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Concept and Measurement of Political Risk: From Theory to Practice

Abstract

Partly due to its intrinsically interdisciplinary nature, political risk as such has been neglected as a subject of study in the context of academic political science, despite the tradition of studies on the variously defined concept of “political instability”. When information on political risk is gathered, elaborated and provided to multinational investors in the context of political insurance industry, comparisons between the different political risk assessment approaches and relative indices are not easy to carry out, for evident reasons of competition. This explains the lack of transparency in the field, which prompts to question the logic and practice underpinning the existing political risk indices. It must be acknowledged that, for example, despite some interesting contributions in the last years, the relationship between political regimes proper and political risk remains largely unexplored. Therefore, a reappraisal of political risk conceptualization and measurement seems timely today. In light of the above, the present work deals with some open questions. What is political risk? Is there a way to get rid of confusion when it comes to its conceptualization? Assuming that, as it is often repeated in the literature, the results of the extant approaches to PR assessment are not satisfactory, is it possible to highlight some specific shortcomings thereof and to provide insights on how to improve them? How to combine theoretical soundness and pragmatism to build a macro – political risk index? And, finally, what is the role of human judgement in the production of PR data?

The first chapter of the thesis provides a state of the art of the discipline, highlighting the different meanings and relevance that political risk analysis assumes nowadays with respect to different typologies of investors, and anticipating the main issues that will be explored in the following chapters. The second chapter deals with the theoretical background of PR measurement, trying to unpack the causal assumptions that are inevitably embedded in PR indices and looking at the Middle-East and North-Africa countries in the years 2010-12 as a case study to expose the shortcomings of three different approaches to PR measurement. Particular attention is dedicated to the relationship between PR and a country’s political regime.

The third chapter is devoted to concept building and operationalization, and proposes a definition of PR which is subsequently operationalized and compared to two of the indices presented in the second chapter. The fourth and last chapter closes the loop by addressing a problem which is somewhat distinct from PR modelling, yet cross-cutting and crucial for any PR measurement endeavour : the role, limitations and potentialities of human and expert judgement.