MARCH 2017

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PANORAMA

The rise and rise of political risks

2
IS POLITICAL RISK above all, the risk of conflict?

7
POLITICAL AND SOCIAL FRAGILITIES: the second dimension of political risk

15
IN CONCLUSION, political risk has grown

16
APPENDIX Political risk assessment ranking

Political risk seems to have been at the core of concerns since 2016, following numbers of articles and editorials on the topic. With increasing uncertainty in Europe and in the United States, and the systemic effects that could stem from it, the impact of political risk has become a reality. But are we in a world in which political risk is more significant?

While analysts strive to describe the phenomenon, there is little agreement on a definition or even a measurement of political risk. Yet, the latter encompasses several dimensions, but how can we combine the occurrence of a war, the possibility of a popular revolt, and the rise of populism? That is the question addressed by this study through a new, quantified risk model covering 159 countries, from 2007 to 2016.

The Coface model measures various types of political risks in relation to their impact on business activity. Two major groups are taken into consideration for each country: security risk, which includes conflict and terrorism, and the risk arising from political and social fragility, which includes a measurement of populism for developed countries.

If you wonder if there is an increase in political risk on the global scale, the answer is yes. Since 2013, political risk has increased but this increase conceals different dynamics depending upon the region. The Middle East remains the one in which risk is noticeably highest, but risk has significantly increased in Sub-Saharan Africa and in the CIS. For advanced countries, the situation in some major economies has improved since the 2009 crisis, but the rise of populism and security concerns in countries hit by terrorism deteriorate the score in some European countries.

> **Between 2007 and 2015, the number of conflicts increased twofold.**

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Jean-Louis DAUDIER
Economist

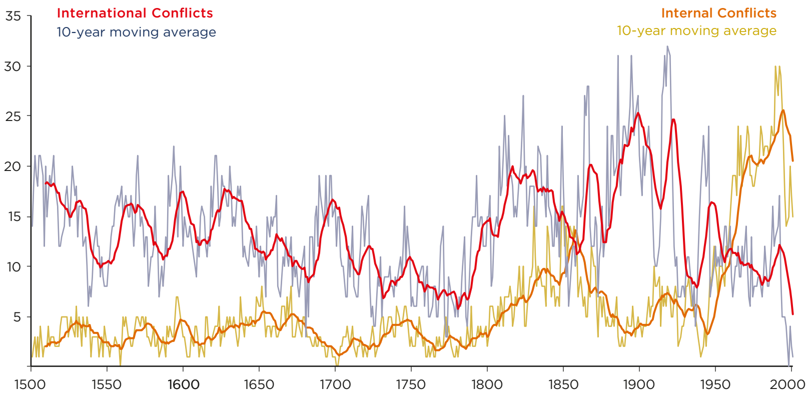

Ruben NIZARD
Economist


Sofia TOZY
Economist

1 IS POLITICAL RISK, ABOVE ALL, THE RISK OF CONFLICT?

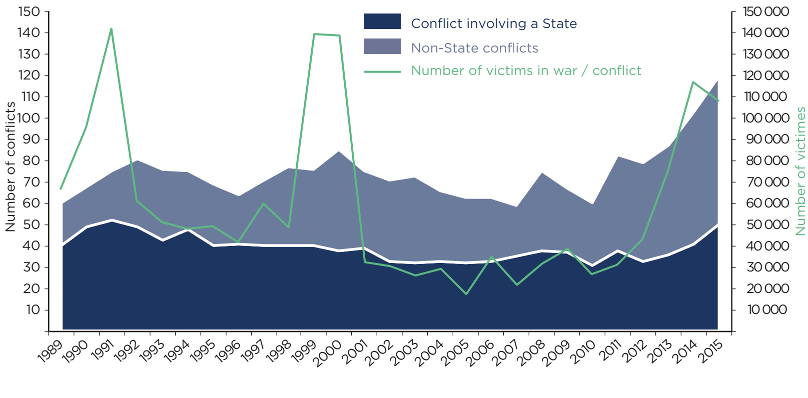
Traditionally, measuring political risk has been based on the observation of wars and conflicts. By limiting the ability of the State to exercise its sovereignty over its own territory, wars, conflicts, and other forms of political violence undermine the economy. Indeed, the ability for economic agents to operate is disrupted, or even interrupted. By conflict, we mean an armed confrontation between two factions, groups, and/or States. Unlike the definition of international law, the one used here includes armed conflicts between two non-governmental groups.

Chart 1:
Number of countries involved in a conflict, 1500-2000



Source: CLIO-INFRA

Chart 2:
Number of conflicts and victims associated with conflicts, 1989-2015



Source: Uppsala conflict data program

Resurgence of Conflicts since 2014

Over the past few years, reports of violent conflicts in Libya, Iraq, Syria, and the Ukraine, and even the fight against the armed groups as Islamic State (IS), have weakened the myth of the Pax Americana. By analogy to the Pax Romana (29 BC-180 AD) and the Pax Britannica (1815-1870), this expression refers to the period of relative peace that began with the emergence of American hegemony in the second half of the 20th century. Fragile in the context of the Cold War and the conflicts that marked it (the Korean, Indochina, Vietnam, and other wars), the idea of a Pax Americana was able to become established following the fall of the Berlin Wall and the Iron Curtain, symbols of the "ideological victory of liberal democracy" [1]. Nonetheless, as Francis Fukuyama had already signalled, the (questionable) advent of liberal democracy does not mean the absence of conflict, contrary to a widespread idea. The Gulf, Chechnya, Kosovo, and Iraq Wars, interventions in Afghanistan, the Israeli-Palestinian conflict, or even the many civil wars in sub-Saharan Africa and elsewhere (Djibouti, Republic of the Congo, Guinea-Bissau, Liberia, Nepal, Chad, Central African Republic, etc.) show that, in fact, there have been many armed conflicts between 1990 and 2010.

Also, since World War II, cycles of violence, armed conflicts, and wars have followed one after another. This is despite of the recent trend in the past 70 years, in which, for the first time in the last five centuries, the number of countries involved in internal conflicts has exceeded lastingly that of those involved in international conflicts (Chart 1). Therefore, the feeling of the recent resurgence in conflicts might simply be the result of their internationalisation, especially in the Middle East. Nonetheless, the overall number of conflicts (Chart 2) has shown an increasing trend, it doubled between 2007 and 2015. By themselves, armed conflicts and wars involving at least one governmental player have been multiplied by 1.5. Beyond the number of conflicts, their intensity, measured by the number of victims, has also increased.

As such, there was a new peak in the number of victims in 2014-2015. The upward trend in the number of combat deaths, which began in 2010, should continue in 2016 with major conflicts in Syria, Iraq, Afghanistan and Nigeria. Placed in perspective, the current peak is far from the levels achieved in the wake of World War II, especially with the Korean and Indochina Wars. It is even far from the two peaks recorded at the end of the 1960s and in the 1980s, which were the results of major conflicts throughout the world (Vietnam and Afghan Wars, or civil wars in Cambodia, Nicaragua and Mozambique).

While less impressive, the current peak is similar to 1991, which had 40,000 deaths in Iraq and Kuwait as part of the Gulf War, or 1999-2000, at the time of the Eritrea-Ethiopia War, which was also responsible for more than 40,000 victims per year. With the intensification of the armed fight against the IS (intervention by western forces in Syria) and, more globally, with the persistence of conflicts, especially in Syria, Iraq, or Yemen, 2016 should again have a heavy death toll.

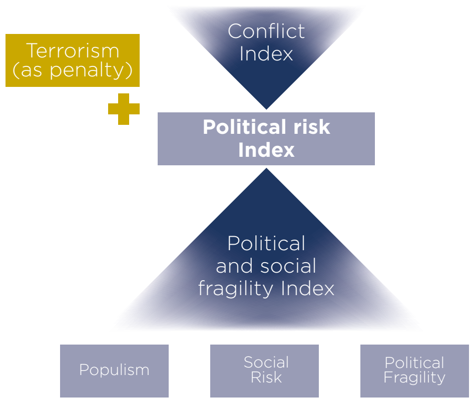
The Coface Conflict Index

For its methodology, Coface relied upon the database established by the Department of Peace and Conflict Research at Uppsala University (Sweden) as part of the Uppsala Conflict Data Program (UCDP). More specifically, Coface is interested in conflicts that involve the State against another State/group/faction, as well as conflicts among groups and factions within a given territory. Indeed, the latter attest to the inability of a government to fulfil its sovereign functions. In the most extreme cases, especially civil wars in which several factions are fighting against themselves, this type of conflict calls into question the Weberian concept of the state monopoly on legitimate violence[2].

The Coface Conflict Index is calculated each year as a function of the number of conflicts, their intensity, the number of victims, and conflict duration. The first step requires aggregating the number of armed conflicts - between 25 and 1,000 deaths - and wars - more than 1,000 deaths - in a given territory. This distinction between armed conflicts and wars makes it possible to measure conflict intensity: thus, a lower coefficient is assigned to armed conflicts. The score is increased if a country has been afflicted by at least one conflict in previous years. Bellicose countries for which conflict does not infringe upon national territory are also taken into consideration, but to a much lower degree than if the conflict affects their land. Lastly, the number of victims in a conflict per 100,000 inhabitants is added to more precisely measure the extent of human losses. A score is then established on a scale from 0 to 100%.

Countries that are experiencing major conflicts, already in progress since 2007, naturally have the highest risk. Two notable exception remain, Libya and Syria, in which, respectively, multinational military intervention and the start of the civil wars can be traced back to 2011. Mexico is also at a high level of risk, which can be explained to a large degree by the violence of gang wars taking place there. At the back of the peloton of the 30 countries with the highest risk are nations that have seen the intensity of the conflicts in which they are involved reduce by half since 2007 (Algeria, Burundi, and Columbia).

Diagram 1:
Coface Political Risk Model



A war (a high intensity conflict that affects all or a large part of the territory) is considered to be the highest level of political risk as it annihilates a major part of the economic fabric of a country. Destruction of infrastructure resulting from combat, insecurity, and populations displacement affect economic activity in both the short- and long-term.

For example, Syria has seen its GDP decrease by 57%[3] since 2011[4] and foreign trade has contracted by 90%[5]. The Syrian Centre for Political Research (CSRP) estimates the destruction of physical infrastructure between 2011 and 2014 at nearly $75 billion, or approximately 120% of 2010 GDP. Syrian population, estimated at approximately 22.1 million people in 2010, has decreased by 20% since March 2011. According to the United Nations Refugee Agency (HCR), more than 250,000 people have been killed in the fighting, and more than 800,000 have been wounded since 2011. Additionally, in its February 2016 report, the HCR estimates the number of displaced persons to be 4.7 million, 900,000 of whom have requested political asylum in the European Union. Even if a peace is agreed, the war will continue to have economic repercussions in the medium term. As long as no solution to the Syrian crisis is found, the cost of reconstruction remains difficult to assess, but it is estimated to be between $180 and $200 billion, or three times 2010 GDP.

1/ Francis Fukuyma. "La Fin de l'Histoire et le Dernier Homme". Paris, Flammarion, coll. Histoire.

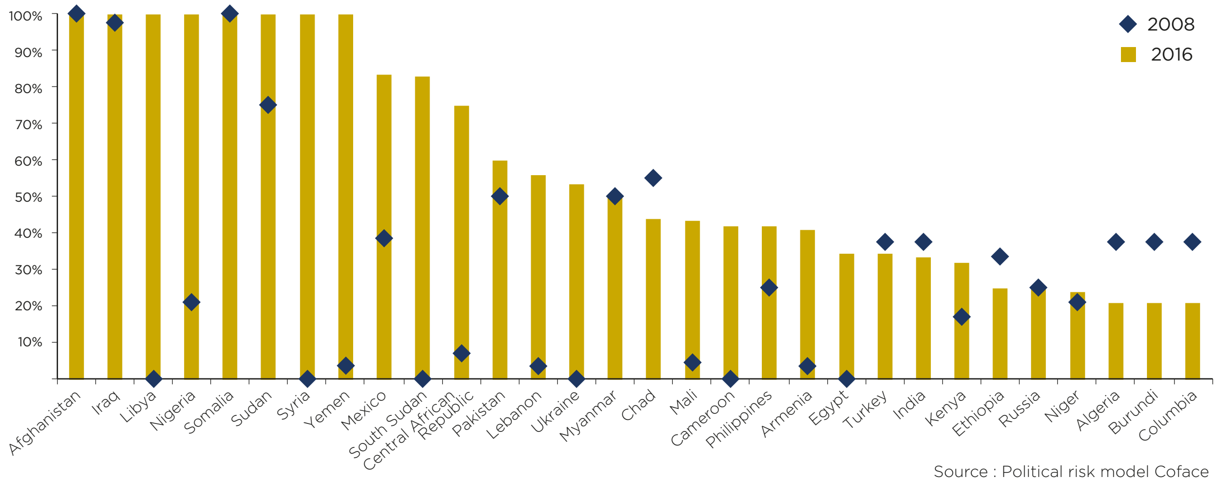
2/ This concept refers to the exclusive ability given to the state to use physical violence within its territory.

3/J.Gobat ; K. Kostial (2016); Syria's Conflict Economy; IMF Working Paper N. 16/213

4/According to estimates by the Syrian Centre for Political Research (CSRP), the contraction in trade contributed 23.2% of the 15.9% decrease in the production of the government services sector. The mining sector represents 15.2% of the overall loss in GDP *http://scpr-syria.org/publications/sector-structure-of-estimated-total-gdp-loss-2011-2015/*

5/Report: "Syria at War; Five Years On" ; West Asia Economic and Social Commission. 2016.

Chart 3:
The 30 countries most affected by the conflict



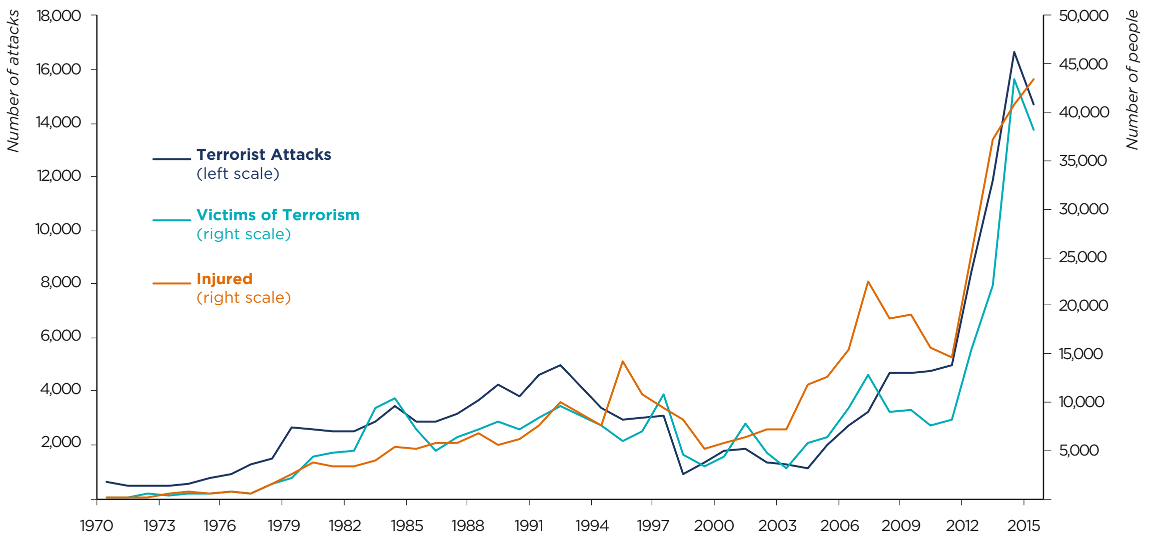
Source : Political risk model Coface

Terrorism, a spreading type of political violence

Added to the increased human death toll of armed conflicts are terrorist attacks, which have increased in recent years (Chart 4). As already explained by Jongman and Schmid in 1988[7], providing an adequate definition of terrorism is extremely difficult. Their work discusses no fewer than 109 definitions of it. In its most common definition, terrorism is characterised by the United Nations (UN) as a set of "criminal acts designed or calculated to provoke, with political objectives, a general state of terror in opinion or within a group or among persons in particular". Considered by the UN General Assembly an international scourge since 1972, terrorism has shown expanding growth since the beginning of the third millennium. This form of violence, which does not involve, the existence of a front, properly speaking, and is therefore rarely circumscribed within a defined territory, is understood separately in the model. Because of this difference in nature, it was conceived in our methodology as a penalty, which, where applicable, would lower the overall political rating of the afflicted countries.

Independently of the property damage that it may cause, as a general rule, terrorism affects the confidence of resident and non-resident (tourists and foreign investors) economic agents, which makes it difficult to measure its direct impact on a country's economy. The examples of Tunisia and Egypt are revealing. In 2015, Tunisia has been hit by two terrorist attacks targeting foreign tourists (the attack on the Bardo Museum on 18 March 2015, and the attack on the beach at Sousse on 26 June 2015). Following these events, economic activity in the country slowed, the number of foreign tourist arrivals dropped, and receipts in the sector decreased by 40% compared to 2014, even though the tourist

Chart 4:
Trend in Terrorism (1970-2015)



Source : Global Terrorism Database

industry represents 7% of GDP and employs 14% of the working population. The economic consequences for Egypt are more marked; while the country seemed to have returned to growth after several years of crisis, the crash of a Russian aeroplane in October 2015 stopped this dynamic. The decrease in tourism revenue and the nervousness of investors created a dollars shortage.

The intensification of terrorism around the world since the beginning of our decade attests to its growing role as a form of political violence. This new peak in terrorism can be linked to rising activity in Islamist terrorism, which is now responsible for a large majority of terrorist victims overall (Chart 5). IS alone accounted for nearly one quarter of terrorism victims in 2015. The abrupt increase in terrorist acts also coincides with that observed in conflicts.

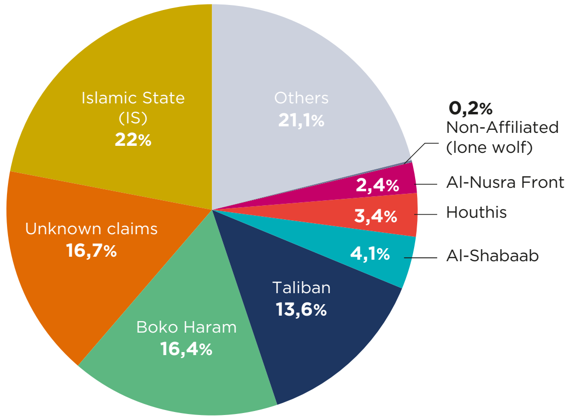
While different, terrorism is sometimes a displaced response to a conflict leading to the movement of the latter beyond its initial borders.

The case of France, 29th in our ranking in 2016 and the first developed country, illustrates this phenomenon. The attacks that affected it in 2015 and 2016 can be directly linked to the intervention by French forces in Iraq and then Syria. This case is not isolated, almost all OECD countries engaged in the anti-IS coalition in Iraq and Syria have seen their terrorism index increase since 2014 (Chart 6). Terrorist acts perpetrated by IS on all continents seem to be an exportation of the conflict beyond national borders. The Institute for Economics and Peace estimated that 41% of terrorist acts took place in countries in which the government was involved in an international conflict[8]. Nonetheless, this is not the only form. Types of terrorism are as numerous as the reasons for terrorism. Thus, contrary to what media and political rhetoric sometimes suggest, terrorism is a form of violence separate from armed conflicts and wars, in the sense that it specifically targets civilians, while the latter imply the existence of fronts where confrontations between armed groups (governmental and non-governmental) take place.

Relying on the Global Terrorism Database, the Terrorism Index takes into account for the number of incidents recorded, as well as the intensity of human (number of people killed and injured) and property damage (estimated cost of damage). To account for the impact of the past, the Coface Terrorism index also includes the score for previous years in its assessment. A score of 0 to 100% is then assigned. An overall index (base 100=2008) has also been calculated to follow the global trend in terrorism (Chart 7). The index is calculated each year using data from the previous year. For example, the 2016 Coface Terrorism Index takes into consideration terrorist acts from 2015.

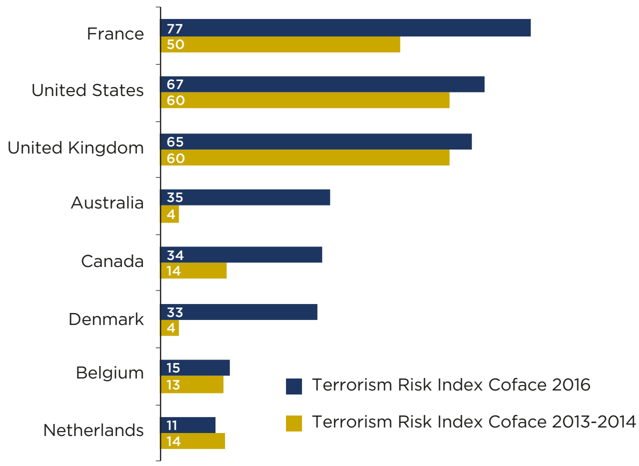
7/ Jongman, A. J. (1988). Political terrorism: A new guide to actors, authors, concepts, data bases, theories, and literature. transaction Publishers.
8/ 2016 Global Terrorism Index: Measuring and Understanding the impact of Terrorism. Institute for Economics & Peace.

Chart 5:
The Deadliest Terrorist Groups in 2015



Source: Global Terrorism Database

Chart 6:
Terrorism index for OECD countries involved in the Anti-IS Coalition



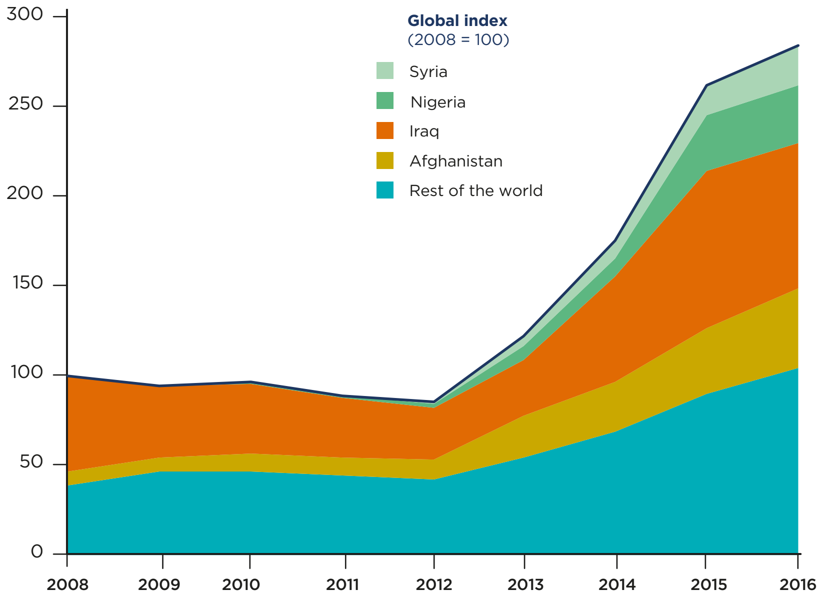
Source: Coface, GTD

Is terrorism a relocated war? Almost all OECD countries engaged in the anti-IS coalition have seen there terrorism index increased since 2014.

In 2016, the Global Terrorism Index was multiplied by 2.8 in relation to 2008. Since 2012, with the rise in power of IS and Boko Haram, it has taken off, especially in Syria and Nigeria. Iraq and Afghanistan, which accounted for more than 60% in the Global Index in 2008, still contribute nearly 45% of the total risk in 2016. In the rest of the world, the Coface Terrorism Index has multiplied by 2.7. Among the top 30 countries (Table 1) are those engaged in armed conflicts against jihadist groups, such as Iraq and Syria (against IS) or Nigeria, Cameroon, Niger, and Chad (against Boko-Haram).

Not surprisingly, the 2016 rankings were dominated by countries in Africa and the Middle East. It should also be noted that the countries in South Asia, which include Afghanistan and Pakistan in particular, have a strong presence. In Europe, while the presence of the Ukraine, the theatre of a conflict with Russia, is not surprising, that of France attests to the violence of the succession of attacks that affected the country in 2015.

Chart 7:
Coface Terrorism Index (2008-2016)



Source: Coface

Table 1:
Coface Terrorism Index 2016
Rankings of the Top 30 Countries

1	Iraq	100 %
2	Afghanistan	100 %
3	Nigeria	100 %
4	Syria	100 %
5	Pakistan	100 %
6	Yemen	100 %
7	Ukraine	100 %
8	Libya	100 %
9	Egypt	100 %
10	India	100 %
11	Philippines	100 %
12	Cameroon	100 %
13	Turkey	100 %
14	Thailand	100 %
15	Democratic Rep. of the Congo	100 %
16	Sudan	100 %
17	Niger	99.7 %
18	Kenya	98.5 %
19	Bangladesh	98.2 %
20	Lebanon	94.8 %
21	Central African Republic	94.2 %
22	Mali	94 %
23	Chad	92.6 %
24	Columbia	89.4 %
25	Palestine	85.6 %
26	Saoudi Arabia	85.6 %
27	China	84.2 %
28	Burundi	83 %
29	France	76.9 %
30	Tunisia	72.9 %

> **The Global Terrorism Index was multiplied by a factor of 2.8 in relation to 2008 and IS alone accounted for nearly one quarter of terrorism victims in 2015.**

2 POLITICAL AND SOCIAL FRAGILITIES: THE SECOND DIMENSION OF POLITICAL RISK

Political risk must also captures break that lead to a profound change in the political structure of a country. The shift from an autocratic regime to a fledgling democracy (or the inverse) is one of the most often envisioned forms of political regime change. However, recent examples of the hardening of some secular democracies require considering changes in political structure as a whole. While there is no consensus in the economic literature[9] on the relationship between the type of political regime and economic efficiency, the moments leading to a change in modes of governance seem to have undeniable consequences on the activity of economic agents, depending upon the forms they may take. Indeed, popular revolts such as those observed in North African countries did not have the same repercussions on the economic fabric as the gradual slide of a political apparatus toward a limitation of individual liberties such as in Turkey or in some CIS countries (Russia, Ukraine, etc.). Beyond the observable impacts of a change in political regime, the challenge faced by this model is to identify the determining factors that lead to the shift in the countrie political scheme and to measure the probability of this occurrence.

Nonetheless, the task remains complex. The political trajectory of a country remains conditioned by its history, but dynamics leading to change are comparable. The wave of Arab springs was the first milestone in this reflection. It enabled Coface to create a quantified model of political risk in 2013 that intended to measure the risk of political uprising combining social pressure to the availability of instruments facilitating popular mobilisation. Yet, the revolutionary movement in the Arab world is only the most recent expression of this type of event. The political science literature is full of demonstrations comparing 2011 events to other past popular revolutions, especially the "colour revolutions" in 1989 that affected Eastern Europe. These comparisons seems to agree on the determining social factors behind popular movements but also emphasises the role played by the nature of the pre-existing political regime and the degree of national cohesion.

The political fragility and social risk module attempts to reproduce this multi-dimensional approach by adding a measurement of the political fragility of the regime to the measurement of social risk already in place in the Coface methodology.

Nature of the regime and fractionalization as a measurement for political fragilities

Measuring political fragility is based on three overlapping dimensions. The first is a characterisation of the type of political regime, which relies on the Polity IV[10] database . The Polity score helps obtain a gradation of the type of regime (with autocratic regimes having the highest risks and institutionalised democracies having the lowest risk). This position is based on the hypothesis that the more a regime tends to concentrate power around a group of individuals, the more it will generate disputes and discontent when combined with other variables. The second dimension concerns the degree of fractionalization[12] of the society or country, in other words to the number of ethnicities, languages, and religions represented in it. The fractionalization variable resulting from the work of Roberto Alésina, measures the probability that two individuals from the same country do not belong to the same ethnic, linguistic, or religious group. Not surprisingly, the countries with the highest ethnic and religious fractionalization are African countries such as Liberia and Uganda, but it includes Nepal as well. If we only consider emerging Asian countries, the latter is followed by the Philippines and Indonesia. Concerning developed countries, those that have the highest degree of fractionalization are Canada (32nd out of 162) and Spain (43rd out of 162). Lastly, countries in which the population is the most homogeneous are insular States such as Japan, the Maldives, and Malta, as well as Bangladesh, where Bengalis represent 97% of the population. Several articles about fractionalization show that ethnic and linguistic fractionalization tends to have an impact on the quality of institutions, as well as on the ability to create a political consensus[13].

9/ J. Barro (1996) was the first to relate the concept of democracy (expressed by a high degree of freedom for agents and a market economy) and growth. He opened the door for broader literature on the relationship between institutional quality and growth, as well as between political instability and growth. While economics shows that the negative effects of political instability on growth can be empirically validated, this is not true for the relationship between growth and democracy, for which there is little or no consensus. While the literature review by Gerring et al. (2005), which covers the 2000s, concludes that "the net effect of democracy on performance in terms of growth is negative or nil", Acemoglu et al. (2014) establish a positive relationship between these two variables.

10/The Polity IV database, which came out of the research work by the Center for Systemic Peace (CSP), covers all major independent States, which is to say States with a total population of 500,000 inhabitants or more during the past year, and currently 167 countries in the 1800-2015 period.

11/Among the existing variables, the "Polity Score" helps characterise the type and tenor of political regimes, whether in the form of fully institutionalised autocracies, mixed authority regimes (called "anocracies"), or fully institutionalised democracies. The Polity Score uses a scale from -10 (hereditary monarchy) to +10 (consolidated democracy). Based on this rating, some small hereditary monarchies such as Qatar or Singapore were disadvantaged because of the nature of their regime, while, although they might seem autocratic, they rely on other forms of power legitimation. Also, we made the choice to modify the score of the countries in the sample.

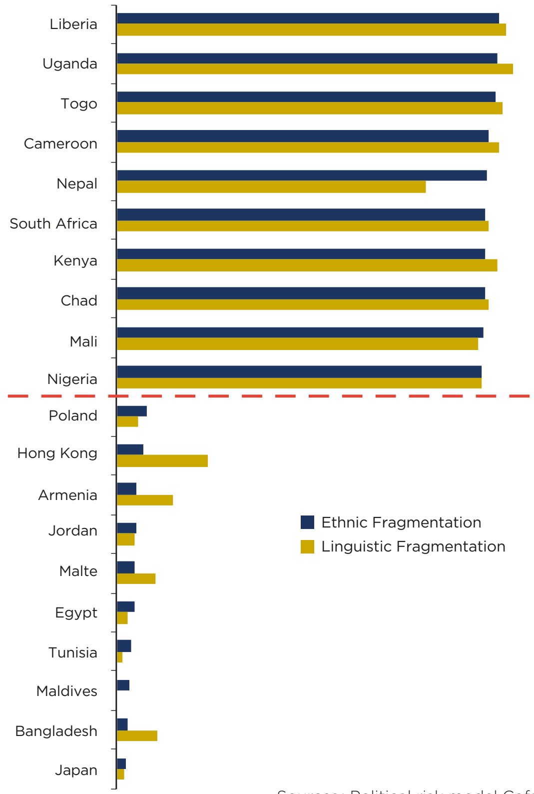
12/Ethnic and religious fractionalization, is an index that can help measure the probability that two individuals taken by chance from a population belong to two different groups. The higher the number of small groups, the more significant the fractionalization (theoretical maximum (=1) achieved when every person belongs to a different group). The fractionalization data from the work by Alésina et al. (2003) cover 190 countries and, in addition to the fractionalization index, make it possible to have a proportion of ethnic groups, languages, and religions of the various groups of individuals present within the population. For the purposes of our study, we updated these data for some countries based on the same methodology as that described by the authors, relying upon information in the Encyclopedia Britannica. Easterly, W., & Levine, R. (1997). Africa's growth tragedy: policies and ethnic divisions. The Quarterly Journal of Economics, 112(4), 1203-1250. Alesina, A., Devleeschauwer, A., Easterly, W., Kurlat, S., & Wacziarg, R. (2003). Fractionalization. Journal of Economic growth, 8(2), 155-194.

Finally, the last dimension concerns the degree of freedom and civil liberties within the political system. To take these two factors into account, we relied on the "political right" and "civil liberty" variables measured by Freedom House[14]. These two scores combine various sub-categories. Political rights incorporate information on the election process, political pluralism and participation, as well as how the government functions. Civil liberty takes into account the freedom of expression and conviction, the right of association and organisation, the rule of law as well as personal autonomy and individual rights.

The combination of all these factors results in a political fragility index. The countries with the least political freedom and/or the most fragmented population have the highest scores. The three countries that topped the rankings in 2016 were the Central African Republic, Eritrea and Laos, while those with the lowest scores were Japan, Poland and Ireland.

Two countries stand out among those whose scores have improved significantly since 2007: Tunisia, following the introduction of the new constitution after the Arab Spring, and the Ivory Coast, where the political situation has relatively enhanced following the post-election crisis of 2010-2011. Among large emerging countries, Turkey registered the most significant development, and has seen its score increases markedly, in the wake of the gradual hardening of the Turkish regime since 2014.

Chart 8:
The ten most and least fractionalized countries



Sources: Political risk model Coface, Alesina, A., Devleeschauwer, A., Easterly, W., Kurlat, S., & Wacziarg, R. (2003). Fractionalization. Journal of Economic growth, 8(2), 155-194.

Rising social frustration: a trigger to social movements

The measure of political risk in emerging countries cannot overlook the increase in social pressures. Following the Arab Spring, Coface adopted a new political risk methodology[15] that captures the emergence of popular movements by linking pressure to change with instruments facilitating mobilisation. This analysis is all the more important in light of the decline in the population's living standards and its purchasing power, as well as the rising inequality seen since the global financial crisis of 2009. Even if it does not necessarily lead to popular revolts, it is evidence of growing social pressure. The population's capacity to mobilise nevertheless conditions the effects these social pressures can have.

Traditionally included in the Coface methodology, social pressure indicators that have a negative impact on the score are inflation[16] (a high level indicates a decline in purchasing power); unemployment[17] (which measures access to employment) and income inequality measured by the GINI coefficient[18]. The GDP/capita ratio provides information on the level of resources of the countries concerned. In addition to these socio-cultural variables, there is a measure of corruption as a pressure factor as well as a variable that provides information on the population's ability to express itself [20]. Indicators selected as instruments that facilitate the transforming of pressures into change are the education rate in tertiary education, the literacy rate among adults, access to the internet, the proportion of young people in the population, the fertility rate, the urbanisation rate and the participation rate among women.

In order to refine this dynamic approach and better understand the political consequences of recent crises seen in emerging countries such as Brazil and oil-exporting countries, pressure indicators have been supplemented by two new variables: growth in GDP per capita (in addition to the level of GDP/capita), which allows for a comparison of the increase in wealth produced, and the homicide rate, which measures the level of crime in the country.

13/The economics literature has broadly established the relationship between fractionalization and growth, as well as between ethnic fractionalization and conflict. It concludes from this that the relationship between fractionalization (only ethnic and linguistic) and growth is negative and can be explained by the fact that the existence of various groups in competition affects the quality of institutions. This conclusion holds especially for developing countries divided among various groups of individuals. Easterly, W., Ritzen, J., & Woolcock, M. (2006). Social cohesion, institutions, and growth. Economics & Politics, 18(2), 103-120. Alesina, A., Devleeschauwer, A., Easterly, W., Kurlat, S., & Wacziarg, R. (2003). Fractionalization. Journal of Economic growth, 8(2), 155-194.

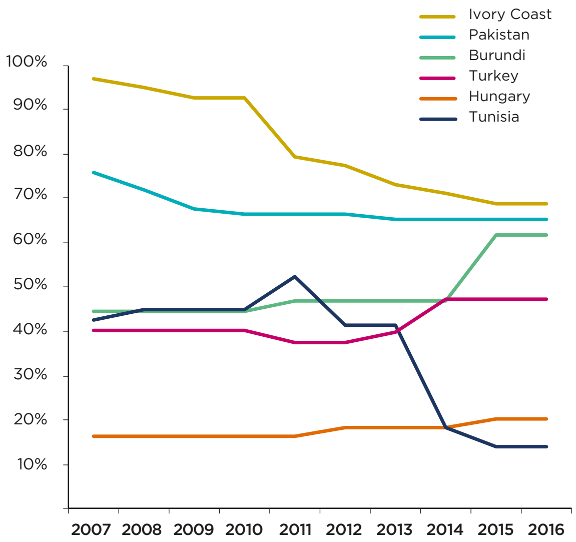
14/https://freedomhouse.org/

15/Coface Country Risk Overview "The transformation of emerging country risk", March 2013.

16/IMF data.

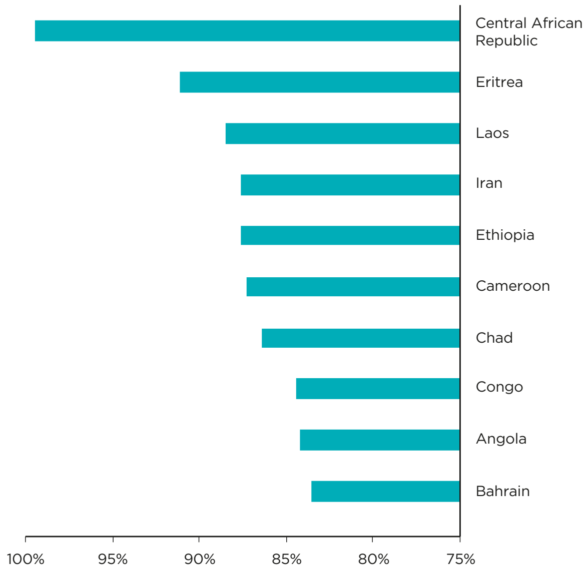
17/Oxford Economics data

Chart 9 :
Countries that have experienced the biggest change in their political fragility scores



Source : Political risk model Coface

Chart 10 :
Countries with the highest political fragility scores in 2016



Source : Political risk model Coface

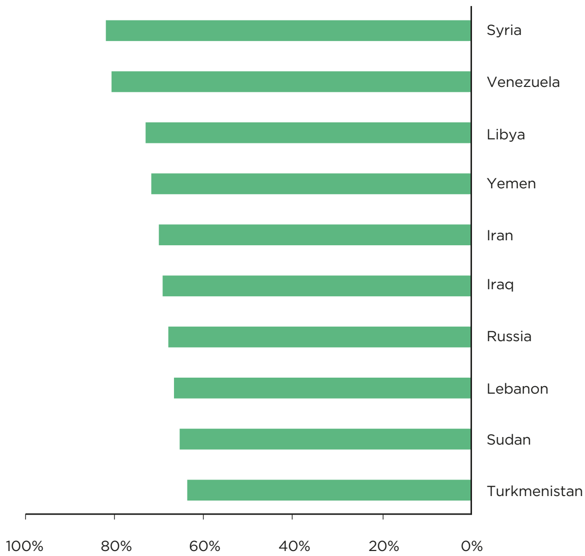
The issue of public finances has been deliberately omitted from this exercise, since the structural primary public balance, which measures the degree of rigour of fiscal policy, was not available for all countries in the sample. A simple measure of the primary deficit would not take into account a country's real fiscal effort.

Finally, pressure and instrument indicators were combined in a way that an increase in pressure has a more than proportional effect on the weighting of instruments (the greater the increase in the pressure score, the more instruments are taken into account). This enables us to correct the bias induced by high instrument indicators, even when pressures are weak (the case of developed countries).

According to the results, the ten countries with the highest social risk are led by Syria, Venezuela and Libya. Also note that Russia and Turkmenistan are included in this ranking. In fact, the results show that the CIS continues to have one of the highest social risk indices. The CIS countries that have seen marked growth in social risk since 2007 are Ukraine followed by Azerbaijan and Russia.

Latin America has also seen a worsening in its social risk score, mainly owing to the deterioration of the situation in Brazil, as well as in Venezuela and Mexico. Overall, social risk indices are rising significantly, except in Asia. Note that Middle Eastern countries overall saw their pressures score fall between 2007 and 2016. However, if we look at how the score has changed since 2007, the events of 2011 corresponded to a peak in the risk level, which also rose in 2014 against a backdrop of the sharp fall in oil prices (exporting countries).

Chart 11 :
Social pressures in the ten riskiest countries

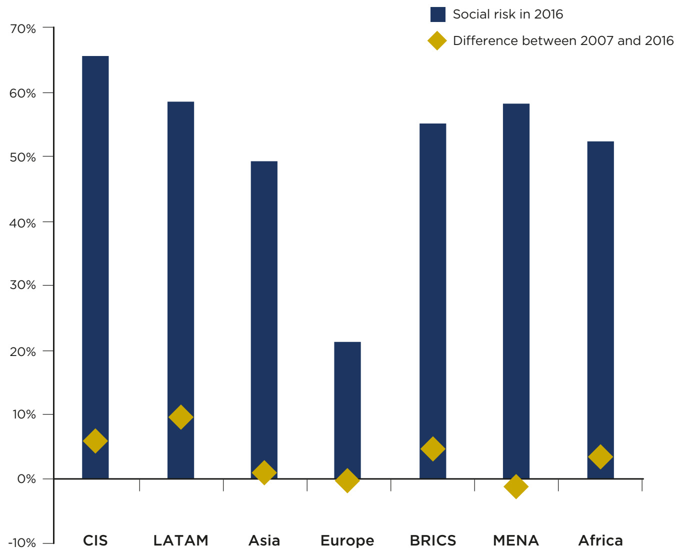


Source : Political risk model Coface

In order to combine political and social fragilities, The logic used to link between instruments and pressures was reproduced: the weighting of the political fragility risk increases proportionally with that of social risk.

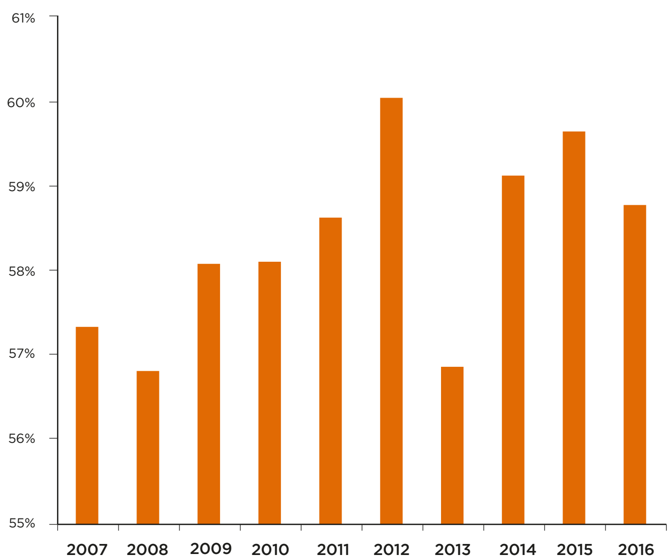
18/World Bank data.
19/IMF data.
20/The corruption variables of the World Bank and the Voice and Accountability indicators from the WDI.

Chart 12:
Social risk by region



Source : Political risk model Coface

Chart 13:
Change in social risk for countries affected by the Arab Spring
(Tunisia, Egypt, Jordan, Libya, Barheïn, Yemen et Morocco)



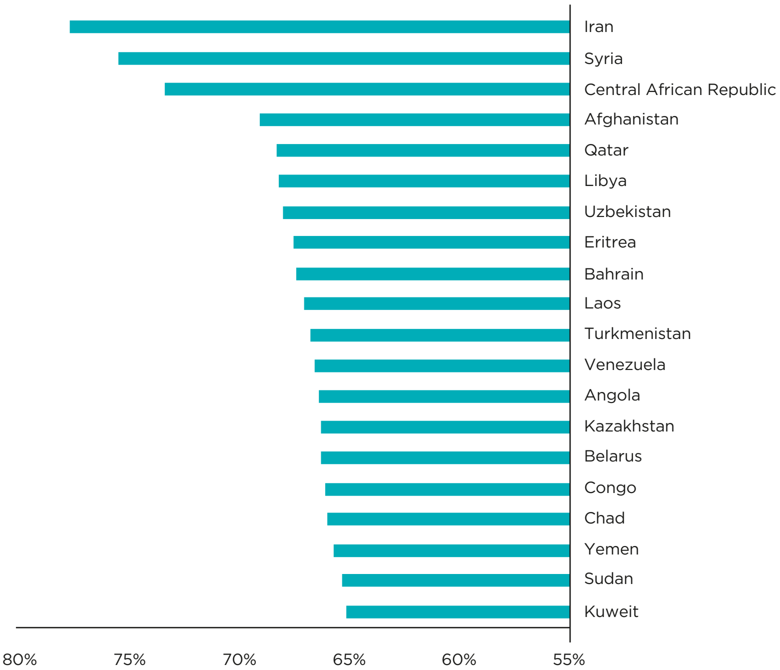
Source : Political risk model Coface

Based on this assumption, when social discontent increases, the countries with the more authoritarian regimes or those with the most fragmented populations will be those most risky. Thus, a country with a high degree of political risk but where social pressures are weak will be less at risk.

In 2016, Iran led the ranking of these countries, followed by Syria, the Central African Republic and Afghanistan. The change in Iran's score since 2007 is a good example of what we are trying to capture (76% in 2007; 81% in 2009 and 77% in 2016). It enables us to determine the critical moments when the risk of an uprising may materialise, as in 2009, following the Green Movement and the demonstrations held upon the re-election of Mahmoud Ahmadinejad, or from 2013, with the strengthening of sanctions against Iran, which led to an increase in social pressures. While the risk of an uprising in 2009 was real and brutally suppressed, the rise in social pressures following the tougher sanctions against the country introduced in 2013 prompted the Iranian authorities to reverse their domestic and foreign policy in order to respond to the rising frustration. Although the score remains high, there was a marked recovery post sanctions in 2016 (-5%).

Another oil-producing country, Venezuela, saw its score rise by more than ten points between 2007 and 2016, driven by rising social pressures and a hardening of the regime. Following the fall in oil prices, the country is faced with a critical economic situation. Hyperinflation, recession and the authoritarian shift of the regime led by Nicolas Maduro, which divides the population between Chavists and Non-Chavists, makes the risk of an outbreak credible. Could this materialise in the form of a popular revolt? This will depend on the political regime's ability to respond to this rise in protests by continuing its policy of redistribution towards the weakest sections of the population, even while the country faces a slump in its resources. In conclusion, identifying the critical moment that a country could risk sliding into a popular revolt seems possible using this dynamic approach, but the tipping point for a popular revolt, in other words the moment it breaks out, largely depends on the ability and the desire of the regime to respond to the rising demands.

Chart 14:
Index of political fragility and social risk



Source : Political risk model Coface

The special case of advanced countries

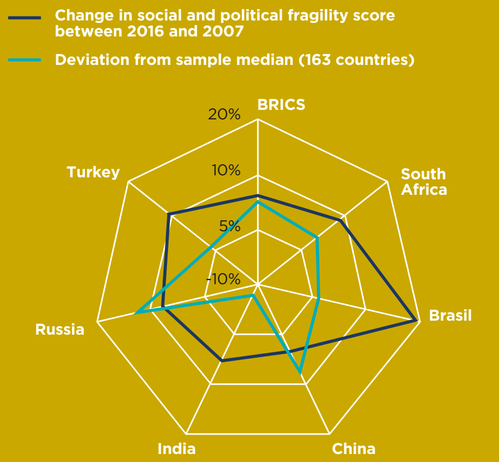
Specific variables to take into account the rise in populism.
In order to better take into account the rise in social frustrations in advanced countries (25 countries are taken into consideration here), pressures that may "shake up" the established political systems, and even lead to changes in regime, the calculation of the political and social index of these countries takes into account variables that measure tensions relating to populism[21] (in addition to the variables presented above). It should be remembered that overall, the level of social pressures is generally lower in advanced countries than in emerging ones. Furthermore, as advanced countries are also mature democracies, their populations are not supposed to encounter barriers, either in expressing their frustrations or transforming them into political change (in other words, the instruments of change, as detailed above, are not such as to prevent hopes for change from materialising in these countries).

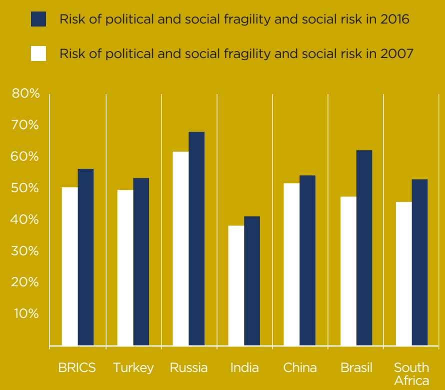
21/This term, which is difficult to define, mainly refers to the political discourse and movements appealing to the interests of the "people" considered to be opposed to those of the "elite"; these movements feed on a number of divisions observed in western democracies, whether it is that between the native population and the immigrant population, that between the rich and the poor, or that between people with a protected status and those exposed to insecurity. More generally, this discourse feeds on insecurity and declining social status perceived as a consequence of globalisation.

FOCUS

What political risk in the BRICS and in Turkey?

The crisis in emerging countries seems to be coming to an end, but has led to a rise in social risk in the main emerging economies, which will have lasting consequences.
In Turkey and in Russia, the rise in social risks has been accompanied by a rise in the political fragility index (2 points between 2007 and 2016 for Russia, and 7 points for Turkey), bearing witness to the hardening of these regimes. The two countries also seem to have responded in the same manner to the rise in social discontent. They have both engaged in internal and external conflicts. Brazil is another emerging country where the level of social risk has increased markedly. Corruption scandals, the decline in the living standards of the middle classes following the fall in commodity prices, the inflation and recession that followed, were accompanied by the most serious political crisis that Brazilian democracy has seen since 1989. The upsurge in protests, as well as the paralysis of the government following the removal of former president Dilma Roussef, led to her impeachment, proposed by the Chamber of Deputies and approved by the Senate. The gradual recovery of the Brazilian economy should however lead to an easing in social pressures.





The variables that we have considered come from the Manifesto Project database, one of the most extensive databases in the area of political sciences. This database, updated every two years and currently updated to end-2015, is constructed using coding procedures based on the textual analysis of the manifestos of political parties from around 50 countries. These manifestos are examined at every new legislative election, with the parties concerned having to obtain at least one seat in the lower chamber. The database groups the list of parties and their performance in terms of votes at each legislative election (their importance in terms of seats is also available), and, for each political formation, the relative share given to each campaign topic in their programmes. These cover the following domains: external relations, freedom and democracy, political system, economy, welfare and quality of life, fabric of society and social groups.

Maintaining order and national values:topics covered in the manifestos.
For our needs (namely, measuring the pressure brought to bear by populism), we have chosen to consider four topics or variables from an extensive list of indicators (around 50 in total) . These variables, which we believe are the most closely linked to our area of investigation, focus on the parties' opinion (whether support or rejection[24]) concerning:

- **Protectionism** (extending or maintaining the protection of internal markets, mainly through tariffs, quotas or export subsidies);
- **National values** (national ideas, pride of citizenship, patriotism, nationalism, suspension of certain freedoms to combat subversion, etc.);
- **Multiculturalism** (cultural diversity, preservation of religious autonomy and linguistic heritage, etc.);
- **Law and order** (strict or more severe application of laws, tougher actions against insecurity and crime).

Table 2: "Manifesto" score
(100% = the highest score)

United Kingdom	73.2 %
France	70.9 %
Austria	64.6 %
Netherlands	63.8 %
Switzerland	59.1 %
Cyprus	56.9 %
Belgium	53.8 %
Portugal	49.3 %
Israel	45.8 %
Denmark	45.0 %
Canada	39.8 %
Italy	27.4 %
Germany	27.0 %
Sweden	26.8 %
United States	26.3 %
Australia	26.1 %
New Zealand	26.0 %
Norway	25.6 %
Finland	24.7 %
Greece	22.7 %
Luxembourg	21.2 %
South Korea	12.2 %
Spain	10.4 %
Japan	8.0 %
Ireland	5.3 %

Source : Political risk model Coface

The score of each country is determined by the sum of the four variables, weighted by the significance of each variable (ortopic) in each party's manifesto. The result is transposed into a score of between 0% and 100%. These scores enable us to compare the countries on a given date and to study the trajectory of each over time.

Among advanced countries, the pressure exerted by populism, as measured with the help of these four variables, has reached the highest level in the UK, France, Austria and the Netherlands. It is at its weakest in Japan and Ireland. Countries such as Canada, Italy and Germany are ranked on an intermediate level.

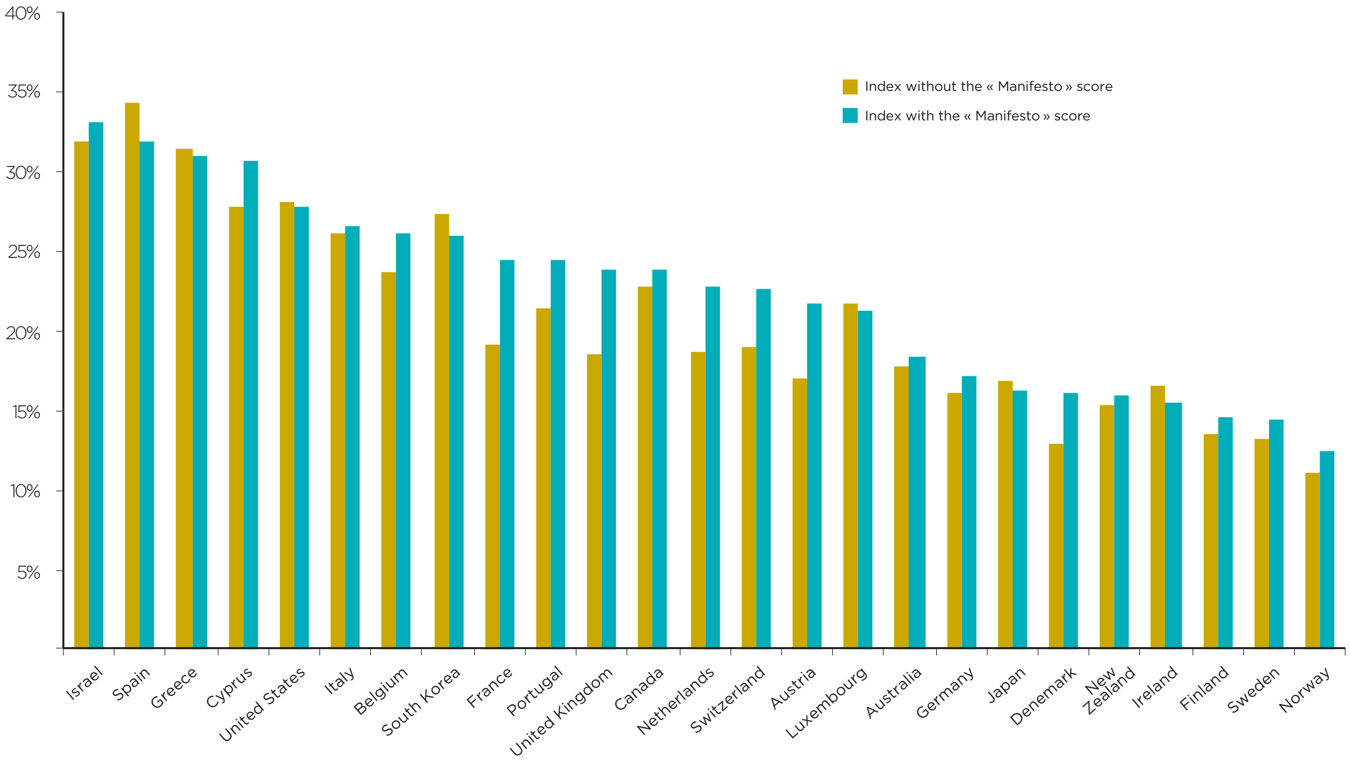
The scores of the UK and France are affected by the relatively significant portion reserved for the category of "law and order" in the manifestos of parties in these two countries. For the UK, this proportion is 8% for the Conservative Party, nearly 8% for the Labour Party and 5% for UKIP, which won 37%, 30% and 13% of the votes at the elections in 2015. In France, this category accounted for 8% of the UMP's manifesto for the 2012 elections, and 13% of the Front National's programme; these parties gained 27% and 14% of the votes respectively. In both cases, but to a lesser extent, the "national values" category also contributed to the final result. On average (all

22/The Manifesto Project, financed by the Deutsche Forschungsgemeinschaft, is hosted by the Wissenschaftszentrum Berlin für Sozialforschung (Volkens, Lehmann, Matthiess, Merz, Regel) (https://manifesto-project.wzb.eu).

23/We could have added a fifth variable, namely that of the "controlled economy", which takes into account the parties' inclination towards market regulation, planning and dirigism. However, its impact on a country like Greece is negligible (a party like Syriza gives less room to these topics in its manifesto (nearly 6%) than formations like Podemos (over 8%) and above all, the Five Star Movement (23%)). In addition, contrary to what we may expect, the total score of a country like Italy hardly changed in 2013, when the Five Star Movement, having gained 36% of the vote, entered parliament; this is explained by the fact that while its manifesto focuses on the topic of the regulated economy, it gives little importance to that of public order, unlike other large political formations.

24/Each topic may be mentioned in the manifestos from a favourable or unfavourable viewpoint. In this case, it is broken down in the database into two sub-variables (one positive and one negative). With regard to public order, we only consider the "positive" sub-variable, as the "negative" version is only available for a limited number of countries.

Chart 15 :
Political and social fragility index including Manifesto



Source : Political risk model Coface

parties together), this accounts for more than 3% of the manifestos in the two countries, compared with approximately 6% for the "law and order" category. The other categories account for less than 1%. As for the Netherlands, the "law and order" category (over 7%) again explains the total score, ahead of that of "multiculturalism" (more than 2%), and to a lesser extent, that of "national values" (1%).

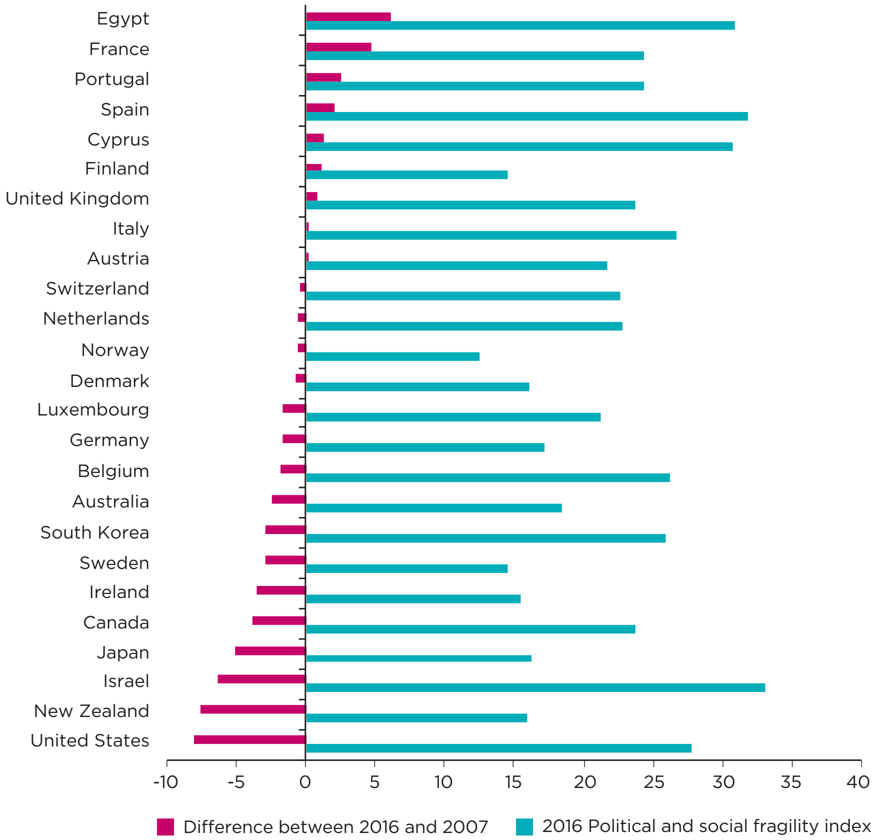
Looking by category, adhesion to "national values" is the strongest category in Israel (8% taking into account the portion of programmes that are not in favour, i.e. nearly 2%). As regards "law and order", Belgium, Portugal and the Netherlands (just over 7%) lead the way. Distrust of "multiculturalism" is strongest in Denmark, Austria and the Netherlands (between 2% and 5%), although this must be balanced with the fact that a portion of the manifestos is also favourable to it (between 1% and 2%). Finally, "protectionism" is a major theme in Australia (accounting for more than 1% of the manifestos). Conversely, this was not the case in Ireland, Canada and the US at the end of 2015, which rather promoted the concept of free trade (1% to 2% of manifestos).

With regard to the US however, it should be remembered that at that stage, only data relating to the last election (2012) was available. The election programmes for the federal elections of November 2016 undoubtedly gave more importance to protectionism (there is a degree of consensus in the country regarding the rejection of the TransPacific Partnership (TPP).

The inclusion of these categories in the calculation of the political and social fragility index of advanced countries has a negative impact on the scores of the UK, France, Austria and the Netherlands.

Taking into account "Manifesto" data in the calculation of the political and social fragility index (the weight of these data in the overall index was limited to 10%) has a negative impact (of 4 to 5 percentage points) above all on the political and social score of the UK, France, Austria and the Netherlands. Overall, this has little effect on the physiognomy of the ranking.

Chart 16 :
Political and social fragility index



Source : Political risk model Coface

Thus, among advanced countries, those with the highest risk levels continue to be Spain, owing to regional fractionalization (separatist tensions) and social fragility, and Greece, owing to its social fragility (the most significant among advanced countries). Israel - chiefly owing to its political fragility and a high social risk score - and the US, whose score was mainly negatively affected by ethnic fractionalization, are also among those with the highest risks of the sample.

On average, the political and social fragility index including the Manifesto score improved somewhat between 2007 and 2016. This is particularly the case in Sweden, Ireland, Canada, Japan, Israel, New Zealand and the US (with the reserves mentioned above, however, as regards the latter). In contrast, the index worsened in countries such as Greece, France, Portugal and Spain.

3 IN CONCLUSION, POLITICAL RISK HAS GROWN

The global political model merges the two main dimensions of political risk, which are the risk of conflict and political and social fragility (including the data of the Manifesto project for advanced countries), to which the terrorism risk is added as a penalty. The total state of war is considered the highest degree of political risk and thereby it cancels out all other dimensions of risk. The country's score is thus equal to the score of the conflict risk. In all other cases, in other words when the conflict is localised (India and Pakistan, for example) and does not prevent the economy from functioning, the weighting of the conflict is lower than that of political and social fragility.

Overall, the political risk index has trended upwards on a global level since 2007. It did however peak in 2010, echoing the global economic crisis and the increase in social pressures in developed countries. From 2014, the increase in risk is mainly due to the growing number of conflicts and the rise in terrorism

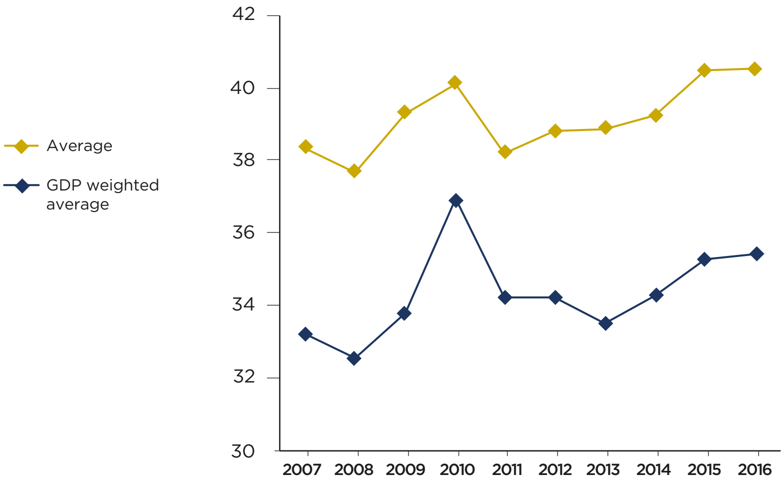
On a regional level, MENA and Sub-Saharan Africa continue to be on average the regions where political risk remains the highest, given the multitude of conflicts and the battle lines that cross them.

Since 2013, political risk has mainly grown in Sub-Saharan Africa and within the CIS. Africa's leading economies, such as Nigeria and Kenya, have seen a rise in their global risk index owing to the increase in the terrorism index (and the conflict index for Nigeria). They are not the only countries affected, the countries of the Sahelian belt have suffered from an increase of terrorist groups activity since 2014.

In the CIS, political risk is well above the global average, and has increased significantly owing to the deterioration of the situation in Russia and in Ukraine. Other countries of the region, even those of a smaller size, have seen a rise in their level of risk, including Armenia and Tajikistan, due to the higher political and social fragility, and Azerbaijan, owing to the rise in the terrorism index and the political and social fragility index. The heightened political risk in Mexico, with the intensification of the war against the gangs, which is becoming increasingly deadly, as well as the deterioration of the situation in Venezuela, following the fall in oil prices, has had a negative impact on Latin America's score, which is trending upwards.

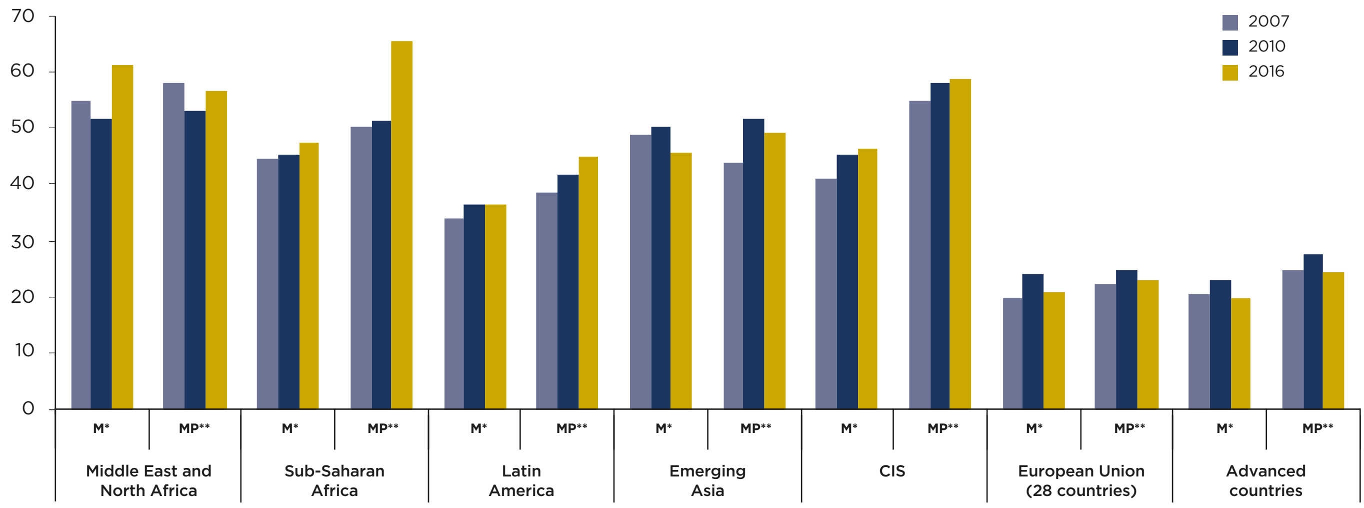
Finally, the bright light comes from emerging Asia that has seen an improvement in the political risk situation since 2010, despite the high score in large countries such as India and China.

Chart 17 :
Global political risk index



Source : Political risk model Coface

Chart 18 :
Global political risk index by region



M* is the regional average - **MP**** is the regional GDP weighted average

Source : Political risk model Coface

APPENDIX : POLITICAL RISK ASSESSMENT RANKING

1	Afghanistan	100%	Maximum Political Risk
2	Iraq	100%	
3	Libya	100%	
4	Nigeria	100%	
5	Sudan	100%	
6	Syria	100%	
7	Yemen	100%	
8	Central African Republic	89.6%	
9	Pakistan	75.7%	Very High Political Risk
10	Chad	74%	
11	Cameroon	73.8%	
12	Myanmar	71.2%	
13	Ukraine	70.8%	
14	Lebanon	70.4%	
15	Mexico	69.5%	
16	Mali	67.1%	
17	Philippines	64.3%	
18	Kenya	64.0%	
19	Iran	64.0%	
20	Egypt	63.8%	
21	Democratic Republic of the Congo	61.9%	
22	Russia	61.8%	
23	Thailand	61.4%	
24	Ethiopia	61.2%	
25	West Bank and Gaza Strip	59.9%	High Political Risk
26	Turkey	59.8%	
27	Burundi	58%	
28	Niger	57.5%	
29	Saudi Arabia	57%	
30	Algeria	57%	
31	Colombia	56.5%	
32	India	55.8%	
33	Uganda	55.8%	
34	Kuwait	54.9%	
35	Bahrain	54.5%	
36	China	53.2%	
37	Tajikistan	49.0%	Fairly High Political Risk
38	Belarus	48.9%	
39	Venezuela	48.7%	
40	Ivory Coast	48.2%	

41	Qatar	47.1%	Fairly High Political Risk
42	Eritrea	46.7%	
43	Bangladesh	46.7%	
44	Turkmenistan	46.6%	
45	Djibouti	46.5%	
46	Laos	46.5%	
47	Kazakhstan	46.4%	
48	Armenia	46.0%	
49	Uzbekistan	46.0%	
50	Mozambique	45.9%	
51	Guinea	45.9%	
52	Republic of the Congo	45.5%	
53	Mauritania	45.4%	
54	Bosnia-Herzegovina	44.8%	
55	Angola	44.2%	
56	Azerbaijan	44.1%	
57	Malaysia	43.5%	
58	South Africa	43.3%	
59	Rwanda	43%	
60	Nepal	42.9%	
61	Tanzania	42.9%	
62	Gabon	42.5%	
63	United Arab Emirates	42.5%	
64	Indonesia	42.2%	
65	Cuba	41.9%	
66	Oman	41.8%	
67	Morocco	41.5%	
68	Jordan	41.4%	
69	Paraguay	40.8%	
70	Kyrgyzstan	39.9%	Modest Political Risk
71	Sri Lanka	39.6%	
72	Peru	39.5%	
73	Guatemala	39.5%	
74	Togo	38.9%	
75	Brazil	38.8%	
76	Nicaragua	38.7%	
77	Maldives	38.1%	
78	Burkina Faso	38%	
79	Dominican Republic	37.7%	
80	Zimbabwe	37.6%	

APPENDIX
POLITICAL RISK ASSESSMENT RANKING

81	Vietnam	37.3%	Modest Political Risk
82	East Timor	37.2%	
83	Trinidad and Tobago	37.0%	
84	Haiti	36.9%	
85	Honduras	36.3%	
86	Senegal	35.7%	
87	Ecuador	35.7%	
88	Macedonia	35.4%	
89	Sierra Leone	35.4%	
90	Tunisia	35.1%	
91	Liberia	34.8%	
92	Israel	34.5%	
93	Guyana	34.1%	
94	Zambia	34%	
95	Suriname	33.5%	
96	Bolivia	33.2%	
97	Madagascar	32.9%	
98	Cambodia	32.3%	
99	Malawi	31.5%	
100	Panama	31.2%	
101	Moldova	30.4%	
102	Namibia	30.2%	
103	United States	30.0%	
104	Papua New Guinea	29.8%	Low Political Risk
105	Benin	29.4%	
106	Bulgaria	29.1%	
107	France	28.9%	
108	Greece	28.6%	
109	Singapore	28.3%	
110	Montenegro	28.2%	
111	Ghana	28.2%	
112	El Salvador	28.1%	
113	Georgia	28%	
114	Argentina	28%	
115	Albania	27.2%	
116	United Kingdom	26.9%	
117	Jamaica	26.8%	
118	Latvia	26.3%	
119	Chile	26.1%	
120	Sao Tome and Principe	25.8%	

121	Serbia	25.5%	Low Political Risk
122	Botswana	25.4%	
123	Mongolia	25.1%	
124	Cyprus	24.4%	
125	Czech Republic	23.9%	
126	Spain	23.4%	
127	Estonia	23.2%	
128	Mauritius	22.6%	
129	Canada	22.5%	
130	Hungary	22.4%	
131	Italy	22.3%	
132	Germany	21.5%	
133	Lithuania	21.1%	
134	Belgium	20.7%	
135	Croatia	20.4%	
136	Costa Rica	20.3%	
137	Romania	19.3%	Very Low Political Risk
138	Slovak Republic	18.9%	
139	Cape Verde	18.7%	
140	Australia	18.5%	
141	Hong Kong	18.5%	
142	South Korea	18.4%	
143	Sweden	18.3%	
144	Netherlands	17.7%	
145	Ireland	17.3%	
146	Slovenia	17.3%	
147	Malta	17.3%	
148	Uruguay	16.7%	
149	Switzerland	16.4%	
150	Denmark	16.3%	
151	Portugal	16%	
152	Japan	15.6%	
153	Austria	15.2%	
154	Luxembourg	14.9%	
155	Finland	14.8%	
156	Poland	14.4%	
157	Norway	13.5%	
158	New Zealand	11.8%	
159	Iceland	9.5%	

MARCH 2017 — Design: Éditions stratégiques — photos: Shutterstock

COFACE SA
1, place Costes et Bellonte
92270 Bois-Colombes
France

www.coface.com

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