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A Multilevel Analysis of Political Risk

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A MULTILEVEL ANALISIS OF POLITICAL RISK

by

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ABSTRACT

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This essay aims to diminish the conceptual fragmentation that exists, in relation to political risk, by introducing a multilevel approach to assess risk. While traditional approaches understand political risk to be a result of the political action of host-states against multinationals, this essay shows that there are other actors, like the host-nation civil society and the international community, that also play a role in the production of political risk. Although traditional approaches assert that political risk can solely target multinationals individually, this paper states that risk can affect a firm at an industrial and country level. I claim that political risk is a resultant product of the relation between producers and receivers of risk. By combining the sets of producers and receivers of risk, one gets a set of prototypical cases of political risk.

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Life is full of risk. As individuals we are exposed to of all kinds of unexpected events. Curiously, opportunities and risk go together; where there is one, you often find the other. This is the predicament that firms face, when investing in foreign countries. If a firm is efficient at delivering a specific good or service, it is reasonable to assume that such a firm also has the chance of being successful abroad. Of course, the likelihood of success will depend on the nature of the industry and on the market conditions of the country in consideration. Assuming that a firm can transfer its production abroad and that market conditions are favorable, we still need to investigate other types of risk that the firm will be taking by going into a particular country. A firm can be facing risk because of environmental conditions, social disruptions, financial and economic instability (John and Lawton, 2018, 851). However, it is precisely the existence of risk what explain the many opportunities that companies find in foreign markets. Since risk usually works as a negative stimulus for private enterprises, a fewer number of firms will be in the disposition of going into such markets. This creates an opportunity for those private organizations willing to face high levels of risk, since market competition will be relatively lower.

The term "country risk" is useful to understand the kind of risk that social scientists typically study. By country risk, I am referring to a particular combination of economic, financial and political risk (Erb, Harvey and Viskanta, 1996, 29). This implies that the country risk of a nation can be disaggregated into different factors. When creating an index of country risk, analysts have to assign a specific weight to the political, economic and financial components. Annually, the PRS Group publishes its International Country Risk Guide (ICRG). The PRS Group enjoys a high level of prestige in the financial industry. Its publications about country and political risk are followed and cited by many researchers interested in studying the intersection of politics and finance (Tuncay, 2017; Kirikkaleli and Ozun, 2019; Erb, Harvey and Viskanta, 1996). In the

ICRG, country risk is calculated in such a way that political risk represents half of the total risk; the financial and economic components each represent only a quarter of the total composed index. Similarly, political risk plays an important role in the country risk estimations of other respected institutions like Euler Hermes and S&P Global. Following the methodology that the organizations use to measure country risk, we can infer that political risk is one of the most sensitive and critical sources of risk that companies face abroad and domestically.

According to Erb, Harvey and Viskanta, the fundamental distinction between political, economic and financial risk is that the first is related to the willingness of the state to allow the normal functionality of a given firm, while the second and the third are more related to the ability of the state to do so (1996, 30). The concept of economic risk highlights the probability that changes in the macroeconomic conditions of a country may affect the interest of a private enterprise. As an example of economic risk, image the case of an Italian company that goes to Argentina with the idea of selling authentic American Christmas trees, balsam fir. This company will face high economic risk, given issues such as inflation and the quick deterioration of the Argentine Peso in relation to the American Dollar. Financial risk has to do with the probability of losing money as a result of changes in financial variables, such as liquidity, credit and market conditions. In the case of our fictional Italian company operating in Argentina, a form of financial risk is detected in the possibility of our firm failing to get enough revenue to keep importing merchandise, Christmas trees, from the US.

In this essay, we are concerned with political risk. The first thing that readers should know is that there is a distinction between political uncertainty and political risk. We talk about uncertainty when we lack information to make predictions about the political actions of a given actor; we may formally talk about risk when there is enough information to estimate the probability that a given political actor will be acting against the interest of a firm (John and Lawton, 2018, 850). For Knight, the relationship between uncertainty and risk shows a higher level of complexity. It is our superficial knowledge of the elements that determine the future what force us to consistently deal with uncertainty (Knight, 1921, 199). Instead of true knowledge, what we have is a "presumption of knowledge," which is based on a dogma that states that "the world is made up of things, which under the same circumstances, always behave in the same way" (Knight, 1921, 204-205). What we truly have is an invisible link between uncertainty and risk, Knight thinks. Uncertainty is unmeasurable risk (Knight, 1921, 20). While we cannot generate a probabilistic expression out of uncertainty, an event can be uncertain but probable.

Political risk is the possibility of the interests of an industry or a private enterprise being affected by political action. Typically, estimations of political risk are made by highlighting a set of quantitative and qualitative independent variables. These variables are then aggregated into a weighted index of political risk. As an example, the PRS Group considers 12 variables, in order to measure political risk; these variables are: law and order, ethnic tensions, bureaucracy quality, democratic accountability, investment profile, internal conflict, external conflict, corruption, government stability, socioeconomic conditions, military in politics and religious tensions (Kirikkaleli and Ozun, 2019, 2101).

If we go across the literature, we will find countless definitions of political risk. However, we can classify most definitions into two big families. A first set of definitions take a bargaining power approach, because they emphasize on the risk that companies face after they are already settled in a foreign country. This approach pays particular attention to changes over time of multinationals' bargaining power. It tells us that whenever a company's political risk increases it is because its bargaining power has decreases. A second group of definitions are much more related to a political institutions approach, because they tend to explain political risk as a function of the institutional development of host countries. In few words, this approach reduces issues of political risk to matters connected to the quality of national institutions. Political risk is then inversely proportional to the quality of national institutions; the lower the quality of institutions the higher the levels of political risk for multinationals and private enterprises. While I believe that these definitions shed light on into what political risk is, they are unable to explain the term in a comprehensive way. My intention in this paper is not to propose an alternative definition of political risk, but to discuss the concept of political risk in a more extended fashion, by including viewpoints and perspectives that are not taken in consideration by most authors.

This essay aims to diminish the conceptual fragmentation that exist, in relation to political risk, by introducing a way of naming different types of political risk. I will show how this framework of political risk has a greater level of utility, in comparison to traditional approaches. While traditional approaches understand political risk to be a result of the political action of host-states against multinationals, I believe that there are other actors, like the host-nation civil society and the international community, that also play a role in the production of political risk. While traditional approaches assert that political risk can solely targets multinationals individually, I think that risk can affect a firm at an industrial and country level.

In the upcoming sections, readers will find a distinction between producers and receivers of political risk. Political risk cannot be created in isolation. It is always the product of the relation between two or more entities. In that relationship, some act as producers and others as receivers of risk. Among the group of producers, I focus on the host-country civil society, the host-government, and the international community. While the ultimate victim of political risk are always companies, it is important to understand that risk can affect a firm from different angles. There are three ways in which political risk can hit a company. First, a firm can directly suffer the consequences of political risk. Second, political risk can be directed towards an industry. Third, producers of risk can point towards multinationals that come from specific countries. By combining producers and receivers, we get a resultant set of prototypical cases of political risk: International Community Country-Level Risk (ICCR), International Community Industrial-Level Risk (ICIR), International Community Firm-Level Risk (ICFR), Host-Government Country-Level Risk (HGCR), Host-Government Industrial-Level Risk (HGIR), Host-Government Firm-Level Risk (HGFR), Civil Society Country-Level Risk (CSCR), Civil Society Industrial-Level Risk (CSIR) and Civil Society Firm-Level Risk (CSFR).

I will show how this framework allows researchers to look at political risk in a more coherent and complete way. By bringing clarity into the different forms of political risk, I hope for this framework to be an intellectual tool to investigate what independent variables increase or decrease political risk.

In the second section, I will go deeper in describing how researchers have traditionally looked at political risk. Next, I will explain what producers of political risk are. In the fourth section, receivers of political will be introduced. In the fifth section, I will present to readers nine prototypical cases of political risk. Then, I will show readers how to evaluate risk by utilizing a multilevel approach. Finally, I will conclude with a summary of the essay's main points, with an evaluation of the different implications of this work and with a set of suggestions of what to investigate next.

Traditional Approaches to Political Risk

Before discussing the traditional theoretical approaches that scholars utilize to study the matter under investigation, it is of great importance to reflect on the historical circumstances in which the first theories and thoughts about political risk were developed. With the expansion of international commerce during the 16th and 17th century, it is possible to find academic reflections on the danger of investing abroad. However, it is not until the second half of the previous century that serious intellectual work started to be elaborated on the actual and potential problems of investing in foreign countries. Two issues that affected investors happened to become more regular during this period. First, low-income countries found a quick way of acquiring capitalization, by nationalizing foreign investments; second, the spread of "collective economic theories," like Marxism and dependency theory, led to a higher degree of expropriation worldwide, particularly in underdeveloped countries (Wafo, 1998, 14-15). Naturally, researchers began to dedicate time to understand the reasons that moved countries to implement policies against the interest of international investors. Wafo proposes a series of stages that follow the progression in the study of political risk. From antiquity to the 1960's, Wafo talks about a banalization of the study of political risk (1998, 15). During the 1970's and 1980's, he observes a "period of political risk consciousness" and a "period of scientification and professionalization of the concept of political risk" (Wafo, 1998, 16). While the historical context incentivized the systematic study of risk, it also led to a close-minded conception of what political risk truly is. By framing political risk as a consequence of the actions of foreign underdeveloped states, researchers missed that political risk is also a phenomenon that may happen in high developed countries.

Following the proclamation and implementation of the Roosevelt's corollary to the Monroe doctrine, the US became the only global power capable of interfering in the affairs of Latin-American states. The Monroe Doctrine stablished that all hemispherical matters needed to be resolved exclusively among the nations in the region. This means that, from the American perspective, European nations did not have the authority, nor the responsibility, to get involved in any international issue in the Americas. Obviously, this situation played to the advantage of the US, given that they had no match in the continent. The geopolitical imbalance generated by the Roosevelt's corollary to the Monroe doctrine created a wave of manifestations against American imperialism. An example of the aforementioned can be found in the work of Jose Vasconcelos, who though that the mestizo race (the cosmic race) was destinated to retake control of the continent and eventually dominate the Anglo race (Vasconcelos, 1948). One of the excuses utilized by the US to intervene in the internal affairs of Latin-American nations was the necessity to bring protection to American investors. Maurer complements this picture by asserting that, during the 20th century, American interventions on favor of its investors were not part of any strategic policy of the US, but a subsequent action produced by internal political pressure. Maurer sustains this point by highlighting that returns from foreign direct investments were never significant, in comparison to the total American economy; therefore, there was no need to put the interest of American investors among the main priorities of the nation, in terms of foreign policy (18-19, 2013). Moreover, Maurer affirms that the opposition of multinationals to pay a fair share of taxes in host-countries prevented Latin-American governments from collecting the necessary revenue to ensure political stability; such revenue is needed to provide basic public services and national security. Logically, this creates a vicious cycle that endangers the investments of international companies, because expropriation became the only effective way of obtaining resources (Maurer, 2013, 22-23). When the risk of nationalization was high or whenever expropriations occurred, investors demanded the intervention of their home-state. It is in the context of the early part of the last century, when interventions from the US to countries in the Americas were so frequent, that we understand the proclamation of the Drago Doctrine, which prohibited the use of force against Latin-American nations, for debt-collecting purposes. In a similar fashion, the Calvo doctrine stablishes that investors' home-states do not hold jurisdiction over matters related to foreign investment. Each of these principles, the Calvo and Drago doctrine, were intended to protect the sovereignty of all Latin-American states. In some way, the creation of the International Centre for Settlement of Investment Disputes (ICSID) brings a partial solution to the issue of jurisdiction, in matters of foreign investments, by creating an impartial body capable of delivering legal solutions.

At this moment in time, we are far from obtaining a scholarly consensus on what political risk is. Most definitions in the literature try to relate risk with the institutional conditions of host-countries or with the loss of bargaining power that companies face after a given period of time. This allows me to organize definitions of political risk into two big families: those that follow the conceptual principles of the bargaining power approach (BPA) and those that follow the political institutions approach (PIA). In some cases, definitions will incorporate components of both approaches.

The BPA pays particular attention to what happens to multinational enterprises (MNEs), once their facilities are installed on the host country's soil. From the perspective of the host country, what this approach tells us is that the strategic importance of a given MNE will diminish over time. Once the importance of the firm decreases, its bargaining power will also diminish. Now, why is it that the bargaining power of a MNE will diminish with time? There are three ways to understand the detrimental effect of time on the bargaining power of a MNE. First, there is a process of technological diffusion that starts happening as soon as the MNE arrives to the host country; over time, the MNE will lose its technological advantage over its domestic competitors, since other domestic competing firms will eventually match the MNE's productivity by absorbing its production processes and by adapting the new introduced technology. At this stage, what we observe is a sort of technological spillover. Second, even if we assume that the aforementioned technological diffusion does not take place, over time competing firms will be able to increase their productivity by innovating and implementing the use of new technology, domestically created or imported from abroad. In other words, domestic firms have two ways to catch up with newcomer foreign firms, by adapting the technology of the most advanced player (spillover effect) or by slowly innovating over time. When the technological advantages of a MNE disappear, its bargaining power decreases. A decrease in bargaining power produces an increase in political risk, since the MNE becomes less indispensable (Stevens, Xie and Peng, 2016, 946). Third, sunk costs need to be considered, when analyzing the factors that contribute to a quick deterioration of the bargaining power of MNEs. Once companies have made the decision of investing in some predetermined country, the high cost of relocation may prevent companies from leaving places where political risk is increasing. Knowing this vulnerability, host states can take advantage of the inability of these companies to leave the country at will and at an affordable cost.

It is important to highlight that when we mention the so-called Bargaining Power Approach, it is with the intention of making a reference to a tradition of thought that tries to explain political risk as a function of the movement of MNEs' negotiation power over time. This tradition started with the seminal work of Raymond Vernon (1971). Vernon's original ideas have been enriched by some authors who think that the essence of his arguments still hold some explanatory power. As an example, Vachani goes deeper into the notion of bargaining success by expanding the concept into two components: static and dynamic bargaining success. By static bargaining success, Vachani is making a reference to the level of success multinational companies achieve when they first sit at the negotiating table with the host-state; by dynamic bargaining success, Vachani points to the degree of retention of the original conditions agreed in a previous moment of time (1995, 161). Static bargaining success indicates the ability of a MNE to obtain favorable conditions, while the dynamic bargaining success shows how good the multinational is at keeping its bargaining power. It is important to show that Vernon’s work has been extremely influential among a group of researchers interested in studying issues of political risk, because this allows us to support the idea that the BPA constitutes a legit school of thought.

Bucheli and Salvaj (2013) have also made an important contribution to the BPA tradition. According to these thinkers, political risk cannot be solely understood in terms of the obsolescing of bargaining power of a given private enterprise. Bucheli and Salvaj state that the perception of close friendship of a multinational with the political and social establishment of a foreign nation, in a moment of regime change, is also a very important factor to consider when it comes to assessing political risk. When regime change happens, multinationals that are perceived as beneficiaries of the old regime suffer high levels of political risk. The term utilizes by Bucheli and Salvaj to describe this idea is obsolescing political legitimacy (2013, 752-753). To illustrate their ideas, Bucheli and Salvaj go over the complicated relationship between the International Telephone and Telegraph Company and the Chilean state, during the second and third quarters of the 20th century.

Building on the BPA, researchers like Eden and Molot (2002) have tried to adapt Vernon’s original model to more complex and realistic scenarios. With the intention of understating the effects that domestic and international competition have over the political risk of MNEs, they look at the arrival of Toyota, Honda and Hyundai to Canada, in the 1980’s. Given the fact that automaker companies like Ford, General Motors and Chrysler had entered the country in the 1920’s, Eden and Molot find a nice natural experiment to test their ideas (2002, 361). Based on the observation of the Canadian case, they affirm that the initial bargain equilibrium reached between the host-state and first comers is drastically affected by the presence of the newcomer firms; therefore, in this more realistic environment, political risk should be a product of the interaction between domestic firms, MNEs and the host-state (Eden and Molot, 2002, 360). The tendency towards an increase in the number of independent variables utilized by the proponents of the BPA shows the incapacity of this framework to explain the phenomenon of political risk in a holistic way. I will expand upon this point later.

Now, it is time to discuss the main characteristics of the political institutions approach. Researchers that believe in the PIA look at political risk as a function of the quality of the governing institutions of host-countries. The basic idea behind this approach is that decisionmakers in countries with poor quality of institutions are able to quickly change social and economic conditions, creating unfavorable circumstances for multinationals. In countries with strong governing institutions, defenders of the PIA believe that political actions with the capacity of altering initial business conditions are less likely to happen. In other words, the check and balance system of a country with strong institutions should be able to prevent the quick execution of any policy against the wellbeing of MNEs (Jensen, 2008, 1041). It is interesting to note that the PIA assumes that all governments have strong incentives to perform actions with the end of damaging the interest of MNEs. Stevens, Xie and Peng put it in this way:

> "… governments face the inherent temptation to alter policies to their advantage (and to the detriment of foreign firms), more political constraints on the government's ability to change existing policies will be associated with less political risk for firms."
>
> (Stevens, Xie and Peng 2016, 946)

Ideas behind the PIA find support for the impression that MNEs suffer less political risk when operating in highly developed countries. Given that institutional organization among developed nations is quite similar (highlighting separation of powers as a fundamental element to consider), researchers that follow the PIA believe that high political risk in underdeveloped nations is always the result of poor institutional arrangements. This implies that political risk emanates from the institutional conditions of host-states and never out of the relationship that exists among domestic competitors, firstcomer and latecomer MNEs and host-states. Jensen (2008) highlights the existence of democracy, as one element that is typical in nations with a high degree of institutional development. After analyzing the premiums that MNEs pay to political risk insurance agencies, Jensen finds high correlation between low levels of political risk and democracy.

Up to this moment, this paper has indicated that the BPA and the PIA are traditional approaches to study matters of political risk. Two group of thinkers will be created: one that follows the BPA and another that follows the PIA. By looking at the work of Kirikkaleli and Ozun (2019) and Yackee (2014), I want to show the existence of similarities in the way in which these authors think about political risk. Kirikkaleli and Ozun define political risk, from an economic perspective, as "the danger that any government actions might decrease the cash flows that investors expect from their investments" (2019, 2095). It is important to note that Kirikkaleli and Ozun's definition implies that companies are at the mercy of the state, maybe, because of the lack of mobility of their investments. Certainly, this vulnerability is not created from one day to another; it develops over time. Therefore, we can think of political risk as a function of time; the longer a MNEs stay in a given foreign territory, the greater its political risk. Yackee describes political risk, in terms of expropriation and political violence (2014, 482). The threat of expropriation and political violence increases with time, affecting for the most parts MNEs that are incapable of leaving the host-country's territory quickly and at a minimal transitional cost.

In Yackee and Kirikkaleli and Ozun's conceptualizations of political risk, we see similarities with the BPA. The similarities consist in the fact that both definitions describe political risk as the probability of an action taken by governments after companies are already operating in the host-country. These authors think of political risk as something that emerges over time. Consequently, Yackee and Kirikkaleli and Ozun's descriptions of political risk are more in line with the BPA.

Now, we need to see some definitions of political risk that are more in agreement with the PIA. Vadlamannati defines political risk "as the risks faced by firms regarding unexpected alternations in legal regulations by the host country government guiding FDI policy" (Vadlamannati 2012, 112). Since the likelihood of having a change in legal regulations depends on the kind of institutions that countries have, we can see the connection between regime type and political risk. Vadlamannati thinks of political risk as intrinsic to countries; it is the institutional landscape of a country that tells us how safe or risky it is (Vadlamannati, 2012, 115-116). This implies that political risk increases or decreases only with the changes in quality of the political institutions of a country. Furthermore, for a given industry or MNE operating in a specified country, political risk will be constant, unless drastic institutional changes occur. As long as the structure and the quality of institutions are constant, political risk should be a constant for all players. Of course, this does not mean that political risk should be equal for all companies. Political risk should vary among industries and firms; but for an industry or firm, risk will change only if the quality of institutions also changes.

Vadlamannati works with the concept of indirect expropriation. By indirect expropriation, he is referring to the set of actions that a government may take to damage the interest of a MNE. For example, we see indirect expropriation when the host-state changes the prevailing rules with the objective of favoring domestic competition (Vadlamannati, 2012, 115). Again, the possibility of rule change is ultimately a function of the quality of the host country's institutions.

In a system with well-developed institutions, one may expect that private enterprises will have a chance to appeal the implementation of any rule that affect their business activities. In addition, the stronger the institutions of a country, the more difficult it is for all players to change the existing rules. From my point of view, Tuncay works with a definition of political risk that depends entirely on the quality of institutions. Therefore, it is not even needed to make a case on how much this conception of political risk relies on the PIA.

> Political risk arises from instabilities in the political, social and economic environment (Loikas 2003). Specifically, political risk expresses the possibility of government actions related to the country's administrative, legislative, and judicial institutions negatively affecting the investments made in the country (Bekaert et al. 2012). Therefore, it can be said that political risk is the threat of a country changing the rules of the game after an investment has been made. (Tuncay, 2018, 210)

The BPA and PIA are not able to assess political risk in all cases. We note that the BPA focuses on explaining political risk as a function of bargaining power. An increase or a decrease of bargaining power is explained as a result of technological obsolescence (lack of a competitive advantage, because of the general improvement of technology) and technological spillovers (competitors able to adopt the most advanced technology in the field). Stevens, Xie and Peng think that BPA is unable to assess political risk in cases of firms that are constantly perfecting their technology (2016, 947). We can add to the mix of inapplicable cases, for the BPA, those of companies that operate from a distance, like Yahoo, Google or Facebook. Moreover, outsourcing has allowed many companies to avoid being physically present in countries where risk is high;

cases where outsourcing is present cannot be correctly evaluated following the BPA. However, as we will see later, we cannot assume that companies with a mode of production that relies on outsourcing or that operates from the distance are free of political risk.

One of the fundamental assumptions behind the BPA is the idea that host-states are predisposed to take resources from private international enterprises. Moreover, the BPA makes us think that there exists a zero-sum relation between host-states and MNEs (Jimenez, Luis-Rico and Benito-Osorio, 2013, 302). Thinking about the relation between states and MNEs in these terms leads us to discuss the matters of political risk in an extremely narrow way. Host-states may benefit from the presence of MNEs in multiple ways. First, whenever a foreign company is able to show elevated efficiency and productivity, in relation to domestic competition, it forces players within the industry to improve their game. If local players become more competitive, either because they create new technology for production purposes or as a consequence of some spillover process, they may find new markets abroad to sell their services and goods. Exports will always help host-states because the acquisition of strong international currencies is essential to keep macroeconomic stability. Even in cases where multinationals take domestic competitors out of the market, one can argue that consumers will get the opportunity of getting access to goods and services at a better price. Second, increasing productivity and efficiency is the only way in which companies can put low-cost goods and services in the market. Inexpensive products incentivize national consumption, which will generate more taxes for host-states to collect. Third, MNEs could be great allies for host-states to generate social change. For example, imagine that the Argentinian government set the goal to eliminate all cars generating hydrocarbon emissions from the road by 2038. One can argue that the fastest way to achieve significant results is by creating favorable conditions for companies like Tesla, NIO, Kandi America and Xpeng to start producing vehicles in Argentina;

alternatively, the Argentine government can increase tariffs for all imported conventional vehicles, while keeping the importation of all types of electric vehicles tax-free. Therefore, it should be clear and easy to see that MNEs can help states to achieve desirable results at the societal level. The point that we are trying to make is that it is not sensible to believe that the relation between host-states and international firms have to be one that is conflictual; it could be a positive-sum game between these players.

The BPA focuses its attention on the relation between host-states and MNEs. The problem of reducing political risk to the interaction of two players (Eden and Molot bring an extra one, by introducing latecomer firms) is that it tells us nothing about the social environment, in which the investment is taking place. This means that the BPA cannot highlight which social events trigger an increase in political risk (Henisz and Zelner, 2005, 361). The proponents of the PIA think that we can overcome this issue by paying attention to the quality of the institutions of a country. Therefore, the PIA presents itself as an improvement to the tradition inaugurated by Vernon. From the PIA perspective, social events that matter are those that improve or undermine national institutions. This means that the PIA does not have a total blind spot to things that happen beyond the relationship between multinationals and host-states.

Given that political risk is framed as an issue that happens in foreign countries, usually underdeveloped ones, highlighting the institutional differences between rich and poor nations seems to be a smart idea. Readers may disagree with this vision arguing that most foreign investments have historically occurred between rich countries. Therefore, one may think that issues of political risk should be more frequent and severe in developed nations. Lucas (1990) does not agree with this vision. He addresses the issue, by thinking in the relationship that exists between foreign investment and political risk. For Lucas, the neoclassical model suggests that most investment should be happening from rich nations to underdeveloped ones. The reason behind this idea is that one may supposes that investors should get a better return for their investments, by investing in poor nations where the marginal product of capital should be higher. However, he realized that most investors from rich countries prefer to invest their money in other rich countries. Among the different reasons that may explain this phenomenon, Lucas thought that political risk is an essential one (1990, 95-96). In other words, political risk is one of the factors that historically has prevented the flow of investment from rich to poor countries from being greater than the flow of investment that exist between rich countries. Following this line of ideas, one may think that political risk is a more severe problem in underdeveloped nations. What believers of the PIA claim is that poor nations have less developed institutions, which lead to higher levels of political risk.

We can make two important critiques of the PIA. First, when utilizing the PIA, we have to think about the kind of institutions researchers find to be the more adequate. We have to avoid working under the influence of ethnocentric views, because intuitions that work well in western countries may not operate with the same efficiency in Africa or Latin America. Moreover, as Beazer and Blake show, firms may be more comfortable operating under some kinds of intuitional settings than in others (2018). As we will see in upcoming sections, Cuervo-Cazurra (2006) shows that multinationals prefer to operate in social environments similar to those found in their home-countries. That means that multinationals that comes from countries where there is strict observation of regulations will prefer to emigrate to nations where there is persecution of lawbreaker firms. On the other hand, multinationals that comes from nations where corruption is the norm will have a tough time adapting to a nation where regulations are more respected. The aforementioned suggests that, from a firm perspective, there cannot be such a thing as universal ideal quality of institutions, since some firms will prefer more law-abiding places to operate, while others will prefer the freedom to make deals under the table to get competitive advantages.

Second, we have highlighted the incapacity of the PIA to evaluate political risk at the firm level. It is not correct to believe that within a given industry all firms face the same level of political risk. Given that rules and procedures are created to regulate the behavior of all players within a specified industry, we may assume that these firms will face the same kind of institutional risk. If institutions are set to regulate the behavior of individual firms, rather than doing it at an industrial level, there is an obvious case of institutional bias against the firms suffering stricter regulations. Now, even in cases where regulations are properly set to treat all firms equally, experience tells us that political risk is not equal for all players working in the same industry. While procedures and guidelines should be observed by all players, regulations may be harder to follow for firms in unfavorable positions. This shows that regulations may work on favor of certain firms and in detrimental of others. This implies that the PIA is incapable of assessing political risk at the firm level. There are other variables to consider (outside of institutions), in order to understand how political risk work.

The PIA provides an alternative to way to think about political risk. Something worthy to say about it is that it opens the window for us to perform a cross-country comparison of risk. Of course, this could be done by keeping in mind that there are no ideal institutions and that some firms will do better in certain environments more than in others. So, some level of relativism will have to be considered.

It is not enough to simply point out the limitations of the prevailing approaches. It is necessary for researchers to propose alternative ways of analyzing risk. Fortunately, some scholars have already started the titanic work of thinking about political risk differently. The problem with these alternative approaches is that they cannot fully explain the phenomenon of political risk. Even though these ideas are undoubtedly bringing light to the matter, there has not been any significant work done toward the articulation of all these unconventional ways of assessing risk. As a contribution to the literature, this paper is proposing a new framework to explain political risk. This framework, instead of rejecting previous ideas, incorporates the contributions of other authors. Our plan is to distinguish between producers and receivers of political risk. I think that political risk emanates from the relation that exists between producers (civil society, host-government and international community) and receivers (firms, industries and enterprises of antagonist-states). I believe that the variables that govern each kind of relationship between producers and receivers of risk vary in the different cases and that the product that emanates from it, political risk, changes in form.

In the next section, we will explain the characteristics of the different types of producers of political risk.

Producers of Political Risk

Traditionally, scholars interested in issues of political risk have solely focused on the dyadic relationship between host-states and MNEs. In both cases, the BPA and the PIA look at host-states as the entity responsible for generating risk for international firms. Concentrating our attention on what happens between MNEs and host-states seems to be insufficient, if our intentions are to comprehend how political risk operates in the real world. The focus on these two players diminishes our capacity to observe how other factors may also contribute to generate political risk.

While there are not reasons to deny that the interactions between MNEs and host-states are important to correctly assess levels of political risk, there exist other sources of risk that researchers should consider. A good way of making our ideas clear is by stablishing a distinction between producers and receivers of political risk. By producers of political risk, we are making a reference to a group made up by the host-nation civil society, the host-government and the international community. By receivers of political risk, we are talking about the level at which risk producers target multinationals; there are three levels at which multinationals can be attacked: country, industrial, and firm-level. In this section, we are going to discuss the main characteristics of producers of political risk. The next section will be dedicated to discussing general elements about receivers of political risk.

Even though we are making a distinction between producers and receivers of political risk, we do not claim that political risk completely emanates from the side of producers. Generation of political risk comes as a result of the interaction between receivers and producers. This means that without the existence of receivers there is not political risk. In other words, without companies, there is not risk.

One misconception that is easy to find in the literature is the idea that political risk is a phenomenon that exclusively happens to multinationals in foreign countries. This way of understanding political risk is closedminded. Nationalizations of private property may also affect companies operating in their home-states. Producers of political risk may target national and international companies.

The first producer of political risk that we analyze is the host-nation civil society. By civil society we are making a reference to the collection of national actors outside of businesses, government and political parties. Civil society produces political risk through the agency of civil society leaders. These leaders have the ability to construct narratives to justify collective action against industries, individual firms or multinationals of antagonistic states. Externalities and issues of social legitimacy are two of the main reasons that can trigger a negative reaction from civil society. Negative production of externalities happens when there is an unpaid production cost that falls on the back of the community. These unpaid production costs may be in form of noise or emission of high levels of contaminating gases. If government does not react quickly to force producers of such externalities to fix the issue, civil society can react in different ways, generating political risk.

Issues of industrial or firm legitimacy is another reason why civil society can produce political risk. Legitimacy is a complex issue that we are not intending to completely cover in this section. However, highlighting some elements in that direction seems important. The first barrier that MNEs need to overcome, when entering a new territory, is eliminating discrimination from local players (domestic firms and consumers); rather than changing how others look at them, MNEs need to engage in the task of projecting themselves as integrated firms (Eden and Molot, 2002, 363-364). Multinationals that fail at projecting themselves as firms socially incorporated to the host-nation environment take the risk of being the target of discriminatory practices from the host-government and civil society, which can lead to an increase of political risk.

One way in which MNEs try to hedge their exposure to political risk is by developing close connections with members of the host-government. The idea behind this is that people in positions of power can protect multinationals against all sort of discriminatory behaviors from the government and against attacks from civil society. Although this looks like the most effective way for foreign businesses to protect themselves from all sorts of threats, by doing this, multinationals are exposing themselves to huge risk. If multinationals (or domestic firms) develop associations with members of the ruling elites of a given country, in a context of rapid social and political changes, the social legitimacy of the above-mentioned multinationals (or domestic firms) may be in jeopardy of depreciation. This is exactly the case that Bucheli and Savaj's concept of obsolescing political legitimacy is looking to explain (2013, 731). Since regime change rarely happens without the support of important social sectors outside of formal political parties, if a change in regime happens, international and domestic companies that are perceived to be associated with the old establishment may be exposed to suffer political risk from the new government or from civil society (Bucheli and Salvaj, 2013, 732-733).

The next producer of political risk that will be analyzed are home-country governments. I want to emphasize the use of the word government, rather than state, because I consider periodic changes of government important events for political risk. Whenever elections are coming up, people working in the field of political risk should be paying attention to the ideas and political programs of all contenders. Even the most mainstream candidates can have a plan that could elevate the political risk of an industry or firm.

It should not be hard to convince readers about the idea of presenting host-governments as one of the three producers of political risk. For long, literature has presented host-governments as having the biggest responsibility for the existence of political risk. I would like to discuss some of the reasons that push home-governments to affect the interest of some industries and firms. Whenever the objectives of a firm go in the opposite direction of government's goals, the possibility of intervention from the government will increase; such intervention will only cause a subsequent increase in political risk (Makhija, 1993, 532). By studying the relationship between the Venezuelan state and the oil industry from 1947 to 1976, Makhija makes a set of interesting observations. What she shows is the existence of a set of contradictory interests between oil producing industry and the Venezuelan state. Such contradictions created the social and political environment that led to the process of nationalization of hydrocarbons resources, in 1971, during the first administration of Carlos Ándres Pérez.

> "Three potential objectives of the Venezuelan government with respect to the petroleum industry are identified and examined: these are (1) to ensure the government's share of financial returns from the industry, (2) to maintain a favorable international trade position for the country, and (3) to retain control of industry resources."
>
> (Makhija, 1993, 532-533)

Another element to consider is the bilateral relationship that exists between home and host-states. A deterioration of diplomatic relations between home and host-states will immediately create a notable increase in political risk for all multinationals that come from antagonistic states. Therefore, it is necessary for analysts to evaluate the possibility of geopolitical confrontations to emerge among states.

When evaluating host-government as producers of political risk, an additional factor to look at are the ideologies of incumbents and challengers. In term of ideologies, two things are important. First, firm owners would like to know how friendly officeholders are to private enterprise. Second, in an age when global commerce is so critical, stakeholders would like to identify how willing officials are to allow the free flow of international trade; this point is important because politicians with autarkic economic visions are more inclined to act against the interests of multinationals.

We use the term international community to describe the next producer of political risk in our list. By the term international community, we are making a reference to a large set of entities formed by multilateral organizations, states and non-governmental organizations. We think that the international community has the power and the capacity to generate a considerable amount of political risk, even for MNEs that operate in states where they get support and protection by host-governments and civil society. While a military intervention, with the end of stopping the commercial activities of some private enterprise, by the collective security forces of the international community, is unlikely to happen, there are enough economic and political tools at the disposal of states and multilateral organization to exercise pressure over host-states. When it comes to the creation of political risk, the international community has been a handy platform to make demands to global industries that, due to their size, are out of the reach of most nation-states. In other words, given the global expansion of commerce and production, the international community seems to be the only body with the strength to force changes in global industries. Any attempt with the end of preventing global industries from perpetuating harmful practices can be inefficient if decisions are made by individual states; firms within such industries can move production to countries with more friendly and tolerant social environments. To summarize, the international community has the ability of generating a high degree of political risk to global, regional and local industries.

Another role that is played by the international community has to do with disturbing normal economic activities for all MNEs that come from belligerent or antagonist states. In this context, the term "antagonist state" is making a reference to any state that is perceived to be confrontational to the values and agenda of the international community. How and why the international community prepares itself to confront multinationals of antagonist states goes beyond this essay. The point is that multilateral organizations, states and NGOs play a huge role at preventing targeted multinationals from growing in the international system.

Up to this moment, we have stated that civil society, host-governments and the international community are producers of political risk. Political risk is not generated in a vacuum. It is created as a result of the relation between producers and receivers of risk. It is important to keep in mind the following idea. There exists an interaction among producers of political risk.

This means that a reaction in civil society against some specific industry may generate a similar action at the host-government level. Equally, an action by the international community against the multinationals of some antagonist country may move a host-government to act in a similar direction. In short, there is some sort of communication between producers of political risk. An action by some producer of risk can generate a chain reaction among producers.

We have reserved some of the empirical evidence that back up our previous arguments for upcoming sections. Next, we will be explaining what receivers of political risk are.

Receivers of Political Risk

Up to this point, it should be clear that the study of political risk requires the articulation of multiple perspectives. One of the issues with introducing multiple points of view is that we take the risk of losing parsimony in our explanation. This is particularly important when talking about political risk, because companies and investors need to be able to measure it, frequently and in real time. However, we should never sacrifice explanatory power for parsimony. What matters is to have models able to describe the world. In this paper, our challenge is to include different perspectives, while keeping our model as simple as possible.

While we have stated that political risk is created as a result of the relationships that exist between producers and receivers, it is the second group that suffer the consequences of it. Very often, the literature shows how private enterprises are affected by decisions taken by the governments of host-states. This dyadic interaction, between host-state and a multinational, does not bring light into all the players that are involved. It is true that private enterprises are the ones losing money and taking the worse part of it. Rather than just understanding what happen, it is the role of researchers to comprehend how and why things occur. Our claim is that producers of risk target risk receivers at different levels. Producers of political risk may go after a multinational because a) it generates a series of environmental, social and economic externalities b) it belongs to an industry with low legitimacy c) it comes from an antagonistic state. In short, risk may affect a MNE at a country, industrial and individual level.

On the receiving side, we intend to introduce a multilevel analysis of political risk. Before continuing, it is necessary to explain what I mean by "multilevel analysis" and why I believe it to be indispensable. We can look at political risk from different angles. The first and most common way of evaluating political risk is from a country perspective. As we have seen, the PRS Group is one of the many entities that calculate political risk from this point of view. At the country level, we look at the kind of institutions the country has and the relation that exists between the home-state and receivers of political risk. The second level of analysis looks at industries. At this point, we pay attention to the overall industrial legitimacy. By analyzing the perception of leaders of civil society, government officials and the international community, in relation to the aggregated social value that a specific industry provides, we can evaluate political risk. It is not uncommon for domestic competitors with MNEs to make a case for the home-government to interfere against foreign competitors. We should evaluate the ferocity and the characteristics of these intra-industrial confrontations. The firm level is the last step in our analytical journey. At this point, we check for the level of innovations the firm is introducing, as well as the firm's technological capabilities. Similarly, it is crucial to check for the political connections that the firm enjoys, in the host and home country (Lee, Florea and Blarel, 2019). Finally, we cannot correctly assess risk at the firm level, without evaluating location and mobility of the firm's assets.

In order for us to correctly analyze the sources of risk that a firm may potentially face, we need to look at the three levels. Given the kind of analysis that it is required at each level, it is extremely difficult to generate a theory that is able to explain political risk at all levels simultaneously. The literature presents a series of authors who pretend to explain the phenomenon of political risk in its entirety, with a single unidimensional theory. We reject the idea that these theories have sufficient explanatory power to describe how political risk works at all levels of analysis. Instead, we believe that many of these theories bring limited light on how political risk functions.

Next, we will specify what to look for at the different levels of analysis.

<u>Country-Level</u>

Political risk producers can target MNEs that comes from countries with a bad international reputation. We have identified three scenarios in which multinationals can suffer political risk, at the country level. The first has to do with the international community rejecting uniformly firms that come from specific countries. Usually, this general rejection of the international community is a reaction to geopolitical confrontations between regional and global powers against weaker states. In other words, the animosity of the international community against certain states is an aftereffect produced by strong nations against antagonistic weaker states. This means that bilateral relations between host and home states can be in a good condition, but still have high levels of country-level political risk because of pressure coming from the international community. As an example, let's look at the bilateral relationship between Venezuela and the Dominican Republic. Venezuela and the Dominican Republic broke their diplomatic relations in 1960, following the assassination attempt organized by General Rafael Leonidas Trujillo against President Rómulo Betancourt. Venezuela applied the so-called Betancourt doctrine against the Dominican Republic, which consisted in not granting diplomatic recognition to any undemocratic government. With the arrival of democracy in the Dominican Republic in 1962, Caracas and Santo Domingo reestablished their old friendship. During the next 40 years, the bilateral relationship between these states was good, solid and stable. In 2010, the Venezuelan state, through Petróleos de Venezuela, S.A. (PDVSA), decided to buy 49% of the shares from Refidomsa, a public-private Dominican company that is in charge of refining all the oil that reaches the Dominican Republic. In 2018, the Venezuelan political crisis experienced its worst days as the Organization of American States (OAS) decided not to recognize the Venezuelan presidential elections. Months later, an important group of countries in the American continent recognized Juan Guaido as the head of state of the Republic of Venezuela. The diplomatic pressure on Santo Domingo was immense. Forced by the geopolitical context, President Danilo Medina decided to join the group of nations that did not recognize Maduro as president of Venezuela. Additionally, Medina made the decision to exclude PDVSA from all financial activity related to Refidomsa. Two years later, in August 2021, the Dominican government reached an agreement with PDVSA to provide a compensation of 88.13 million US dollars. This compensation was significantly lower than the payments made by PDVSA in 2010 for the purchase of 49% of Refidomsa's shares, 135.7 million dollars. Even though the bilateral relationship between the Dominican Republic and Venezuela was very good and very stable, diplomatic pressure from the international community forced Santo Domingo to take action against PDVSA. This shows that the international community has the ability and the tools to make any nation state harm multinational companies.

The second kind of country-level political risk comes from the relationship that exists between home and host countries. This means that country-level political risk may increase if disagreements between host and home states emerge. Given that risk can quickly increase due to the deterioration of the relationship between the host and home country, analysts need to always have firms' nationality in mind, when assessing overall levels of political risk. Even in countries where political risk is generally low, investors and firm owners of certain countries may face exceptional levels of political risk. It is inadequate to think of political risk in absolute terms. Political risk, at the country level, should be always thought from the perspective of multinational firms that come from concrete and exact countries. Those who insist on describing risk as an inherent condition of host countries are missing the whole point; country-level political risk is a relational phenomenon. For instance, consider the case of a successful Venezuelan company operating in the US; it is very likely that the US may be interfering with the firm's commercial activities, if the US government thinks that the firm's profits are going into the pockets of associates of the Maduro's regime. Clearly, such a firm would face huge risks in American territory. A similar exercise can be done with a country that always appears "high in the ranking" of political risk: North Korea. It is extremely easy to see that the risk that American firms would encounter in North Korea is much higher than the risk that Chinese companies would face, provided that all other variables were the same. This shows the relational nature of political risk, from a country-to-country point to view.

As I previously highlighted when discussing the shortcoming of the PIA, it is unsure that such a thing as a set of universal desirable political institutions exists. Writing from the perspective of investors, Beazer and Blake argued the opposite (2018). According to them, investors look at risk from a relative position. If a firm is coming from a home country where institutions are weak, that firm could also be successful in a host country where institutions are weak; in fact, Beazer and Blake affirm that investors coming from countries with low institutional development may prefer to invest in foreign countries with low institutional development as well (2018, 471). The reason behind this point is that investors can only replicate successful business strategies if conditions in the host and home countries are similar. If the institutional structure of the host country forces firms to operate in a drastically different way, firms may not survive the period of adjustment (Beazer and Blake, 2018, 473). Ultimately, investors would prefer to migrate to places where institutional conditions are similar to those they find at home. A subsequent question we may have is in relation to why researchers have been unable to identify the conditional nature of political risk. Beazer and Blake answer this question by asserting that researchers have not taken into consideration the heterogenous origin of investors (2018, 472). If we navigate through the literature of political risk, we find that a high number of researchers are writing thinking only from the perspectives of investors from the global north. With the economic development of important sectors in low- and middle-income countries, scholars need to amplify the set of cases under consideration.

The third kind of country-level political risk comes from the interaction between MNEs and host-nation civil society. This type of country-level risk emerges when there is a negative reaction from the host-nation civil society against multinationals that come from antagonistic states. Civil society leaders can instigate rejection against the products of firms that come from targeted nations. These leaders may initiate these campaigns for all kinds of reasons. For example, someone living in New York City that cares about human rights in Colombia may encourage consumers to stop buying their morning coffee from the popular Colombian store Juan Valdez, because of practices of labor exploitation by coffee producers in Antioquia, Caldas and Quindío.

Country-level political risk may come as a general rejection of the international community, from host-countries due to bilateral conflicts with home-states and from leaders of civil society. Now, we will focus our attention in describing how political risk works, at the industry-level.

Industry-level

At this level, we pay attention to industries. The reason why industries are important is because they also may face levels of political risk that will generate direct consequences over individual firms. As in the case of country-level political risk, industries may be targeted by the international community, host-countries and civil society. In this part of the essay, we will depend on the work of Stevens, Xie and Peng (2016). Stevens, Xie and Peng introduce the legitimacy-base view (LBV) with the idea of explaining the phenomenon of political risk, in cases where the BPA and PIA are not able to accurately describe risk. For example, cases where companies are not physically located in the "host country" territory, due to outsourcing or any other reason, cannot be understood with traditional approaches to evaluate political risk. Extraordinarily, the LBV can be used to assess political risk at the industry and firm level. It is important to highlight that Stevens, Xie and Peng present the LBV to explain how political risk increases or decreases, in relation to firms; I am purposely altering the original work to extend the analysis to the industry level. At the end of the day, our work is only looking to understand political risk in broader and more complex terms. In this subsection, we will only see how this approach operates at the industry level.

The creators of the LBV support the idea that political risk should be analyzed from a holistic perspective, where legitimacy could only explain one part of the whole equation (Stevens, Xie and Peng, 2016, 957). Moreover, they also understand the fact that political risk, in the form of a drastic fall in legitimacy, does not only emanate from political power; increasing or decreasing legitimacy is a complex process that depends on a myriad of factors (Stevens, Xie and Peng, 2016, 948). In general terms, we have to keep in mind that civil society and social leaders are critics and permanent observers of the social legitimacy of industries. International entities also play a role, when it comes to fulling understanding the elements interacting in the production of risk.

The whole idea behind the LBV is that political risk increases when legitimacy decreases. The legitimacy of an industry depends on the long-term vision of the international community, host-government and society. The authors of the LBV explain their idea of legitimacy in the following way:

> "the government is increasingly looking at the attributes and activities of the foreign firms {industries} in the host country over time and evaluating whether they appear consistent with the government's long-term economic, political, and social goals (Henisz and Zelner, 2005). When such congruence is perceived to exist, the legitimacy of these firms {industries} in the eyes of the government increases (Kostova and Zaheer, 1999; Marquis and Qian, 2014; Suchman, 1995). Suchman (1995: 574) defines legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions.""
>
> (Stevens, Xie and Peng 2016, 947-948)

What we need to explain is how the international community, host-government and civil society are able to assess the legitimacy of a given industry. Moreover, we need to determine the exact terms in which they measure the legitimacy of industries. According to the LBV, legitimacy can be understood from three different perspectives. Stevens, Xie and Peng argue that legitimacy can be pragmatic, moral and cognitive. We talk about pragmatic legitimacy when an industry is able to transfer net value "to a legitimacy-conferring stakeholder, directly or indirectly" (Stevens, Xie and Peng 2016, 948). Contrary to pragmatic legitimacy, moral legitimacy does not rely on the ability of industries to provide value to stakeholders (people and leaders); moral legitimacy depends on whether or not stakeholders believe that a given industry is doing the right thing. Finally, cognitive legitimacy operates as a function of the level of "inevitability" of an industry, from the perspective of countries' welfare; in order words, we need to know how preventable the development of an industry is, given that it satisfies a fundamental necessity of human society (ex: electric cars, internet in early 90's, etc.).

Following the LBV, it is easy to comprehend that industries should not focus only on increasing their relative power; since it is a powerful indicator of political risk, industry leaders should pay more attention to legitimacy (Stevens, Xie and Peng, 2016, 948). In a very Gramscian mode of thinking, we can say that the most efficient way for industries to keep their legitimacy high is by making sure that their products evolve overtime, at the same rate of that social aspiration are evolving in the environments where they are operating. In order to keep legitimacy high, industries need to deliver a net social value, contributing in a positive way to the interest of all stakeholders.

Stevens, Xie and Peng understand that there exists a triangular relation between industry, society and government. While industry is the only subject that suffers political risk in this triangular relation, in our model, society and government are considered to be transmitters or producers of political risk. We need to know that society and government may have different standpoints on the kind of contribution that industries are providing; therefore, the kind of legitimacy that an industry enjoys in relation to the government may be totally different from the perspective of society. With respect to this triangular relation, Stevens, Xie and Peng present the following three propositions:

Proposition 1: The more the public perceives a firm's {industry's} attributes and actions to be desirable, proper, or appropriate, the higher the Firm's legitimacy in the eyes of that society's government.

Proposition 2: The more a government perceives a firm's {industry's} attributes and actions to be desirable, proper, or appropriate, the higher the firrm's legitimacy in the eyes of the public.

Proposition 3: The positive relationship between a firm's {industry's} legitimacy in the eyes of the government and its legitimacy in the eyes of the public weakens when the government's legitimacy is low.

(Stevens, Xie and Peng 2016, 951-953)

According to these propositions, there exists a relationship between legitimacy coming from the government and legitimacy coming from civil society. One may say that having high legitimacy from the perspective of civil society and from the perspective of government can only be a helpful thing for multinationals. This is only true in cases and countries where changes of government, transitions of power, do not occur with regularity (e.g., authoritarian governments and undemocratic regimes). However, this is not the case all the time. While it always helps to have positive approval from civil society, we cannot say the same thing about legitimacy coming from the government. Let's quickly explain this point. Having high legitimacy in society is always a plus, because governments do not have political incentives to contradict or oppose the ideas of popular sectors in civil society. However, having high legitimacy coming from the government may, on some occasions, be more harmful than beneficial. For instance, consider the case in which we have a government with low approval ratings and with a very unpopular vision of society.

Developing an association with an administration that is unpopular may trigger a set of negative reactions from civil society, raising the levels of political risk.

When it comes to industrial-level political risk, we may consider the international community to be the most important producer of risk. While governments and civil society may generate political risk at a national level, global industries may only be destroyed with the coordination of international players. Even in places where an industry enjoys a good reputation among members of government and civil society, the efforts of the international community can be catastrophic. Image a hypothetical case in which the international community agree on putting a cap on oil production, with the end of forcing countries to find an alternative to oil consumption. Even if oil-producing countries, with the support of their civil societies, refuse to accept a cap on the extraction of petroleum, it will be silly to deny that the oil producing industry will not be facing high levels of political risk. Those countries that refuse to put a cap on production may be facing a series of tough economic and financial sanctions. This pressure may force governments from oil-producing countries to obey the international consensus. While it would be hard for the international community to come together and agree on how to fight oil consumption, the true is that with the development of alternative technologies, like all-electronic vehicles, world dependency on petroleum is only decreasing with time. The diminishing world dependency on oil provides an extra leverage to the international community in the fight against the oil industry.

While I do not pretend this analysis to be totally comprehensive, I hope to be highlighting the fact that there is room to study political risk as an industrial phenomenon. Now, Let's examine some ideas about political risk at the firm level.

Firm level

Finally, we arrive at the place in the essay where we will be analyzing political risk from a firm perspective. In this subsection, we are going to be looking at political risk from the perspective of firm legitimacy, technological disruption and mobility. First, in relation to legitimacy, we are going to see how this particular element plays an important role at the firm level. Specifically, we will be looking at legitimacy when firms get involved in disloyal competition. We will also look at cases where legitimacy is affected at the home country, creating what we call home political risk. Second, we will examine technological disruption as a cause of political risk. Third, we will look at firm mobility, under the assumption that political risk, at the firm level, is only possible when firms are unable to move internationally at a very low-cost.

A firm's legitimacy is damaged, when the firm gets involved in practices of disloyal competition. By practices of disloyal competition, I am making a reference to a set of well-known anti-competitive practices, like dumping or price-fixing. One case of disloyal competition could be firm collusion, which happens when competitors illegally meet with the end of inflating prices, by reducing supply. If this practice is discovered, firm legitimacy will decrease among participating firms, causing political risk to increase. Another interesting case that may trigger a sudden increase in political risk is when firms generate high levels of externalities, in the form of air, water and noise pollution. Externalities may affect a high percentage of the population, causing political risk to increase and legitimacy to decrease. When thinking about this topic, it is important to consider that a firm could also produce positive externalities. Logically, positive externalities may help firms to reduce risk. The last type of disloyal competition that we consider is when corruption is involved. The *Lava Jato* (Car Wash) case. The *Lava Jato* case involved the infamous multinational Brazilian company Odebrecht. Given that bribery was the main way in which Odebrecht obtained multi-million-dollar contracts in Latin America, the *Lava Jato* case produced a sudden decrease in the company's legitimacy, causing a serious increase in its political risk. Even though Odebrecht's legitimacy only decreased after their corrupt practices were revealed, its political risk was already high before corruption cases were publicly known. The very fact of engaging in bribery with officials from different states produced an increase in Odebrecht's levels of political risk, because its corrupt practices had the potential of generating bad consequences for Odebrecht's commercial activities. Once Odebrecht's corruption became common knowledge in Latin America, the company's social legitimacy went down, causing a further increase in the firm's levels of political risk. At this moment, the civil societies of all the Latin-American nations where Odebrecht was operating were pressuring host governments to put the company out of business.

A drop in legitimacy could also produce what researchers and scholars call home political risk (Jones and Comunale, 2018, 236-237). Stevens, Xie and Peng explain that home political risk is as serious and important as standard political risk (2016, 949). Home political risk occurs when the producer of political risk is the home-state or the home-country civil society. This brings another opportunity for us to make an emphasis on the importance of thinking about political risk from a holistic and eclectic perspective, because it is impossible to explain cases of home political risk with the classic approaches, BPA and PIA (Stevens, Xie and Peng 2016, 957). Home political risk is related to what we may call home legitimacy. The idea behind home legitimacy is that there is a constant process of scrutiny on what national companies are doing abroad. Home-civil society and the home-government may have a negative reaction in relation to what national firms are doing internationally. It is by connecting the concepts of home legitimacy and home political risk how we can understand why Google left China in 2010. Even though Google and China reached an agreement on matters of securities, Google started to push against the Chinese security requirements because its legitimacy in its home country, the US, was decreasing; in order to prevent an even more aggressive increase in home political risk, the technological company decided to leave China (Stevens, Xie and Peng 2016, 954).

At the firm level, I believe that scholars should analyze technological disruption as an element that is able to alter political risk. By technological disruption, I am referring to any event in which a firm introduces new technology with the objective of obtaining a competitive advantage. When discussing technological disruption, there are two kinds of cases to consider. First, technological disruption may produce an increase in political risk, whenever the introduction of a new technology gives the firm a huge advantage over its competitors. When a firm has such an advantage, political risk may increase because there is a possibility for competitors to meet up, in order to present a unified opposition against the disrupting firm. Since a collection of firms does not constitute a group that produces political risk, they only generate risk because there is a chance for them to convince members of government or a portion of society to intervein on their favor. As an example of a company that have introduced disrupting technology and that have suffered high levels of political risk, we must consider Uber. Uber has always been such a disrupting company that its mere presence in cities all around the world was enough to force competitors to organize themselves against the multinational. The *modus operandi* of Uber's competitors is almost the same. They start by sabotaging Uber, by preventing drivers from delivering the service. Then, they organize big public protects against the company. Eventually, they will get the attention of politicians in positions of power and of a large portion of members of society. This usually results in the implementation of policies that affect Uber's business. In short, technological disruption may increase levels of political risk, because it increases the possibility of having competing firms meet up with the end of convincing officials about the idea of implementing policies against the disrupting firm.

Airbnb is another example of a disrupting company. In 2015, Vijay Dandapani, CEO and president of the New York City Hotel Association, told a reporter that all the money spent renting rooms through Airbnb is money that should have gone into the hotel industry, given their investments in the city. Airbnb's competitors have been able to get the attention of some members of the municipal government of New York City. As a result of the above-mentioned, rentals of 30 days or shorter are illegal in the Big Apple. This shows how local competitors have been able to make things tough for the multinational.

The other type of technological disruption, worthy of analysis, is the one that generates a general decrease in the levels of political risk at the industrial level. This type of technological disruption is discussed here, at the firm level subsection, because this phenomenon initially occurs inside a single firm. In this case, the introduction of a new kind of technology will not provide a competitive advantage, in simple economic terms. However, this new technology will generate a change in the production paradigm of the industry, producing a reduction in the levels of externality; subsequently, the introduction of this kind of disruptive technology will generate an increase in moral legitimacy. The best way to explain this type of technological disruption is by showing an example. Tesla is a company in the automobile industry. While Tesla is not the first company in the business of building electric vehicles, we can safely say that they have introduced disruptive technology. Tesla is changing the production paradigm in the automobile industry. Because of Tesla, we know that the automobile industry is compatible with a greener future. This fact produces a general decrease in the political risk of the automobile industry. Governments now know that they do not have to put the automobile industry out of the market, in order for us to have a sustainable planet.

The final point that I want to discuss, before going into the next section, has to do with the idea that political risk is a function of mobility. In other words, if a firm is able to get out of a territory before facing the consequences of political risk, then we can say that such a firm faces no political risk at all. Now, this is hardly what happens in reality. Firms are not able to move around countries that easily and that quickly. There are two factors that condition a firm's mobility: liquidity of the firm's fixed assets and the replicability of the conditions of production in other territories. Of course, multinationals that do not have to go into the territory of foreign nations, in order to be functional, cannot be analyzed in the aforementioned terms.

Kerner and Lawrence bring to the table an interesting perspective of how to understand political risk. In the context of the literature that try to study the effects of bilateral investment treaties (BITs) over foreign direct investment (FDIs), Kerner and Lawrence argue that political risk is a function of assets' illiquidity, rather than a product of institutional deficiency (2014, 108-109). In other words, if companies can flee before the storm arrives, political risk would not be a big deal. Now, liquidity is not the only element to consider, when talking about political risk and firm mobility. We have to take into consideration the replicability of the conditions of productions, in other territories. In other words, we have to check if the factors of production are equally accessible in different countries. If companies cannot duplicate production at a competitive rate of efficiency in other territories, companies are condemned to stay in their host country, even if danger is observed on the horizon.

Typification of Cases

Political risk comes in different forms. Disregarding this fact of political risk is one of the main mistakes made by traditional approaches. For instance, the PIA would look primarily at institutions to evaluate cases of risk; the BPA sees political risk solely as a consequence of interactions between host-states and MNEs. In this paper, my objective is to develop a framework to understand the different faces of political risk. To do so, it is necessary to recognize the multilevel nature of risk.

We have stated that there are three types of producers of political risk, civil society, host-government and the international community. On the other hand, there are three levels upon which political risk is directed to: firm, industrial and country level. After combining the set of producers with the set of receivers, one gets nine different prototypical cases of risk. I propose the following prototypical cases of political risk: International Community Country-Level Risk (ICCR), International Community Industrial-Level Risk (ICIR), International Community Firm-Level Risk (ICFR), Host-Government Country-Level Risk (HGCR), Host-Government Industrial-Level Risk (HGIR), Host-Government Firm-Level Risk (HGFR), Civil Society Country-Level Risk (CSCR), Civil Society Industrial-Level Risk (CSIR) and Civil Society Firm-Level Risk (CSFR). This collection of prototypical cases has been made with the intention of representing most cases of political risk. Two things need to be clarified. First, home-countries are usually very active producers of risk. Since firms are the point of reference, home-countries are considered to be members of the international community, whenever they act against the interest of national companies operating in foreign territories. When countries act against national companies operating within the nation's territory, home-governments simply become host-governments.

Second, an event can trigger an increase in more than one type of risk. This means that a firm can experience simultaneously high levels of HCFR and ICIR. It is important to keep in mind that risk is always present. Therefore, the job of analysts should be to mitigate risk, as early as possible.

It is a task of researchers to investigate the main characteristics of the different prototypical cases of political risk. While in this essay some things have been said in that regard, the goal is not to determine what variables increase or decrease political risk, in each of the nine archetypal cases; that is beyond the scope of the essay. The main objective is to provide to readers a useful framework to study political risk. It is important for readers to keep in mind how this approach opens up our analytical possibilities, by bringing new angles from which to look at political risk. While the BPA and the PIA would focus on the institutional development of host-countries and on the relation between MNEs and host-state, this framework also allows readers to evaluate risk in a more dynamic way. For instance, if scholars utilize the BPA and the PIA to analyze the situation of a company like Monsanto, in terms of political risk, during the mid 2010's, they would say that Monsanto was facing moderate or high levels of political risk, because of the institutional weaknesses of the countries where it operated (e.g. Brazil, Argentina, India, Australia) or due to loss of bargaining power, as a consequence of technological diffusion. On the other hand, a framework that incorporates a multilevel analysis of risk would force analysts to take into consideration other producers of political risk, like the international community or host-nation civil societies. This implies that analysts would have to look at social movements, like March Against Monsanto, or at the international organizations, like the World Health Organization (WHO), who argued that glyphosate causes cancer. In the remaining of this section, we will go over each prototypical case.

Table 1
Prototypical Cases of Political Risk

	Civil Society	**Host-Government**	**International Community**
Country-level	Creation of political risk by civil society over MNEs of targeted states	Creation of political risk by the host-government over MNEs of targeted states	Creation of political risk by the international community over MNEs of targeted states
Industry-level	Creation of political risk by civil society over all firms working in a given industry	Creation of political risk by the host-government over all firms working in a given industry	Creation of political risk by the international community over all firms working in a given industry
Firm-level	Creation of political risk by civil society over specific firms	Creation of political risk by the host-government over specific firms	Creation of political risk by the international community over specific firms

The first prototypical case is the International Community Country-Level Risk (ICCR). There is an increase in ICCR anytime that a group of factors lead to an upsurge in the possibility of having the international community acting against the interest of all the enterprises that come from some adversary country. How and why the international community decides to direct its attention to a concrete objective is a matter to investigate in another paper. An example can be used to illustrate one case of ICCR. The victory of Hugo Chavez in Venezuela, in 1998, was an unexpected event, given that the Cold War was over and, apparently, there was a consensus among opinion leaders about the superiority of capitalism to generate prosperity. However, Chavez was able to win the elections, by promoting the vision of a country with less economic inequality and more social justice. Chavez's victory inaugurated a trend of political success for a group of leftwings parties in Latin America that took power in the succeeding years. The so-called *Socialismo del Siglo XXI* worked as a sort of unifying ideology for many left-wing governments, in the region. It was clear that Venezuela, given its soft power and vast natural resources, was the unifying force of this new geopolitical block. While confrontation with the US, Colombia and Mexico started early on, Venezuela kept its regional importance thanks to what some analysts have called the *petro-diplomacy* (Serbin and Serbin Pont, 2016). Most Latin-American states tried to maintain a neutral position, in relation to the political disputes between Venezuela and US. The reasons behind such neutrality had to do with the relatively low prices at which Venezuela was selling its oil to its regional friends (Statista, 2021). Venezuelan *petro-diplomacy* lost some of its effectiveness, after the sudden decline of oil prices in 2015 and 2016; undoubtedly, the fall in oil prices produced an increased in political risk for Venezuelan companies operating abroad. At that moment, neutral states started to take diplomatic positions against Venezuela. Quickly, a series of decisions harming Venezuelan companies started to emerge (Serbin and Serbin Pont, 2016). Since then, political risk for Venezuelan public and private enterprises have remained at a very high level.

The BPA and the PIA lack a truly international perspective. None of these approaches leave room to consider how international factors may contribute to generate an increase in political risk. Since both approaches, the BPA and the PIA, assume that the host-state is the only producer of political risk, researchers that follow these frameworks will ignore critical action happening at the international level. In regard to the aforementioned case, believers of the BPA would say that risk increased for Venezuelan companies operating abroad because of reasons related to the dyadic relationship between international companies and host-states. Advocates of the BPA would have a hard time explaining the coincidence in time between the increase in political risk of Venezuelan companies operating abroad and the geopolitical debacle of Venezuela. Such simultaneousness can only be explained by looking at international factors. Supporters of the PIA would say that political risk for Venezuelan companies increased due to the poor quality of host-countries institutions. While it is true that in many Latin American nations institutions could be drastically improved, in 2019, the United States, a country with high quality institutions, launched a series of sanctions against Venezuelan companies operating inside and outside the American territory. This shows that there are other factors, outside of institutional development, that we need to examine, in order to correctly assess political risk. The BPA and the PIA bring valuable light for us to comprehend issues of political risk, but these approaches lack an international perspective.

The second archetypal case is the International Community Industrial-Level Risk (ICIR). There is an increase in ICIR anytime that a group of factors lead to an upsurge in the possibility of having the international community acting against the interest of an industry. Sometimes, governments find themselves in a very hopeless situation, when trying to control industries of a global dimension. In these cases, the international community plays a decisive role. One example of the international community intervening against an industry can be found in the Vienna Convention for the Protection of the Ozone Layer, 1985. Industries that were targeted by this agreement are those that worked in the production and commercialization of products containing components such as hydrochlorofluorocarbons (HCFCs) and chlorofluorocarbons (CFCs). The Vienna Convention leaded to the very well-known Montreal Protocol, which is a treaty signed in 1987, ratified by more than 190 states with the end of fighting the production of chemical compounds that harm the ozone layer, such as HCFCs and CFCs. Other events that increased the levels of ICIR were the 1997 Kyoto Protocol and the 2015 Paris Agreement. In both cases, the international community sent a clear message of consensus and unification to fight global climate change. While in both cases these agreements were not done with the ultimate end of fighting the commercial practices of concrete industries, the implications of them represent a clear event that would trigger an increase in political risk for the oil producing industry and the traditional car manufacturing industry. Therefore, the Kyoto Protocol and the Paris Agreement are events that increase the levels of ICIR.

Whenever the producer of political risk is the international community, the BPA and the PIA would have problem evaluating levels of political risk. In addition, when an industry is the receiver of political risk, the BPA and the PIA would not be able to properly assess risk; the reason for this is that both approaches assume that political risk can only target induvial firms. The BPA and the PIA do not have enough analytical tools to analyze cases of risk where the international community goes after an entire industry.

The International Community Firm-Level Risk (ICFR) is the next prototypical case to consider. There is an increase in ICFR anytime that a group of factors lead to an upsurge in the possibility of having the international community acting against the interest of an individual firm. Cases of this nature are not common, given that the activities of most enterprises do not have global implications, in political, economic and social terms. Now, given the development of private enterprises in the technological sector, there is a need for international cooperation to regulate companies and industries with worldwide influence. For instance, Meta, the social media company, has seen how its political risk levels, in the form of ICFR, has increased in the last five years. After the world learned about the way in which Meta does business with people's personal information and about platform being used to manipulate people's way of looking at the world, a wave of criticism emerged against the company. While no international convention governing

Meta has been passed, the European Union and the US congress organized a series of hearings about the topic. Certainly, Meta has experienced increased political risk, in the form of ICFR.

Traditional approaches would have the same sort of problems analyzing cases where the international community is a player that generate risk. The main issue of traditional approaches assessing cases of risk, in the form of ICFR, is the recognition of the international community as a legit producer of political risk. Followers of the BPA and PIA would analyze cases of risk thinking that host-governments are the ultimate producers of political risk, disregarding all types of international variables that push host-governments to act in one direction or the other.

Host-Government Country-Level Risk (HGCR) is another form of political risk. There is an increase in HGCR anytime that a group of factors lead to an upsurge in the possibility of having host-governments acting against the interest of businesses that come from an antagonist state. Many reasons may motivate host-states to apply such kind of policies. Let's examine a case, where an increase of political risk, in the form of HGCR, is observed. Following the victory of Donald Trump in the 2016 U.S. Presidential Election, the idea that China was responsible of the deterioration of the American working class gained a lot of force. In addition, China was looking like the next world superpower, at least in economic terms. There was a growing perception at the time that China, rather than the US, was the main beneficiary of a global system that promoted free trade and economic openness. The US needed to put a stop to that situation. It is in this context how analysts explain the beginning of the commercial war between the two greatest economies in the world. The geopolitical threat that China represented to the US was enough for the American to pull the trigger. This context generated an increase in the levels of HGCR against Chinese multinationals in the US. Considering the high levels of HGCR, analysts could have predicted incidents such as the US government's impediment to Huawei Technologies, in relation to the installation of the 5G network. Although the official argument used by the US government to avoid the installation of the Huawei network consisted of an alleged need to protect the data produced by users, in reality, data privacy was an issue due to the company's Chinese origin and not for lack of technical skills, on the part of the company, to maintain the security of the information.

The BPA and PIA do not pay attention to the relationship that exist between host and home countries. In a multilevel analysis of political risk, scholars need to consider the evolution of government-to-government relationships. This is essential for reasons that I have previously stated in this essay. Political risk is a relational phenomenon, meaning that the countries where multinationals are coming from really matters. In addition, the countries where multinationals are going to are also important. In this geopolitical environment and assuming that all other variables are equal, an Iranian multinational would not experience the same levels of political risk in Russia than in Israel; given the kind of relationships that exist among these countries, political risk for Iranian multinationals will be greater in the second destination. The BPA and PIA do not conceive political risk as a relational phenomenon. For these approaches, the relationship between home and host country is not an important matter.

Next in the list, there is another form of political risk, which is the Host-Government Industrial-Level Risk (HGIR). There is an increase in HGIR anytime that a group of factors lead to an upsurge in the possibility of having host-governments acting against the interest of an industry operating in the national territory. Governments act on favor or against an industry depending on a set of variables that are not of our interest, at this moment. Two events that produced an undisputable increase in political risk, in the form of HGIR, are the prohibition of alcohol production and commercialization from 1920 to 1933, in the US, and the restriction imposed by the Chinese government for all video game players under the age of 18. Given the way in which the American state is organized, it is inaccurate to talk about a uniform effect on the level of restrictions, in relation to alcohol production and consumption. In some states and cities, there was less restriction than in others. Thanks to the constant pressure made by different social groups, prohibition was embraced by the American federal government. Undoubtedly, this prohibition seriously affected the interest of a developing national industry, which is the one that has to do with alcohol production and consumption.

Recently, the Chinese government put a cap of three hours to the total time that video game players, under the age of 18, can spend in online games. This action by the Chinese government must be understood as another element in a more complex series of social reforms. The Chinese gaming industry was greatly affected by this action. One must assume that the bad numbers presented by the Chinese company Bilibili, for the third quarter of the present year, are partially a result of the aforementioned policy. Bilibili's net profit margins changed from -24.93% in the second quarter of 2021 to -51.42% in the third quarter of 2021 (Bilibili, 2021). In short, the present wave of social reform has elevated the political risk, in the form of HGIR, for companies operating in China, in the videogame industry.

Cases of HGIR cannot be properly examined by traditional approaches, because they do not recognize industries as potential targets for risk producers. Unidimensional approaches claim that political risk affects businesses only at a firm level. In my framework, host-countries can also generate risk towards industries. Industries are legitimate receivers of political risk.

Host-Government Firm-Level Risk (HGFR) increases anytime that factors lead to an upsurge in the possibility of having host-governments acting against the interest of a specific company. This type of political risk is the one that is recognized in most of the literature. Traditional approaches are suitable to examine cases of political risk in the HGFR form. A situation where HGFR is elevated can be found in what is going on between the Securities and Exchange Commission (SEC) and the company Coinbase. Gary Gensler, the current chairman of the SEC, has initiated a series of assessments of the cryptocurrency industry. Two problems have arisen with Coinbase, which is a well-known cryptocurrency exchange. Gensler is questioning the lawfulness and systemic consequences of the so-called stablecoins (Newmyer, 2021). In the case of Coinbase, the USD Coin (USDC) is a stablecoin that cryptocurrency investors and traders utilize to reduce or eliminate their exposition to relative changes in price. Stablecoins keep their value attach to the value of the dollar. The chairman of the SEC thinks that it is insecure for investors to keep their money in a currency that pretends to be a substitute of the dollar. Gensler also believes that Coinbase should be registered with the SEC as a regular exchange, since the main function of the company is to allow customers to trade securities, in the crypto marketplace (Ehret, 2021). It is understood that the set of regulations proposed by the SEC will be against the interest of Coinbase. Clearly, the dispute that exist between Coinbase and the SEC increases the political risk of the company, in the form HGFR. The stablecoin problem does not just apply to the USDC. There are other stablecoins, such as Tether and TerraUSD, that are also under scrutiny. This implies that producers of risk are also targeting the cryptocurrency industry. While in this case risk in the HGFR form is definitely observed, risk in the HGIR form is also present. This case speaks in favor of the multidimensional aspect of political risk.

There will be high Civil Society Country-Level Risk (CSCR) anytime that a group of factors lead to an upsurge in the possibility of having host-country civil societies acting against the interest of multinationals that come from specific countries. Nowadays, producing a product in the US has become a good thing, for a group of consumers that understand the importance of buying American made goods. Possibly, this interest in consuming American made products is a result of what was Trump's America First rhetoric. Anyways, we may agree on the idea that a good portion of Americans believed that their role was to increase consumption of American made products, while buying fewer China made goods. Obviously, with the level of economic integration that exists between the US and China, it is not an easy task to take away China made products from consumer hands. China is still the largest factory in the world. It is true that actual importation of Chinese goods has not significantly decreased. However, CSCR levels have increased for Chinese companies, due to the adverse reaction of a part of American society to products made in China. A similar situation happened in Mexico, one year after NAFTA went into effect, in 1993. *El Subcomandante* Marcos led the Zapatista Army of National Liberation, a group of people who wanted true systemic change and that thought that increased imports of American products would worsen the lives of average Mexican citizens. In both cases, one observes an elevated amount of CSCR.

The BPA and PIA leave no place to the political action of host-country civil society. When it comes to analyzing most cases of political risk with the US being the host-country, believers in the PIA would probably have a hard time; it is assumed that the quality of political institutions in the US is high; therefore, one should not expect Chinese companies to be experiencing high levels of risk in the US. This view could not be further from reality. While the relationship between some Chinese multinationals and the American government are far from perfect (e.g. Huawei), most multinationals that come from China do not have a history of conflicts with the American government. This means that the BPA is incapable of explaining cases of political risk, in the form of CSCR.

Civil Society Industrial-Level Risk (CSIR) increases anytime that a group of factors lead to an upsurge in the possibility of host-country civil societies acting against the interest of an industry. Public manifestations on favor of action to stem climate change, during the late 2010s, put a lot of pressure in country leaders to dimmish emissions as fast as possible. Indirectly, actions like this generated a high degree of political risk, in the form of CSIR, against all industries that were/are contributing, voluntarily or involuntarily, to keeping current levels of emissions. Therefore, it should be clear the civil society can also emanate important levels of political risk towards industries. As I have previously said, traditional approaches are not appropriate to analyze cases of political risk, when civil society is the producer of risk and a particular industry is in the receiver end.

Civil Society Firm-Level Risk (CSFR) increases anytime that a group of factors lead to an upsurge in the possibility of having host-country civil societies acting against a firm. Residents of New York city should be familiarized with the case of Amazon wanting to run some of its operation in Long Island City, Queens. Amazon understood the strategic importance of being in New York City. Even though Amazon had the support of Governor Cuomo and Major de Blasio, the company made the decision of cancelling it plans of going to Long Island City. What prevented Amazon from coming into New York City was the effort made by "progressive activists and union leaders" (Goodman, 2019). Behind Amazon decision, we find the recognition by the company of the fact that political risk, in the CSFR form, was too high. Given how active community members showed themselves to be, in relation to this matter, it was obvious that taking the decision of going to New York implied a huge risk.

Readers should understand that a company can be simultaneously facing multiple forms of political risk. A multilevel approach should allow analysts to evaluate risk in a broader and more complex way. In the next section, one company, Barrick Gold, would be examined using a multilevel analysis approach. The goal is to show how a multilevel analysis of political risk can be more effective than conventional approaches, when it comes to assessing risk.

<u>A Multilevel Analysis of Risk: Barrick Gold</u>

In this section, the goal is to briefly demonstrate how a multilevel analysis can lead us to a more complete understanding of political risk. I think that a multilevel approach would allow analysts to generate more insights about the risk that firms and industries may be facing. I will start my analysis by first providing a summary of what Barrick Gold does and offering general information about Barrick's host and home countries. Second, I will be assessing levels of risk coming from the international community. Third, I will investigate political risk coming from host-governments. Fourth, I will conclude by looking at the behavior of host-countries civil society, in relation to the commercial activities of our company. I will categorize levels of risk in the following way. Very low, if risk is insignificant; low, if risk is moderate; medium, if risk is significant; high, if risk is so elevated that actions against the company under examination are imminent; very high, if risk producers have announced the execution of actions against the company under evaluation. The company that I will be examining is Barrick Gold. The purpose of this section is just to show how a multilevel approach would work. My analysis of this company is not meant to be exhaustive or comprehensive.

Barrick Gold is a Canadian mining company that was founded in 1980. It became a public company in 1983, trading its shares on the Toronto Stock Exchange (Institute of Developing Economies, n.d.). Barrick specializes in gold and copper mining. Although the company has had operations in many parts of the world (e.g., Tanzania, Papua New Guinea, United States, Canada and Peru), this section will focus on evaluating the company's risk situation in the Dominican Republic.

Barrick Gold went to the Dominican Republic in 2006, after buying and assimilating the mining operations of Placer Dome. However, Barrick's activities in the Dominican Republic started in 2013. Its center of operations in the country is located in the province of Sánchez Ramírez, in Pueblo Viejo. The mine of Pueblo Viejo is the biggest gold mine in the American continent. Barrick's production in Pueblo Viejo, during the 2020 year, was equivalent to 542,000 ounces of gold; these numbers were only surpassed by Barrick's production in Mali, with 544,000 ounces of gold (Barrick, 2020).

Canada, which is Barrick's home-country, is perceived as a state with very good relationships internationally. Canada is a democratic country, with very solid institutions. The Canadian state is a very active player internationally. It is a member of the Organization of American States; a member of NATO and a member of the G-7. The two most important geopolitical partners of Canada are the United States and the United Kingdom.

The Dominican Republic is a host-nation for Barrick Gold. Since 1966, the country has maintained its democratic regime. However, it was not until 1994 that the country took serious steps with the end of improving the quality of its democracy. In general terms, the country has a long way to go, before developing its political institutions to the levels of countries like Chile, Costa Rica or Canada (The Economist, 2021). During the administration of Leonel Fernandez, the Dominican Republic started to pay attention to its role as an international player. In comparison to other nations in the region, Dominican diplomacy is known for its international inactivity.

In the international arena, Canada is perceived as a middle power. In most cases, middle powers do not have the military means to impose their will through bellicose methods (Neack, 2017). This may explain Canada high involvement in multilateralism. Moreover, one should not be surprised about the good international reputation of Canada. Given that Canada has a good overall relationship with the international community, I think that levels of International Community Country-Level Risk (ICCR) are very low for Barrick and for other Canadian multinationals overall.

Barrick is in the copper and gold mining business. Since Pueblo Viejo is primarily a gold mine, I will treat Barrick, exclusively, as a company in the gold-mining industry. In different periods of history and in different civilizations, gold has been used as money, which means that it has functioned as a unit of account, store of value and medium of exchange. Gold has a very high symbolic value, in most societies. It is the symbolic value of gold what, in my view, protect the gold-mining industry from attacks coming from the international community. Even though gold mining generates a high level of environmental externalities, my take is that this industry will not be targeted by the international community anytime soon. While Barrick's executives should be concerned with issues of externalities, gold is one of the most desirable minerals on earth. Given this reality, I think that political risk levels in the form of International Community Industrial-Level Risk (ICIR) are low for Barrick and other firms in the gold-mining business.

Now, it is time to investigate Barrick's levels of risk coming from the international community, at the firm level. In other words, we want to investigate the possibility of having the international community taking action against the interest of Barrick Gold. While there is no evidence of the existence of any international conspiracy against this company, it does not mean that there are not international players with reasons to act against it. Other host-countries of Barrick are good places to start looking for international actors willing to damage the profitability of the company. For instance, Peru was one of its most important host-countries. In Lagunas Norte, Barrick produced 754,000 ounces of gold, in 2012 (Barrick, 2013). Barrick sold its rights to exploit Lagunas Norte to Boroo Pte. Ltd., a multinational from Singapore (Barrick, 2013). Political risk could be a reason to explain why Barrick left Peru, given that it is one of the most unstable countries in the Americas. In the 80s and 90s, Peru was facing two major issues. First, *Sendero Luminoso* (Shining Path), a Marxist-Maoist political group, intended to seize power through armed struggle. Second, Peruvian democracy was interrupted for about ten years, during the administrations of President Alberto Fujimori. Since 2001 to the present, four of the last eight presidents of Peru have been formally accused of corruption cases. Two presidential impeachments have been executed in Peru, in the last three years. In a country where mining is fundamental for the wellbeing of the economy, it is not uncommon for members of civil society to protest against the labor practices of multinationals. Pedro Castillo, the current president of the country, is very critical of companies in the mining industry. In short, Peru is an international player that may be willing to take action against Barrick Gold. In my view, the same argument can be said about other countries, like Mali, Congo or Argentina, where the interactions with Barrick have not been very pleasant. The home-countries of Barrick's international competitor are also potential sources of international political risk. South Africa and the United States are two nations from which comes a long list of multinational companies operating in the gold mining industry. For instance, the United States is the home-country of companies like Freeport-McMoRan Inc., Newmont Corporation, and Royal Gold, Inc. South Africa is the home-country of Sibanye Stillwater Limited, Gold Fields Limited and AngloGold Ashanti Limited. Both countries, South Africa and the United States, could act against Barrick to benefit American and South African companies working in the gold mining industry. Based on these facts and ideas, I think that Barrick Gold is facing a medium level of International Community Firm-Level Risk (ICFR).

In order for analysts to evaluate political risk in the Host-Government Country-Level Risk (HGCR) form, they need to look at the bilateral relation that exists between the host and home-country. Canada and Dominican Republic have diplomatic relations since 1954. In 2019, Canada imported an amount of goods from the Dominican Republic equivalent to US $ 490 million; gold (58%), low-voltage protection equipment (9%) and medical instruments (7%) are the most important goods imported to Canada from Santo Domingo. In 2019, Canada exported to the Dominican Republic an amount of goods equivalent to US $163 million; wheat (40%) and processed fish (15%) are the main products that Canada sells to the Caribbean country. During the more than sixty years of bilateral relations, there is no public record of diplomatic confrontations between the two nations. It seems that diplomatic relations between Ottawa and Santo Domingo are very stable. In my view, for Barrick Gold, political risk in the form of HGCR is very low.

When it comes to analyzing the level of risks that the Dominican Republic, as a host-state, may generate towards the gold-mining industry, one must remember the importance of this industry to the development of the Dominican economy. According to the Central Bank of the Dominican Republic, the gold-mining industry contributed to 2% of the national gross domestic product (GDP), in 2020; in previous years, like in 2016, the contribution of this sector to the Dominican GDP was 4% (Banco Central, 2021). In addition, the mining-industry allows the Dominican economy to have access to strong currencies, like the American dollar, which is essential to keep the macroeconomic stability of the country. By discouraging the commercial activities of this industry, the Dominican government may be losing an important amount of resources; these resources are needed to finance projects that could contribute to the development of the Dominican people. However, I have to assign some level of risk, because historically the mining industry has been controversial due to the environmental and social externalities that it generates. In my view, Barrick Gold is facing a low level of Host-Government Industrial-Level Risk (HGIR).

Despite low risk factors in other areas, the relationship between the Dominican state and Barrick Gold has been very complicated. I think that the Canadian company has been a sort of scapegoat for the Dominican government. Two incidents will demonstrate my point. First, in August of 2012, Danilo Medina became the president of the Dominican Republic. In his inaugural speech, he affirmed that the country was not in a very good position, from a fiscal point of view. He thought that the government revenue needed to increase. To do so, it was necessary to collect more taxes. One way of increasing government revenue was by changing the agreement that the Dominican state had with Barrick Gold. According to president Medina, the previous administration had agreed to a distribution that provided to the Dominican state only 3.2% of Barrick's total profit. After months of discussions, the Dominican state was able to increase its return from 3.2% to 51.3% of the total profit (El Día, 2013). The second incident involves the current administration, led by President Luis Abinader. During the last electoral campaign, President Abinader promised to reduce the country's fiscal deficit. Similarly, other presidential candidates agreed on the need of increasing the government revenue. To do so, President Abinader proposed an ambitious tax reform that demanded a substantial increase in the tax contribution of the middle class. The reaction of the people was immediate. Hundreds of citizens protested against the substantial tax increase. President Abinader needed to maintain and defend his popularity. In response to the public request, the president withdrew his proposal for a tax increase. Obviously, this did not solve the aggravating problem of the fiscal deficit. Government forecasts indicated that 2021 would be a difficult year for government tax collection. In this complicated context, Abinader asked Barrick Gold to make certain adjustments to the previously negotiated agreements.

On this occasion, the Dominican government asked the multinational for advance payments, in order to reduce the budget deficit. This action substantially affected Barrick Gold's financial interests. In a time of rising inflation, any advance payment made by a company goes against its interest. That is, given the rapid loss of value of the dollar, companies will always prefer to do payments on the due day or at a later time. The actions taken by President Medina and President Abinader against Barrick set a dangerous precedent against the Canadian multinational. As a consequence of this history of actions, I think that Barrick Goal is facing a high level of Host-Government Firm-Level Risk (HGFR).

To evaluate political risk in the Civil Society Country-Level Risk (CSCR) form, analysts need to look at the perception that the host-country civil society has about some multinational's home-country. In other words, I need to look at the perception that members of the Dominican civil society have over Barrick's home-country, Canada. Two elements contribute for Dominicans to have a good perception of Canada. First, there has not been any incident of serious diplomatic confrontation between both countries. Second, Canada is one of the preferred destination for Dominicans to emigrate. Therefore, in my view, Barrick Gold is facing very low levels of political risk, in the CSCR form.

In recent years, there has been a great proliferation of Dominican social groups with the objective of defending and protecting the environment. Two factors help us to explain this proliferation of pro-environmental social groups. First, since 2011, the country has observed the emergence of a set of social movements. The first great national movement of this period was known as the 4% group. This social movement demanded that the 4% of the national GDP to be invested in education. The second national social movement was *Marcha Verde*. This social movement demanded an end to impunity and corruption. The development of these social movements has created a new culture that encourages and motivates citizens to protest in public spaces. Second, environmental social movements have been strengthened thanks to the articulation they have achieved, after having fought for the preservation of Loma Miranda; Loma Miranda is a territory legally protected by the Dominican state. However, a nickel-mining company, Falcondo, has wanted to acquire the rights to exploit the resources of Loma Miranda. In addition, Dominican environmental social movements have been inspired by the existence of the global environmental movements that emerged during the 2010s. The existence of articulated social sectors that fight against environmental predators represents a great threat to the Dominican mining industry. Following this discussion about environmental social groups in the Dominican Republic, in my view, Barrick Gold is facing medium levels of Civil Society Industrial-Level Risk (CSIR).

There is a very high activity of environmental social groups in the surroundings of Pueblo Viejo, the place where Barrick Gold is located. These groups are demanding the cessation of Barrick's mining activity. The reality is that these social groups have not been able to establish their claims against Barrick as a topic of national discussion. Given the network that activists have created in the last ten years, it is quite possible to expect that these social groups will be able to catch the attention of the national population. As a result of the immense popularity that social movements have achieved in the last decade, what to do with Barrick could be a topic of discussion in the next presidential election. This means that the demands of environmental groups against Barrick may reach the minds and hearts of national voters. If this happens, the government will be obliged to act against the multinational. In my view, Barrick Gold is facing high levels of political risk, in the Civil Society Firm-Level Risk (CSFR) form.

Table 2
Political risk assessment for Barrick Gold

	Civil Society	**Host-Government**	**International Community**
Country-level	Very low	Very low	Very low
Industry-level	Medium	Low	Low
Firm-level	High	High	Medium

The objective of this political risk evaluation of Barrick Gold is simply to show readers how to perform a multilevel analysis of risk. Given the nature of this essay, our analysis of Barrick might be sparse. A more abundant and detailed report could incorporate other important issues, such as the bilateral relationship with Haiti, the increasing instability of the Dominican political party system and other issues related to the Dominican national politics. In this section, the emphasis is to show the analytical possibilities of the framework proposed in this essay. One of the advantages of a multilevel analysis is that researchers can identify the actors (civil society, host government and international community) that are likely to generate high levels of risk, as well as the areas (firm, industrial or country level) where this risk could be higher. By having a classification of the different forms of political risk that exist, analysts can make specific recommendations on what companies should do to mitigate risk. For instance, Barrick should focus on diminishing levels of political risk in the ICFR form by stablishing a program of actions on favor of the different communities where Barrick has previously been (Pierina and Lagunas Norte, Peru; Kibali, Congo or Veladero, Argentina). Barrick should focus on decreasing its HGFR levels, by stablishing a more stable relation with the Dominican government. They should also pay attention to social movements, in order to diminish their CSIR and CSFR levels. Lately, Barrick Gold representatives in the Dominican Republic have been actively involved in a kind of media tour; in this way, they are trying to present an image of themselves, different from the image that social movements are projecting to the people about Barrick.

Traditional approaches are unable to disaggregate political risk into different types. In the case of BPA, analysts would be limited to saying that one of the ways that Barrick Gold could mitigate its risk is by ensuring that its domestic competitors do not obtain technical skills similar to or superior to theirs. The problem with this suggestion is that Barrick has no major competitors in the Dominican territory. Therefore, this would not resolve none of Barrick's current issues. Another suggestion that followers of the BPA could make is to strengthen Barrick's relationship with the national government. Although this would diminish Barrick's overall levels of political risk, this does not appear to be a solution to the problem of social legitimacy that the company faces. Believers of the PIA would suggest that Barrick should make an effort to promote an agenda in favor of the institutional development of the country. Undoubtedly, measures like these would generate more favorable political risk conditions for all business initiatives. However, an action like this would do little for Barrick. Strengthening the country's democratic institutions would only help social movement activists to gain access, through fair elections, to political decision-making spaces, such as Congress and the Central Government. The defenders of the PIA are unaware of all kinds of risks emanating from civil society and the international community.

Conclusion

This paper shows that traditional theories of political risk are unable to explain risk in cases where the international community and host-nation civil societies play the role of producers of political risk. In addition, this paper has demonstrated that conventional approaches, like the BPA and PIA, are inadequate theoretical tools to comprehend complex cases of political risk. To resolve this issue, this essay introduces a multilevel approach to study political risk.

I have made an important distinction between producers and receivers of political risk. In my view, host-governments, host-nation civil societies and the international community are the main producers of political risk. These producers of risk can target companies and multinationals at different levels. These levels are called receivers of political risk. Companies can face risk at a country, industrial and firm level. I have stated that political risk is a resultant product of the relation between producers and receivers. By combining the sets of producers and receivers of risk, one gets the set of prototypical cases. These nine essential cases of risk are supposed to work as a representation of most cases of political risk. By looking at the characteristics of these archetypical cases, analysts should be able to describe the type of political risk case that a company may be facing.

Two contributions of this paper I find critical to highlight. First, political risk cannot be seriously understood by only looking at a level of analysis. A unidimensional approach may only explain political risk in one of its forms, but not in all of them. This stresses the importance of a framework like ours, where there is room to come out with dissimilar explanations of risk, for each archetypical case. Second, this paper has shown that companies can simultaneously be affected by different types of political risk. Keeping this in mind will open the door for others to generate more eclectic recipes of how to maintain low levels of risk.

When it comes to analyzing the implications of this essay, I must mention that our framework for analyzing risk suggests that it is totally possible to have a decrease of one form of political risk, while having an increase in other forms of risk. For instance, I can say that the ratification of some new bilateral investment treaty between Spain and South Africa will generate a reduction in the levels of HGCR of Spanish firms operating in South Africa (Investment Policy Hub, 2015). However, the polluting practices of these companies could increase the levels of political risk, in the CSCR form. Another implication of this paper has to do with the explanatory power of theories that pretend to be "general theories of political risk". While the modest contributions of this essay do not imply that theorists of this kind are wrong, they certainly indicate that the explanatory power of these theories must be more modest than what they pretend to be. There exists the necessity for researchers to work with different theorists of political risk. Here's why: what may move a host-government to plan or act against the interest of some industry (HGIR) may be totally different from what makes it plan or act against companies that come from some specific country (HGCR).

Among the many limitations of this paper, we must highlight the lack of empirical evidence showing that researchers are able to better asset levels of political risk by using our framework, in comparison to traditional approaches. Researchers should also explain the relation that exists between risk (as a probability) and concrete events when it comes to evaluating levels of risk. Does risk increase with mere plans or it is required to observe concrete actions? Another area where researchers can contribute is in identifying what elements cause an increase in the different forms of political risk. This paper did not attempt to find independent variables that may help us to explain an increase or decrease of political risk, for any of the prototypical cases. However, through these pages, some suggestions are provided in relation to what elements may produce positive or negatives changes of political risk. After the construction of theories that may explain how some of these archetypal cases of political risk work, it is the duty of investigators to develop convincing indicators to measure political risk. At that point, political scientists will need to evaluate if it is convenient to aggregate different measurements of risk, into a single general quantity.

Another interesting thing to do is to promote the incorporation of a more diverse set of researchers to study political risk, especially people coming from the global south. In my opinion, there is a lack of a truly international perspective in this area of knowledge. Most authors write like if political risk is an issue only affecting firms from the global north. Moreover, most theories of political risk do not seem to worry about explaining cases of political risk for MNEs that come from the global south. The integration of this new group of researchers will help with this issue, because they naturally will include the experiences of companies operating in other parts of the world. If this happens, the study of political risk will become truly global.

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