions. In this report surveys of what the new year could face at various levels in the world in general are provided. (Marsh, 2017)

Analysts present a comprehensive map of potential political and security risks each year. This year's report, entitled "The 2017 Risk Map", was published in an attempt to analyze the trends and phenomena of the year, based on an analysis of the current situation and following trends in the development of global and regional issues in previous years to paint a picture of the world in general and the Middle East in particular.

The Middle East and its implications for the year 2017 were a significant aspect of the report. A part of the report was devoted to reviewing the location and level of political and security risks expected in the region.

The Analysts have developed a number of indicators to assess the severity of political risk in the Middle East. On page 42, the report indicates that the political risk index assesses the potential negative impact of political and non-governmental policy policies on commercial economic processes, through system stability or direct and indirect intervention. The impact of social and structural factors such as corruption, infrastructure and bureaucracy Commercial Business.

The report identifies a number of degrees that measure the severity of these risks, ranging from: a **small level of risk:** a good business environment, stable political stability, investor-friendly policies and no contract-related threats and business infrastructure in perfect condition and a **low level of risk:** the existence of political and operational conditions on a large scale, and full reduction, or the occurrence of occasional cases, the level of obstruction of business. For example, there are some government policies which are investor-friendly, with some exceptions, contracts are generally respected, there is little negative impact of non-government actors on government decisions, infrastructure is generally strong or there is little risk of non-compliance losses.

And then an **average level of risk:** in which a healthy business environment is available in general but some challenges arise. For example, hostile pressure groups exert disproportionate influence on government policy, political instability disrupts necessary reforms, contracts are subject to uncertainty or are subject to occasional changes, weak infrastructure elements or activists from different federations and demonstrators disrupting operations and production.

After that a **high level of risk:** in which the security and political environment is a challenge to the business sector, some of which may be dangerous.

For example, there is a potential risk of non-recognition of contracts or renegotiation by government actors. Political instability threatens to cause fundamental changes in the nature of the state. Government policy is harmful to projects and businesses. Corruption is endemic at all official levels. The rules are cumbersome and are applied erratically.

Follows a **sharp level of risk:** in which conditions are hostile to projects and businesses.

For example, there are direct interventions such as nationalization and property seizures are likely to occur. There is a regular state of political instability that leads to the absence of the rule of law, the nature of the ruling regime creates acute reputation risks, government structures are inadequate and infrastructure is almost completely weak.

At **the security level**, the ability of actors from both countries and non-states to engage in actions detrimental to the physical and actual physical and human assets of corporations has been assessed and assesses the extent of the State's will and capacity to protect those assets.

The report identified a number of measures that measure the severity of these security risks, ranging from: a small level of risk: at this level the business security environment is good. For example, the authorities provide an effective security service, there is no political violence, there are frequent public outbursts, there are no known active groups, and there are no issues calling for violence.

Low level of risk: At this level, the security situation is broadly positive, and there are low-level challenges so that they can not impede action. For example, the authorities provide appropriate security services and organized crime can only marginally affect business and projects. The protest rarely develops to the level of threat of violence or actual violence. Large-scale, rare terrorist attacks may pose an indirect threat to persons and assets or may cause low-level attacks but are not targeted at acts and projects and are not intended to cause injury.

Medium level of risk: The security environment poses challenges for the business sector, some of which may be serious, for example:

There are some shortcomings in state protection and the proliferation of organized criminal groups that routinely target many businesses through fraud, theft and blackmail, and terrorist groups disrupt work by sporadic or large-scale intermittent attacks. Or there may be unusually large attacks, small-scale attacks against individuals, foreign assets or projects occur.

High level of risk: persistent threats to the dangerous security environment of businesses and projects, requiring special security measures. For example, state protection of projects is severely limited, there is a sustained impact of insurgents on businesses, foreign employees are kidnapped, and terrorist groups regularly attack foreign assets and businesses, with weak security capabilities and inability to deal with terrorist activity.

A very sharp level of risk: the security environment is hostile and projects are nearing a difficult stage to defend. For example, there is no law or order, and there is an outright war or civil war, with the intensification of terrorist acts, where one or several organizations wage a high-intensity campaign of violence, disrupting projects, and targeting foreign terrorists and productive activities on a regular basis.

Turkey has been classified as having moderate political risks in 2017. On the security level, the danger will be high in the Turkish areas bordering Syria and in the east and southeast of Turkish territory. In light of the escalating conflict between the government and the PKK(kurdistan worker's party). The provinces of Kars and Ajder suffer from the deterioration of their security situation. There are predictions that the confrontations will continue within Turkish territory during the first half of the year without extending outside the region.

(World Investment Report, 2017)

As for Iran, experts expect the political risks to be high, while security risks within the country are classified as moderate, with the prospect of violence in Sistan, Baluchistan and Khuzestan along the border with Turkey, Iraq and Afghanistan. (Christensen, 2011)

As far as Israel is concerned, according to the experts' view, there will be a low level of political risk, but it will present moderate security risks, especially in border areas.

Iraq will face political risks ranging from moderate to severe in Kurdistan. There will be security risks ranging from medium to very severe in Kurdistan and very high in the Kurdish border areas and in southern Iraq. (Chmaytelli, Toksabay, 2017)

Lebanon will face moderate political risks, while security risks will range from medium to high in the northern and eastern borders (the Syrian border), the Bekaa region and Tripoli. Syria's political and security risks during the year were classified at a very high level of risk.

Libya is cited as a high political risk. Security risks range from very severe to high in the following areas: Misurata, Merqab, Tripoli, popular Jafara, Zawiya, five points, the western mountain, areas of Nalut. (Political Risk Atlas, 2014)

In Sudan, the level of political risk rises to a high risk level. On the security level, the danger remains at the intermediate level, but it reaches a high risk in South Kordofan and Blue Nile and a serious security threat in Darfur.

The areas of the Palestinian National Authority will have a high level of political risk in the West Bank and a very sharp Gaza. While security risks are moderate in the West Bank and high in Gaza. (Djerejian, Muasher, Brown,2018)

As for Egypt, a high level of security risk was warned of the tension in neighboring Libya and the continuation of military operations against terrorism in part of Sinai. Saudi Arabia has a dangerous security and political level, but the level rises to the high security risk in the border areas with Iraq and Yemen. (Aon,2017)

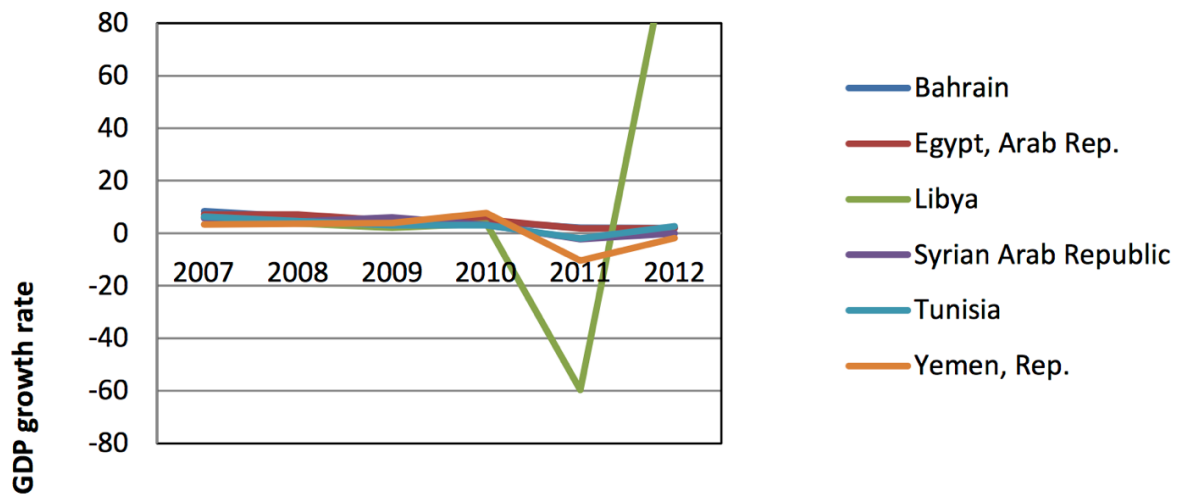
Table 2. The Arab Spring and GDP growth rate in six economies in the MENA region

Country	2007	2008	2009	2010	2011	2012
Bahrain	8,34	6,30	3,10	4,50	2,10	1,90
Egypt, Arab Rep.	7,09	7,16	4,69	5,15	1,80	2,00
Libya	6,00	3,80	2,10	3,70	-59,70	120,00
Syrian Arab Rep.	5,70	4,50	6,00	3,20	-2,30	N/A
Tunisia	6,34	4,62	3,05	3,00	-2,00	2,70
Yemen, Rep.	3,34	3,65	3,87	7,70	-10,48	-1,90

Sources: World Development Indicators 2012

Turning to the economic consequences of the Arab upheavals, Table2 and Figure 3 show the impact of the 2010-2011 events on the GDP growth rate of six economies in the region. The slump is particularly impressive in the case of Libya, occurrence which is easily explained recalling that the Libyan economy hinges on the extractive sector (therefore, cuts in oil and gas output due to the rebellion against Muammar Gaddafi's regime and international sanctions had an immediate and visible impact on the GDP). (Sottilotta, 2013)

Figure 3. The Arab Spring and GDP growth rate in five MENA countries



Sources: World Development Indicators 2012

4.4 Multinational Examples of Political Risk

1. Real-world Example Expropriation

A subsidiary of Australia's Churchill Mining discovered substantial coal deposits in Indonesia. Subsequently, the Indonesian government took a series of actions that led to the expropriation of Churchill's rights over the country's East Kutai coal mine. This caused Churchill losses of over US\$1 billion.

Indonesian authorities claimed that Churchill didn't have the appropriate licenses for exploration and extraction at the Kutai site, while the mining company claimed that the government arbitrarily altered the terms after the site was found to have vast coal reserves. In February 2014, the International Centre for the Settlement of Investment Disputes ruled in favor of Churchill.

2. Real-world Example Political Violence

During 2014, guerrillas increased their attacks on Colombia's energy infrastructure as they tried to improve their position in peace talks with the state. The Colombian Petrol Association reported that as of July 2014, these attacks had cost the industry, which includes many foreign investors, US\$460 million.

3. Real-world Example Transfer and Conversion

In December 2013, the Ukraine Central Bank tightened controls on the capital account as the economic crisis in the country became worse. The government forced all companies, including foreign-owned firms, to convert 50 per cent of their foreign exchange earnings into local currency and imposed a moratorium on the pre-payment of commercial debt. (Export Development Canada, 2015)

5. Recommendations

Facing political risks means that some international companies are suffering from big losses through by losing large amounts of money during the closure of their business units. Nowadays, international companies are somehow aware of the risk of political instability in the whole world. Russian, Middle Eastern and multinational companies have lost huge revenues from their property, which has been damaged by political risks. Supply chains are also under pressure. As a result of this, special centers examine political risks and their results, make predictions and identify certain factors to avoid future damage to any commercial enterprise, wherever they may be, and companies and policymakers should only follow these analyses in order to avoid bad results of their business and economic projects. Talking about controlling the consequences of political risks on doing business, it is worth mentioning that the most important factor is the leaders' role, regarding that they are the active players in every country. Leaders need to realize that they will not be able to identify all the political risks. This is because in some cases it is difficult to avoid political risks, so they have to develop exit strategies and alternative investment options on an ongoing basis, especially as companies invest more and more money in their infrastructure.

Leaders need to diversify their political risks. Companies with strategic business units in different geographic regions need to recognize their cost base, and some areas that look very attractive may have high political risk. For example, if you plan to move to Nigeria, there may be "some political risk", but at the same time cheap materials and resources are available for those companies as well. This means that there is a barter and leaders must look at the costs and the benefits of diversifying their strategic business units in different regions. Anyways, I believe they should not put all their efforts in one region or one side and simply use the good circumstances wherever they are but properly.

Another important factor in controlling the losses in doing business under political risks is basically the role of companies. First of all, companies must have a deep understanding of insurance and its power as a way to mitigate political risks. While political risks and macro-level disasters are very difficult to be managed at the company level, political risks can be defended against a premium. This comes at a great cost, but the best use is absolutely safe, especially in combination with more proactive risk management strategies.

Also, companies need to acknowledge the macro and a micro political risk environment. Micro-level risks affect industries or projects while macro-level risks affect the entire economy. Risk can be managed at the micro level more easily. Investments can be

transferred to different industries, companies can find a new local partner, and the worst scenarios can make a claim for insurance. However, the risks at the macro level are the diversity that you should see before it comes because if the nation in which you are investing closes its borders, devalues its currency or even enters a civil war, you and your money are left with very few options.

Something very important that companies should do also is avoiding political risks with control procedures. They must be proactive and avoid situations of explicit political risk. Large companies use advanced scoring systems to assess political risks in regions. However, some of them employ a professional chief risk officer or a director of government affairs whose only responsibility is to stay at the top of potential political risks, such as unsafe political climate, new legislation, elections, etc. Smaller companies leave this responsibility to the CFO or CEO, but in either case, there is always someone responsible for managing the political risk. Accurate assessment and analysis of situations is essential to avoid political risks by eschewing investment in high risk areas and attracting funds from areas when they become risky.

Taking political risks seriously involves companies that take proactive steps to assess and mitigate their risks. As known, the effects of political risks are substantial. Companies that invest in developing political capabilities, political resources, and corporate political strategies will sustain their competitive advantages despite being in risky countries. Certainly, this by considering the good analyses and trying to make the maximum benefit and searching for ways to minimize their losses.

6. Conclusion

The study presented in this thesis is dedicated to inform policymakers. While some facts are well understood already, others are not. The thesis points to a number of areas where more statistical data and new investigations could offer fresh insights relevant to policymaking. It came through different parts and sides of the problem of political risks and doing business. Knowing about the issue, its nature, types and many other important data explained by the practical chapter, helps determining what should be done in case of facing some similar problems during the process of doing business.

In different countries, the issue of political risks is one of the topics that has recently become of great interest for major and transnational corporations and international financial institutions over the last two decades. The study of this problem deals with the analysis of compounded risks such as political, financial and economic, determining different weights for each type of risk, showing the risk index and this is primarily what the study of political risks measures “the risk of international investment”.

The current situation of political risks on foreign direct investment in the world is getting worse. Losses in investment companies and global economies reached 15 trillion dollars. Many major companies and banks got bankrupt and many investment companies had to change the type of item they produce. This shows how wide the problem is, forcing companies and investors to know each and every detail about it if really interested in doing business. It is not enough to know what is being faced but also what is expected because this may change the future of the business if well analyzed.

Regarding Russian case, Russia has attracted foreign companies from all around the world and has become the third most attractive foreign direct investment country in the world after the United States and China. Moreover, Russia is now the second largest emerging economy after China. However, it is at the same time one of the most corrupted countries in the world. Political corruption remains one of the main problems of the political and economic development of Russia and the main problem for business. In addition, unstable property rights and the growing control of the Russian state over commercial activities and business circles have damaged the Russian business environment. Russia has been trying to have its own great role globally, but under the current situation predictions do not show a bright future of the Russian international position in the business market under the political risks.

Talking about investments in the UAE, it is worth saying that despite the fact that the UAE is in a politically volatile region and environment, concerning the situation in Iraq, the

Iranian controversy, Israel and other political risks. It has remained an attractive market for foreign investments. Economic and social environments, as well as the transparent economic policy in UAE were adopted for foreign investors to encourage investment on the one hand. On the other hand, investors' confidence in returning to the arena and in the laws in force in the field of investment support the progress of doing business.

There are expectations and dimensions of political risks and future variables of the global economy indicating that a radical transformation may be in the process of crystallization. The more we go forward, the more problems and difficulties appear in this field, especially that the political situation is very critical nearly all over the world. Taking that into consideration helps avoiding many losses. In addition to that being aware of the problem and all the factors around it, helps an investor turn the risk into a big gain. This is why this issue is one the most serious ones to be considered.

Several rating agency centers are involved in the major of risk studies such as Euromoney, Moody, Standard and Poor's, the International Country Risk Guide issued by the PRS (Political Risk Service) Group and the MARSH Risk Management Center. Some of them publish "Atlas of Risk", which are maps showing the extent and distribution of risks to countries of the world, the extent of their severity in each country. There are no major differences between international risk centers in ranking the major threats to the world. Security policy analysis can get benefit from political risk centers, not only for investment, but also for political and strategic hedging against security threats to national and international security or interests.

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10. Abbreviations:

CFIUS → Committee on Foreign Investment in the United States

VAT → Value added tax

PKK → kurdistan worker's party

GDP → Gross domestic product

PRS → Political Risk Service

CFO → Chief Financial Officer

CEO → Chief Executive Officer