

Key Political Risk Issues: Between Socio-Political and Environmental Components

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ABSTRACT

In modern political science, interest in political risks grows again, which also implies its subsequent assessment. To this end, a significantly developed network of specialized analytical centers has been created in the world. However, a universal definition of political risk has not yet been found; there is no universal methodology for assessing it. Analysis of a vast array of sources on the topic allowed us to identify the most general definition of political risk. This is the probability that political decisions, conditions or events in the country will affect the business climate in such a way that investors will lose money or will not be able to get the expected return. Robock, a professor at Columbia University, was one of the first to study the political risk category in 1971 (Robock 1971: 8). Since then, political risk has begun to be widely discussed both in expert management literature and in academic journals. However, the study of the category of political risk requires clarification. A decade earlier, in the 1960s, political risk arose as a purely economic phenomenon. Subsequently, the delimitation of its internal components took place, where socio-political and environmental components became the most important.

As a result of this study, a number of key political risk issues can be identified:

1. Political risk in its essence is very similar to the concept of uncertainty. Many of the institutions created by society can be considered as tools for resolving issues closely related to uncertainty (including political, religious, legal, environmental areas, etc.). It is true that risk is the probability of injury, damage or loss. Following this viewpoint, the risk will not be predetermined, but will depend on the human factor (Habegger 2008: 14), or on exposure independent of anthropogenic impact (for instance, the influence of dangerous natural phenomena). This relationship is seen to a lesser extent in the literature only for political risks, mostly in the works describing the interconnection between natural hazards and trade.
2. Obviously, the risk is completely differently perceived and interpreted by various researchers and experts, as well as are interpreted by them using socially and culturally structured representations and assessments of the world. As a result, these differences can be based on different information, interests or perceptions of reality. Accordingly, the political risk assessment will vary depending on the subjective factors and promote the interests of those who assess the risks.
3. In assessing political risk, it is more important and more difficult to identify the symptoms and indicators of a socio-political nature, designed to determine the preventive impact. At the same time, a theoretical and methodological problem arises in the existence of syncretism in the political and economic factors of political risk, along with the problem of the dichotomy of social and political indicators of political risk. The aspect of environmental risk components remains poorly understood.

Part of the answer is in the work of Tamara Bekefi, the founder and head of Daedalus Strategic Advising. She says that the identification, assessment and search for preventive strategies to mitigate political instability (hence the political risk associated with it) have become critical. Modern business solutions are based on the integration of financial, economic and socio-political issues that can have a significant impact on the final



result. The task of integrating social and political risks into the financial equation remains unresolved (Bekefi Epstein 2006: 8). Bekefi proposed dividing the line between social and political risk components, where indicators such as environmental legislation and the impact of environmental factors are to take into account. Bekefi concludes: “each organization must generate its own list of social and political risks based on their attitude to the business environment” (Bekefi Epstein 2006: 15) where these organizations operate. This also confirms the thesis that there is no universal methodology for determining political risk.

4. The multidimensional perception of political and social factors of political risk depends solely on how exactly experts in the field of risk identify social and political factors. At the same time, the question related to damage caused by anthropogenic and natural disasters remains open. This damage is inevitable, nevertheless it should be economically justified, and if possible minimized.

5. Obviously, there are many doubts about the usefulness of the difference between risk and uncertainty, especially since the overwhelming majority of political decisions are made without the use of statistical data and calculations, e.g. only on the basis of subjective judgments, rarely supported by appropriate quantitative analysis.

6. The probability of a political event cannot be calculated using statistical methods because of its unsystematic nature. Therefore, it would be logical to use the concept of uncertainty instead of risk.

Thus, many key issues in the field of political risk remain unreflected, in particular, the allocation of social and political components of risk, as well as the consideration of environmental factors (natural hazards specifically).

For the Russian tradition of determining political risks, the identification of geopolitical risks is more applicable, mainly focusing on country and international risks. Further and detailed development of political risks is required, which could be applied to the vast territory of Russia and the individual characteristics of its regions. Taken into account the diversity of climatic and natural conditions in Russia, careful consideration of the effects of natural hazards is required.

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