Translation Sample

Political Risk

When companies intend to conduct their business in a foreign country, they must first assess the associated political (i.e., country) risk of the country in question. Briefly, this is the risk that the return of an investment could deteriorate due to political decisions, events, or conditions (Matthee, 2011). There are various types of political risk that originate from the political and legal environment.

The first political risk that a company operating in foreign markets could be faced with is the government imposing trade barriers. A foreign government could, for example, implement tariffs on imports with the intent of protecting the domestic job market from imports and to have more value adding activities domestically. This would hurt a company that wants to export its goods to that foreign market, because the import taxed make these goods more expensive. The second risk, typical in developing countries, are uncertain property rights. A government takeover of assets as result of uncertain property rights can take various forms:

- Confiscation is the seizure of corporate or personal assets without compensation. For example, in the 1980s, Robert Mugabe, prime minister of Zimbabwe at the time, confiscated over 5,000 farms owned by farmers of European descent and redistributed the land to native Zimbabweans (Cavusgil et al., 2014). Today, confiscation is still a risk for the mining industry in developing countries.
- Expropriation is the seizure of corporate or personal assets with compensation. In 2008, a Russian subsidiary of British Petroleum known as TNK-BP was strongarmed into selling a large stake in its oil business to Rosneft, the national energy company in Russia. This was due to political pressure from the Russian government (Economist, 2008; Cavusgil et al., 2014).
- Nationalization is the seizure of a complete sector. While compensation may be offered in some cases, this is not guaranteed. For example, large parts of the Bolivian extractive industries were nationalized by the state without an offer of compensation (Economist, 2008; Cavusgil et al., 2014).