FORECASTING POLITICAL RISKS FOR INTERNATIONAL OPERATIONS

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The level of turmoil the world has experienced in the last twenty years has been considerable in spite of, or perhaps because of, the absence of any large scale wars. There has been no region, no corner of the globe that has not been touched by one form or another of social and political conflict. Consider the following arbitrary list:

- war in the Middle East and in the Falklands;
- racial unrest in the Netherlands, France and Sri Lanka;
- revolution in Iran and Nicaragua;
- labor strife in Poland, Italy and Brasil;
- religious animosity in Ireland and India;
- military coups in Portugal, Ethiopia and Turkey;
- guerilla activity in Angola and Colombia;
- disruptions caused by refugees streaming into Miami, Thailand and Hong Kong;
- political repression in Chile and South Africa;
- civil war in Lebanon and El Salvador;
- acerbic regionalism in Spain and Belgium;
- tribal animosity throughout Central Africa;
- inner-city clashes in Britain and the United States;
- dissidents in the Soviet Union and Eastern Europe;
- political assasinations in Egypt and the Philippines;
- financial crisis in most of Latin America;
- drought and famine in Africa;
- anti-nuclear demonstrations in Western Europe;
- full-scale invasion in Cambodia and Afghanistan;
- unprecedented unemployment throughout the industrial world;
- separatist action in New Caledonia and Quebec; and
- terrorist activities almost everywhere.

Conflict of this nature can often lead to political or policy changes that, in turn, may have significant adverse consequences on the activities of multinational companies operating in these and neighboring areas. Furthermore, non-violent changes in political regimes, such as the rise to power of socialist governments in Chile, France or Greece, or the transfer of power from colonial to nationalist administrations, as it occured in Zimbabwe or Papua-New Guinea, may also result in drastic changes in the conditions under which foreign companies

are allowed to continue domestic operations.

In 1985, the world's stock of foreign direct investments (defined as those firms where 25% or more of the equity was in foreign hands) approached a value of $900 billion. If other assets owned abroad by non-financial corporations, such as bank deposits, securities, inventories and minority (less than 25%) interests, were added to this figure the total may very well exceed $1,500 billion. In addition, world trade in goods and services amounted to more than $2,000 billion in 1984. Given that a significant proportion of these assets could be exposed to political risks at any point in time, the implications for the management of global operations are rather sobering.

Surely there is nothing new in this. Trade and investment have been exposed to risks of this nature ever since the first caravans ventured across the Middle East several milennia ago. It is rather the magnitude of the exposure, and the much publicized losses associated with the nationalizations which followed regime changes in post-colonial Africa, Cuba, Iran and Nicaragua, that have thrust the issue of political risks to the forefront of business and academic concern. Our aim in this paper is to respond to Kobrin's (1981) plea for greater conceptualization in the field of political risk analysis. The first section below attempts to clarify the meaning and scope of the term itself and its area of application. Next, we review some of the major approaches proposed in recent years for the assessment of political and environmental risks, and develop from these a guide to the specification of relevant causal relationships between the sources of risk and corporate contingencies. We then elaborate a comprehensive model of general applicability that incorporates all major variables discussed. Finally, we shall conclude with a few comments on the dynamics of regime change and corporate strategy that make any such model subject to constant review and evaluation.

I. DEFINING THE ISSUE

The term political risk has been much overused and abused in both the academic and business press. There are probably as many definitions as there are authors and methodologies. We feel compelled nonetheless to add to this relative congestion in the interest of clarity. A useful starting point is to distinguish between the actual contingencies faced by the foreign firm operating in a developing or industrial country and the proximate sources of the risk.

What concerns the international investor is not political change or instability per se, but the impact that any externally induced shock may have on the value of its assets. For this we can distinguish two generally different contingency losses. The first we may define as the involuntary loss of control (generally meaning property rights) over specific assets located in a foreign country, typically without adequate compensation. Expropriation, nationalization, the ravages of civil war, or wanton destruction by terrorists are all examples of such losses. In fact, much of the literature and analysis on political risks has focused on specific instances of this type of loss, and particularly on the frequency and extent of expropriations (1). A second, perhaps more important, yet less well understood contingency concerns the loss in the expected value of a foreign-controlled affiliate due to discriminatory actions taken against it, either because of its foreign nature or as part and parcel of a general tightening on free-market prerogatives. Here we may include various forms of discriminatory controls and restrictions often imposed by governments in times of domestic crisis (including foreign exchange and remittance restrictions), limitations on access to factor markets (financial, labor or raw materials) and on outputs (e.g., on prices or diversification possibilities), as well as changing rules on domestic value added, taxation or export performance requirements. All of these have the effect of reducing the expected value of the affiliate to the parent company without any of the drama of expropriation.

The second dimension of the exposure to political risks concerns the proximate cause. One may want to distinguish between the actions undertaken by legitimate (if not necessarily representative or democratically elected) governments in the excercise of their national prerogatives, and those which are the result of actions undertaken by actors outside the direct control of governmental authorities (2). Figure 1 summarizes this first level of classification. The only point that need be made at this stage is that hitherto most attention has been concentrated on the upper left-hand cell, that is, on either massive or selective seizure of properties by established or revolutionary governments, while considerably more may be at risk in the gradual erosion of asset values implied by the other categories (3).

A different approach is to define the horizontal dimension of the matrix, not in terms of the source of the risk, but based on the indiscriminate or selective nature of the actions. This difference between "macro" risks, that is, those which affect all foreign (or, for that matter, many national) operations in the country in question, and "micro" risks, defined as those which

target a single or a few companies for intervention on the basis of specific arguments (which can be more or less rational depending on your point of view), is one that has been made repeatedly in the literature [e.g., Robock (1971), Kobrin (1979 and 1981), and Simon 1982)] with apparent little effect in terms of the evolution of practice.

Consider the four types of risks illustrated in Figure 2. Type A consists of the potential for massive expropriations of foreign properties typically related to drastic changes in government, such as those following decolonialization or the triumph of a Marxist revolutionary rebel force. These are often associated with closed systems in developing countries, which explode after a long period of national frustration or discontent, followed by growing repression and a collapse of authority. All foreign investors are subject to the same treatment with few exceptions (e.g., the often cited case of Gulf Oil in Angola), as they are closely identified with the previous regime and offer a ready source for the re-birth of national pride. Type B risks, on the other hand, can occur more gradually and in both industrial or developing economies. They consist of sector-specific or company-specific exposure which can be traced to the particular characteristics of the industry in question (e.g., its degree of technological sophistication or its oligopolistic nature) as well as to the current situation in the host country with regards to the saliency of the investment relative to national priorities and objectives. Thus, drastic changes in government may or may not result in massive expropriations, just as the gradual evolution of national goals and industry characteristics may bring certain sectors of economic activity under sudden scrutiny by non-radical government authorities eager to bring key economic sectors under national control (4).

On a less dramatic level, Type C risks may nonetheless have considerable implications for the real value of a subsidiary to the parent company. A change in government orientation, caused either in the course of a freely-held election or in response to external threats, can result in increases in taxation, new requirements in terms of domestic equity participation, lower remittance allowances, etc., all or any of which can substantially alter the post-tax, home-currency present value of the benefits realized by the affiliate. Similarly, Type D risks entail considerable potential for loss. As LDC governments strive for a greater share of the fruits derived from foreign company operations in their territory, case-by-case analysis and lengthy negotiation on domestic value added, export performance, ownership limitations and the like will be more and more the rule than the exception. Of course, the evaluation of the potential

benefits of the investment and the split of the spoils will be greatly dependent on the sector and the company involved, and not only on what the country has to offer (5).

We conclude this discussion, therefore, with a working definition of political risk as "the probability distribution that a real or potential loss will occur due to the exposure of foreign affiliates to a set of contingencies that range from the total seizure of corporate assets without compensation to the unprovoked interference of external agents, with or without governmental sanction, with the normal operations and performance expected from the affiliate". Whether the loss is caused by legitimate government acts or not, or the result of forces acting internally within the host country or emanating from the home or global environment is a methodological problem. Similarly, whether these forces will affect the whole of foreign industry or simply the most salient (for whatever reasons) sectors are key questions to which we now turn.

II. MAJOR APPROACHES

A number of excellent reviews of the literature on political risk assessment exist already (6) and need not be duplicated here. It will suffice for our purposes to summarize the major findings and studies that can lend support to the conceptual framework presented below, and to review some of the major approaches that have been tried to date in order to deal with the challenge of assessing political risks.

The Empirical Evidence

Empirical data on socio-political events and their impact on international business is hard to come by. First, the collection of data over long time periods and covering a sufficiently large number of countries presents substantial problems of accuracy, validity and comparability. Second, while the most dramatic impacts are readily reported in the press (e.g., major nationalizations and confiscation of assets), the quality of the reporting is not always homogeneous or reliable. Third, there are no time series or data banks that report on the multitude of minor inconveniences and obstacles imposed on foreign companies on a daily basis by governments and other environmental actors. In fact, it is doubtful that the information exists within individual corporations, thus limiting the posibilities of case study methodologies. How many firms keep track of the

opportunity losses they incur due to the discriminating credit policies followed by a country's central banking authorities? Fourth, the application of quantitative methodologies to political phenomena is a relatively new development (7). Thus, there has been a general skepticism by the business community of any model or result using political variables. Finally, and perhaps most critically, there has not been sufficient theoretical work until recently that allowed for the specification of causal relationships between political, social, and economic data, and the contingencies faced by firms.

Expropriation

There have been a number of serious studies attempting to explain the incidence of expropriation across countries, time and industries (8). First among these was Truitt (1970 and 1974) in which he considered the experience of British and U.S. investors in the post-WWII era. He concluded, inter alia, that the extractive and service sectors were more vulnerable to expropriation and that certain organizational characteristics, such as size and ownership structure, were associated with a higher frequency of takeover. Hawkins et al. (1976) confirmed Truitt's sectoral findings and provided a breakdown of expropriations by regions and the nature of the takeover. They concluded, on the basis of a sample of 170 U.S. affiliates in 1946-70, that economic motivations, and not the ideological rhetoric designed for public consumption, were paramount; most expropriations were directed at controlling an economic activity vital to the nation. Bradley (1977) examined the characteristics common to a sample of 114 affiliates of U.S. multinationals expropriated by foreign governments during the period 1960-76. First, he cast doubts on the widely held belief that joint ventures reduced political risks. He also showed that very high and, surprisingly, very low levels of technological complexity seem to be a deterrent against expropriation. It seems that the lack of indigenous capacity and skills may block the former, while a lack of interest may protect the latter. Third, Bradley's data indicated that those affiliates which were highly integrated into a multinational system were less likely to suffer expropriation, particularly if cutting them off from the parent company network would render them of little value. Finally, contrary to Truitt's findings, he concluded that large visible firms appear to be more vulnerable.

Four more recent studies have covered some of the same ground as those above using larger data bases, and have tested for further hypothesised relationships among country, corporate and contingency variables. Jodice (1980) examined expropriation

propensity in the extractive sector by studying 511 acts of forced divestment executed by 76 nations over the 1960-76 period and involving 1535 firms. He found little evidence that willingness to expropriate was associated with the level of economic development of the host country, but instead confirmed that the "capacity" of the state (as measured by the ratio of central government revenue to GDP) was strongly correlated with the incidence of expropriation. In addition, failure to perform economically and the degree of foreign aid dependancy of the host country were positively and negatively, respectively, related to the frequency of these acts. Finally, Jodice established that governing elites tend to use expropriation as a mean of distracting attention from their own shortcomings in times of increasing political turmoil (9).

Kobrin (1980), using the same data base, focused on industry and corporate specific factors associated with the incidence of forced divestment. His "underlying hypothesis is that in the vast majority of countries where forced divestment is used selectively its being chosen vis-a-vis alternative regulatory or administrative policies is, inter alia, a function of firm and industry-specific characteristics" (10). When countries were classified according to the number of firms taken in a given act, the more "selective" takers acted mainly in the more highly sensitive sectors, that is, those such as agriculture, mining and petroleum where national priorities and sensibilities were the largest. He also confirmed that technological complexity and global integration of the subsidiary help reduce vulnerability to takeovers, while industry maturity encourages it, for manufacturing affiliates. Finally, his results concerning organizational structure verify that wholly-owned subsidiaries and joint ventures with government partners increase vulnerability.

Burton and Inoue (1984) examine an even larger data base consisting of 1857 cases of expropriation which includes for the first time the experience of Japanese investors. They focus on a stages of economic development hypothesis by which countries at the early stages tend to expropriate agricultural, utilities and banking affiliates (often associated with the decolonialization process), while manufacturing assumes a greater proportion at the later stages. They also confirm regional patterns of expropriation with North Africa acting mainly on petroleum, Black Africa on basic industries and services, Latin America on manufacturing and Asia on agriculture. Their analysis, however, is limited by the fact that no relative intensity of expropriation can be determined by the lack of base data on the stock of investment by region and sector, and by the distorting effect of several large scale takings in Cuba and Africa.

Finally, a study by Juhl (1985), whose sources and data base are not specified, supports most of these findings, particularly the view that vulnerability increases with the host country's capacity to assume responsibility for the affiliate (measured in this case by the percentage of secondary school students within their age group).

Bargaining Power

The dearth of evidence on contingencies other than expropriation make it practically impossible to confirm the existence of causal relationships with the confidence of the studies cited above. The literature on foreign investment in developing countries, however, provides ample basis for specifying hypothetical relationships (11). Two basic models can be used to do this. First, there is the series of propositions deriving from the relative bargaining power model and its corollary, the obsolescent bargain paradigm. The second concerns the dependencia model and its assumptions about relative gains and losses to the host country from dependency on foreign investment. The former attempts to judge optimal policy on the basis of social cost-benefit analysis, subject to the existence of both firm- and country-specific advantages and to the opportunities for internalizing transactions within the firm. The latter, on the other hand, places a premium on non-economic factors such as national identity and self-reliance.

Four recent studies bring to bear some of these hypotheses to narrowly defined areas in the relationship between host country and multinational investor, and do so in a way which is consistent with the above conclusions. Fagre and Wells (1982) focus on the ownership policies of multinational companies in Latin America. Given that LDCs, ceterus paribus, will insist on minimum foreign ownership, the authors take the resulting ownersip pattern (adjusted for both corporate and country preferences) as the proxy for bargaining power on the part of the multinational, and test this against a series of propositions about the source of such power. They conclude that technology (R&D/sales), product differentiation (advertising/sales), and market access (both intra-corporate transfers and export volume) are significantly correlated with corporate bargaining power. The relationship concerning size, product diversity and competition are more complex, but equally interesting for our purposes.

Poynter (1982) examined the characteristics common to a sample of 104 foreign subsidiaries operating in Tanzania, Zambia, Indonesia and Kenya, which had experienced government intervention ranging from expropriation to minor forms of

harassment between mid-1970 and mid-1975. His findings confirm the propositions that control over sourcing of production inputs and sales to associated companies are a deterrent to host government intervention. A high level of operational and managerial complexity of the subsidiary also seems to provide insurance against interference. On the other hand, large firms operating in strategically important fields (to the host country) were found to experience above-average intervention. Finally, Poynter discovered that managers of foreign firms who pursue aggressive policies of lobbying for their causes, not only were better informed of the political winds, but succeeded in lowering the level of intervention by the government.

A study by Lecraw (1984), based on data collected in the late 1970s on 153 subsidiaries of U.S., European, Japanese and LDC parents, operating in six manufacturing industries and in the five ASEAN countries, tested the impact of firm-specific advantages (technology leadership, advertising intensity, asset size and export intensity) as well as country-specific advantages (market attractiveness and industry competition) on three sets of dependent variables: actual equity ownership held by the foreign firm, bargaining success (a firm- and country-corrected ownership variable) and "effective control". He confirmed and extended the previous findings on the impact of unique corporate resources on bargaining strength, but went further in concluding that the same firm-specific advantages are positively correlated with the exercise of effective control (that is, control by the parent over key aspects of the venture) even in the absence of majority ownership. Furthermore, he found a strong linear relationship between the success of the venture (a composite variable which included profitability, management satisfaction with results and performance relative to other companies in the same industry and country) and the degree of effective control the parent exercised over the affiliate. In contrast, the relationship between ownership and success was J-shaped, with 50/50 arrangements faring the worst.

Finally, Kim (1985) extended Poynter's analysis with a detailed look at the level of industry competition and the "political responsiveness" of the subsidiary relative to the degree of government intervention in the firm's operations. His study, based on data an 147 U.S.-based subsidiaries in four manufacturing sectors in the ASEAN region, found a very marked increase in government intervention associated with rising levels of industry competition. He was also able to confirm the ability of firm-specific advantages to reduce government interference with local operations, independent of the strength of the competitive factor. And he supported Poynter's recommendation that an active political role, that is, the willingness to seek

out opportunities for discussion with local leaders on their political agenda, as well as actively promoting the corporation's viewpoint, served to lower significantly the level of political intervention as perceived by the management of the sample firms.

Political Assessment Models

The practice of assessing political risks varies from the use of general surveys, followed perhaps by an inspection visit to the country in question, to highly sophisticated internal assessment systems employed by some of the major international corporations and financial institutions. Managerial attention to these issues is a fairly recent phenomena (12) and, thus, there has been little scope for standards to emerge in the profession. Two useful reviews of these models are presented by Kobrin (1981) and Simon (1985). The former identifies four classes of models as follows:

- observational, generally those involving multivariate analysis of macro data along the lines of some of the empirical studies cited above;

- unstructured, characterized by implicit or intuitive relationships between environmental variables and the corporate contingencies under consideration, carried out: a) in a systematic fashion or b) in a less methodologically sophisticated fashion; and

- structured, with detailed and explicit specification of the underlying relationships and applying complex methodologies.

Simon, on the other hand, uses a classification scheme that groups all subjective methods into four categories -- idiosyncratic/impressionistic, comprehensive qualitative assessments, Bayesian analysis and Delphi techniques -- and the more objective methods into two categories -- econometric models and cross-national political analyses. We shall use two broadly defined dimensions to review these models (see Figure 3): the first measures the extent to which the model deals with the specific industry and corporate characteristics relevant to the individual investor (its specificity), while the second accounts for the breadth of its coverage (its range).

Until very recently, most international firms limited their analysis of the political climate in a country to casual observations by "local experts" or corporate "old hands" sent in for this purpose, and to such occasions when a particulr new investment or financial commitment was being considered. If

management perceived political risks to be high, the investment would be cancelled or postponed, or a "risk premium" would be added to the calculations to account for the higher probability of loss. Seldom was this exercise conceived as an ongoing proposition; unless a major catastrophe occured, the country's political rating was unlikely to be reassessed.

In one of the earliest surveys of corporate practice in this area, Stobaugh (1969) reported a prevalence for the "go/no go" or "premium for risk" methods involving little quantification or sophistication. Root (1968) also showed the lack of systematic approaches to risk assessment by U.S. multinationals, as did Marois (1981) for French companies. Finally, Rummel and Heenan (1978) confirmed the use of casual observation by trusted corporate officials as a preferred method of assessment. It goes without saying that these idiosyncratic/impressionistic approaches suffer from excessive subjectivity that can be dangerous and misleading. Old stereotypes of foreign societies, rooted in either the coorporate or individual mind, can play a vital and often distorting role in the decision-making process.

General/Broadly-Based Models

Much formalization and modelling of macro political and economic risks has occurred in the last fifteen years. The major international banks, spurred by dramatic increases in lending to less developed countries since 1974, were primarily concerned with what they called sovereign country risk, essentially the prospects for default or rescheduling of external debt by the borrowing nation. The specific nature of the risks involved lend itself to systematic analysis of macroeconomic data, although there was general recognition that some subjective or judgemental elements needed to be included as well. Van Agtmael (1976) reported on some early efforts in this direction where, in addition to standard measures on debt servicing capacity, foreign reserves, and the quality of the country's financial management, a complex political "checklist" was employed to introduce a systematic approach to an area where "qualitative judgment is unavoidable". A more recent and extremely ambitious methodology, together with examples drawn from many banks' practices, can be found in Nagy (1979 and 1984). He proposes a "structured qualitative approach to the quantification of country risk" that combines an assessment of the size of loss with the probability of occurrence for different types of borrowers over time in a discounted present value model. Krayenbuehl (1985) suggests that the global assessment be divided into a political component (i.e., the will to honor external obligations) and a "transfer" risk consisting of a solvency and a liquidity measure of the ability to pay. Finally, Mascarenhas and Sand (1985) in a comprehensive review of U.S. bank practices identified four major organizational approaches to country risk assessment which varied in technical and structural sophistication and which produced significantly different results.

A second group of these general surveys consist of a number of "expert" assessments, typically obtained as the end product of a multi-stage consultation process that may or may not involve Delphi methods. Some of these reports might include econometric data as well, but their major characteristic is the progressive ranking of a large number of countries according to a more or less explicit logic of analysis. The BERI (Business Environment Risk Index) service is the oldest of these, and consists of a rating system that ranks countries on the basis of four sub-categories highlighting political, operational, financial, and nationalistic factors. Judgements on 48 countries are made by a panel of experts located throughout the world, processed and sent back for another iteration. BERI also produces detailed forecast reports for certain countries and a lending risk rating evaluating a country's credit worthiness over the following five years.

Competing rating systems utilizing similar methodology have been developed by Frost & Sullivan (the World Political Risk Forecast), Business International and Data Resources Inc. (Policon). Most of these are available to users on-line and, at least in the case of Policon, users may alter the weight of different variables or include their own judgemental information whenever considered superior to the model's. Two financially oriented rating systems worth noting are the Institutional Investor's Country Credit Rating and Euromoney's Country Risk Index covering 109 and 116 countries respectively. The latest entry to the "expert" assessment rating field is by the Futures Group; their Political Stability Prospects reports combine observational data in formal models with expert generated opinions to produce a stability index on a probabilistic distribution.

These and other similar techniques have the advantage of permitting rank ordering of different environments on a fairly comparative basis. They also allow, in some cases, for a significant degree of flexibility since the weights associated with the various criteria can be modified to suit different circumstances. However, the rankings can be only as good as the judgements which go into their components, and several observers have noted the tendency to utilize "establishment" private sector experts that may not necessarily view events dispassionately. Furthermore, these ratings are static by definition; they represent a view of past events and conditions that may bear no relationship to the future. The most serious criticism in this sense is that as long as the relationship between socio-economic factors and political risk remains implicit in the experts' minds no evaluation of the rating's utility for a specific application

can be made.

Two models developed in the 1970s are based on such explicit causal relationships and rely primarily on econometric and other objective data. Perhaps the best known of these is the Political System Stability Index first described by Haendel et al (1975) and later elaborated in Haendel (1979). By measuring directly a series of discrete components of the political and social environment (e.g., number of riots, ethnolinguistic fragmentation, and legislative effectiveness, among others), the resulting index is claimed to be free of judgemental inferences or distortions. One cannot escape, however, the model's implicit assumption that it accurately represents reality in both its structure and the choice of variables. Although tested historically (data were collected for 65 countries over the period 1960-66), the issue of variability in the relevance of specific factors for all countries and over time remained largely unanswered. In this sense, a major innovation of the model was the addition of confidence estimates which were assigned to the index scores for each component and each country. The second model, the Knudsen (1974) "ecological" approach, is based on the notions first put forth by Gurr (1971) that a high level of national frustration will exist whenever there is a gap between the aspirations of a people and their welfare, both dynamic concepts. If combined with a visible foreign-owned sector, such frustration may lead to intervention or expropriation, as foreign firms serve as useful scapegoats to the failure of the existing political order to satisfy the economic and political yearnings of the people. Knudsen tested his model on data for 1968-71 and developed a classification of Latin American countries according to their propensity to expropriate which corresponds closely to later studies in the area (e.g., see the discussion on Jodice's findings above).

Regardless of the thoroughness of the model's specifications or the accuracy of its measures, all these methods of estimating environmental risk share two unavoidable drawbacks. First, they are macro-risk oriented and largely ignore the need of the individual firm for custom-tailored measurement of project-specific risks. Although useful as a first-order indicator of the potential dangers threatening a given investment (a "red flag" function as Kobrin calls it), exclusive reliance on broad measures of risk would tend to overstate the threat to specific projects that may be inmune to intervention under most circumstances, and may fail to anticipate the partial losses that would result from a gradual tightening of operating freedom facing foreign firms in many developing and developed countries.

Second, these models are based on historical data that may

be totally or partially irrelevant for future conditions. For example, recent high levels of political turmoil leading to a radical change in government may appear under the various quantitative indices as evidence of a high degree of political instability. While this may be undeniable for the inmediate past, does it signify that instability will continue into the future? Or is the new government more likely to address the root causes of past instability and lead the nation to a new era of prosperity and tranquility? Obviously, no time series analysis can answer these questions adequately. Furthermore, to the extent that the data fed into the analysis are not entirely current, there will be a potentially significant gap between the last period for which data were available and current conditions. Given the rate of change of political and social phenomena in the less developed countries, and the difficulties and commensurate delays in generating reliable data in many of them, this is not a trivial problem.

In-house Models

The environmental turbulence that characterized most of the 1970s, culminating with the fall of the Iranian monarchy in 1979, gave extraordinary impetus to the development of in-house capabilitites in political and economic assessment among the world's largest international corporations. A survey conducted on behalf of the U. S. Conference Board (Blank et al, 1980) confirmed the rise in corporate interest in political risk analysis during the decade. It concluded, however, that most of these efforts consisted of intuitive and unsystematic attempts to translate vague notions of the "quality of the investment climate" into recommendations for investment policy. Reliance on unstructured field visits, "old hands", and outside "experts" (usually meaning ex secret service or foreign office operatives) was commonly reported. While some of these studies could be extremely thorough, there was typically little specification of the implied relationships and each analyst was free to draw his or her own conclusions as to which factors were most important, how are they likely to evolve in the future, and what consequences this may imply for the firm or the particular project.

A good example of an extensive corporate model is the ESP (for economic, social and political) system developed by Dow Chemical for their Latin American operations (Miquel 1978 and 1980). Following considerable background research into the country's current economic and political situation, a team is formed of members drawn from the highest management levels of the local affiliate, the regional headquarters and the corporate political affairs staff. This team then carries out extensive interviews

in the country in question with the aid of an instrument that has been developed specifically to meet the requirements of that country and of the local investment. The results are employed to develop four scenarios covering key economic, social and political events having potential impact on the development of the local business. Probabilities are assigned independently to each of the four scenarios (labeled, respectively, realistic, optimistic, pessimistic, and crisis), they are reviewed in a Delphic process, and a summary of the conclusions is prepared for top management. Dow's approach has the advantages that it is specifically tailored to their needs and that it involves line and senior corporate officials in the assessment, thus assuring that the results will be taken relatively seriously. It does not deal, however, with the need for clear specification of causality, relying instead on the experience of the leaders of the team to interpret events correctly and consistently. It also implies high costs and, particularly, time commitments, thus limiting its applicability to a few countries per year at best.

Other companies have made use of scenario methodologies in an attempt to deal with socio-political projections. Most of these experiences do not deal specifically with foreign political risks, but intend instead to cover a broad spectrum of phenomena affecting the firm, its technologies and its markets (13). The cost and complexity of this technique would appear to limit its application except in cases of very large investments such as oil and mineral extraction.

A related methodology, much cited in the literature, is that developed by Shell Oil to assess the probability that contracts for the exploration, development and production of oil in a certain country will be maintained on an equitable basis for a period of up to ten years. As described by Bunn and Mustafaoglu (1978) and Gebelein, Pearson and Silbergh (1978), the Shell approach and its subsequent variants (e.g., the models developed by Risk Insights, Inc. of New York) includes a formal specification of the relationships involved, expert opinions constrained in a fashion designed to limit judgement errors, and a sophisticated statistical algorithm to combine the results of both aggregate econometric data and individual assessments. As Kobrin (1981) views it, this is one of "the most sophisticated and effective approaches to political risk assessment" that existed at that time. Its major limitation is again the cost issue. To apply the methodology to a large number of countries, or, for that matter, to a number of industries with different characteristics and risk profiles, would be extremely costly and cumbersome.

Summary

The multitude of studies and models described above are indicative of the complexity and multidimensionality implied in measuring political risks which are specific to the foreign activities of individual firms accross many countries. The various analyses of the expropriation experience of foreign investors have yielded significant evidence of the importance of considerations rooted in both the national environment (cultural, political, social and economic) as well as in industry, firm, and project (structural) characteristics. The latter have been confirmed by the more recent studies on the determinants of bargaining power. The general thrust of practice in the field, however, tends to be polarized between those models and techniques aimed at measuring macro political risks on a comparative basis for a large number of subject countries, and those which are specific to a firm's needs but which are limited in their geographic scope. Figure 3 illustrates this dichotomy. The search for the ideal approach obviously leads to the bottom right-hand corner of the figure, where considerable efforts have been spent recently.

Macro models must play an important role in this search. While it is true that political stability is no guarantee of the absence of potential exposure to loss, nor is instability necessarily associated with the probability of loss, it remains that 75% of all instances of expropriation have been linked to regime changes. The preferred approach must therefore have the capability of measuring macro risks and the ability to interpret them in terms of project-specific considerations.

Methodologically, all existing models have certain strengths and limitations. Expert-based systems can be criticized for not always making causal relationships explicit and for their potential bias in the judgements of its members. Econometric models often suffer from the difficulty of securing current sources of data for many of the important independent variables necessary for the analysis. In-house methods can be expensive, time consuming and of limited geographic coverage.

It follows that what is needed is an eclectic approach that combines the best each method has to offer and includes both macro and micro judgements on the risks faced by specific foreign affiliates. The next section outlines the elements that should be included in such an approach. It incorporates the lessons derived form the model building efforts of the last 15 years and the broad experience of a major underwriter of political risk insurance in assessing the potential for loss in hundreds of projects from many firms and industries throughout the world.

III. MODELLING POLITICAL RISKS

Since risk is both a country and project dependent concept, any model designed to forecast the probability of loss must encompass both elements. It should also not be limited to assessing the likelihood of expropriation, that is, the compulsory takeover of foreign assets by the host government without the "prompt, adequate and effective" compensation called for by international law, but should include other contingencies that can result from changes in national policy. A firm operating in a given country needs to go beyond an assessment of the probability of expropriation; it must be prepared to deal with whatever change in political conditions may be forthcoming. It is this ability to predict an emerging situation before it is fully manifested, in order to circumvent the crisis, that is essential for survival and prosperity in many foreign operations.

Figure 4 summarizes the structure of the recommended framework for analysis. Its logic is rather simple and straightforward, although its implementation is another matter. It begins by examining a series of national characteristics -- economic, social and political forces at work -- that may or may not be critical to the issue of political stability. Whether such is the case or not will depend on the importance of the particular factor, on its relationship to others and on the magnitude of any changes or discontinuities involved. Furthermore, the source of trouble could be internal (e.g., political repression) or external (e.g., a drastic fall in commodity export prices). It is important to note, however, that these forces may, when activated, have dramatically different impacts depending, to a large extent, on the maturity and absorbtive capacity of national institutions. A country where political parties, the press, the educational establishment, the financial system, etc., have achieved high levels of development should be able to withstand greater shocks to the system without precipitating drastic change in the social fabric or in the institutions themselves. The institutional framework, therefore, acts as a filter for the environmental forces in softening their impact on events. An accurate judgement on the qualities of this filter is then as necessary to good political risk forecasting as an understanding of the underlying forces themselves. In the end, any number of political events can be the result of these conditions, each with its own probability distribution, as well as a probable timetable.

Stage I of political risk forecasting consists, therefore, of an assessment of the forces at work in the nation and without, the institutions tempering their effectiveness, and the likely events that they may precipitate. This is the realm of "country" risk analysis. Much of it is amenable to econometric modelling and to the use of expert methods similar to those described earlier. In the corresponding section below we shall illustrate the variables that ought to be included in this analysis. The output should establish some basic measures of reference comparable accross countries, it should identify current trends and any potential breaks in them, and it should delimit the areas of concern that may harbor the seeds of potential threats to foreign investors.

Not all events, however, will have similar consequences for different projects. As established in the above review, industry and corporate factors, as well as a number of characteristics of the structure of the investment, will play a determinant role in the likelihood and probable extent of any potential losses. Thus, for each project or affiliate, every possible event can be seen as having a set of outcomes or consequences which are unique to it. These alternative outcomes have themselves certain probability distribution and time horizon. Stage II of the political risk forecast consists of bringing into sharper relief the features of the project that either increase or diminish the possible negative consequences of each event. In this sense it is akin to estimating the conditional probabilities of various contingencies given a number of possible events. Since the latter may or may not be mutually exclusive, final estimates of the likelihood of loss can be arrived at by the proper mathematical manipulation of the probability estimates.

What follows is not a specification of such a comprehensive model, since obviously that would require considerable more space than available here and an intimate knowledge of the circumstances applicable to a specific investment project. Instead, we present a brief description of all the elements we believe must be included in the analysis. Figure 5 summarizes our approach. The country associated risk analysis involves a total of 22 variables or composite factors that must be monitored on an ongoing basis, yielding estimates of possible events, their probability of occurrence and the expected timetable. The project associated risk examines an additional 16 variables that are likely to have a major impact on the consequences of political change on a foreign affiliate.

Country Associated Risk

Two arbitrary but useful distinctions are made between economic and socio-political factors on the one hand, and between internal and external sources of risk on the other. The division is arbitrary because developments in all four areas have interactive effects on the other variables under scrutiny. It is important for the analyst to be sensitized to this web of hidden relationships and not follow the simple structure blindly. Also, it should be noted that many external influences, particularly in the economic sphere, can be systemic to the whole world. It is in such cases that the institutional elements of the analysis can serve to distinguish between countries in terms of expected impacts. In the discussion below the institutional issues are covered in various categories, both explicitly and implicitly.

Economic Factors - Internal

One must understand the basic components of the host nation's economy, its rate of development, and its vulnerability in order to anticipate factors that can affect the general business environment. A critical point to watch is the state of the country''s agricultural sector against a background of the rate of urbanization and the level of un and underemployment. We may wish to carry out this analysis under six separate headings.

Population and Income. Historical trends in the size of the country's population, its economic growth and per capita income provide a first approximation of national welfare. When viewed against the recent past, public pronouncements about expected growth rates indicate the potential disparity between the country's aspirations and its capacity to provide for its future. Efforts at controlling population growth are worth observing. In contrast to many nations in Africa and Latin America, the Chinese government, for example, aware of the need to reduce this gap between expectations and its capacity to deliver on them, has instituted severe sanctions for families with more than one child. Similar programs in India and Mexico have met with considerably less success. Income distribution figures over time provide useful clues to potential trouble. In Mexico, for example, the percentage of national income going to the poorest 70% of the population has declined steadily since the late 1940s, when it oscillated around 34%, to less than 27% in recent years. The implications for social discontent are evident, even in a high growth economy, which was the case in Mexico through the late 1970s. But when growth slows or turns negative, as it did after 1982, the consequences can be worrisome. Nonetheless, one has to relate perceived inegalities in income distribution to cultural attitudes towards wealth. In Hong Kong, where income distribution is extremely uneven, the wealthy are admired by lower and middle class Chinese and inspire

emulation.

Workforce and Employment. Analysis of the size and composition of the country's workforce, its sectoral and geographic distribution, and its productivity will help to understand the nature of the human resource pool and its deployment. Disturbing trends in real productivity, migration or urban unemployment, for example, should be carefully noted. Social instability and political risk in developing countries can easily result from the polarization of the population into urban and rural camps with different problems and priorities. Two significant series are the rate of economic growth necessary to absorb population increases, particularly in depressed areas, and the tendency by foreign companies to capture scarce managerial talent so critical for development.

Sectoral Analysis. The stage of development of the host country's economy will guide this section of the analysis. In the less developed countries one should address issues such as:

-what is the strength and diversity of the agricultural sector and is the country self-sufficient in foodstuffs?
-how significant is the industrial sector, can it respond to the need to generate jobs and foreign exchange?
-what are considered strategic sectors and who controls them?
-how large is the public sector and how efficient?

The emphasis among more industrialized countries may shift to:

-how competitive is the industrial sector, in costs and technology; are lame-duck industries kept artificially alive?
-how rapid is the shift to services and its impact on employment?
-what are the strategic sectors and how is government control excercised over them?
-is there a discernible trend to greater government involvement in the economy and with what results?

Economic Geography. Natural resources provide opportunities for growth and capital accumulation that can be a significant force for stability. Yet, when controlled by foreign enterprises, subject to wide price fluctuations, vulnerable to natural disasters, or the source of national complacency and waste, natural wealth can a major source of danger. In general, the more dependent the economy on a single source of wealth, the least stable it is, as recent history amply corroborates.

Government and Social Services. The sources and structure of government revenues and the sectoral and geographic pattern of expenditures are critical items. Are basic needs (e.g., health

services, education, economic infrastructure, defense, etc.) adequately covered? Is the budget in deficit and, if so, how is it financed? The rigidity of government programs to economic conditions is also a fundamental question. If revenues are highly volatile while expenditures consist of inflexible social programs (e.g., food subsidies in many African countries, or defense expenditures in South Korea or El Salvador), any disturbance to the revenue stream could have severe political consequences. Finally, the dependency of regional agencies on central revenue sources can be a constant bone of contention in countries where demands for regional autonomy are strong.

General Indicators. Time series on price indices, wage rates, interest rate levels, money supply, etc. should also be monitored for any major breaks or discontinuities.

At this stage of the process the analyst should have a reasonable picture of which economic variables are critical for continuity in the country's current economic development strategy, the vulnerability of the strategy to failure in any of these critical links, the likelihood of such failures and, as a result, the probability that performance will fall short of expectations. The objective is not economic analysis per se, but a search for what one might call the potential for trouble. If "what is likely to go wrong..." follows Murphy's perverse dictum, it is the political consequences that interest us, as these are ultimately the ones that may affect the safety and profitability of the investment.

Economic Factors - External

In order to complete our understanding of the nation's economic conditions we turn to its external payments position. What are its international obligations, the extent of foreign indebtedness and servicing requirements, its level of diversification of export earnings, the exposure to commodity price fluctuations, the rigidity of import requirements, etc. Five headings would be helpful in organizing the analysis of these issues.

Foreign Trade and Invisibles. In addition to examining the evolution of the country's current account balance and its composition, it is important to assess the relative income and price elasticity of both imports and exports. To the extent that imports consist of essential items (e.g., food, raw materials, or energy) the degree to which the country can compress imports in times of crisis is limited. The last decade has shown how vulnerable most countries are to sudden price changes in certain commodities, both as they increase (the 1970s for the oil

importers) and decrease (the mid 1980s for the oil exporters). Time series of the nation's terms of trade are most useful for tracking these changes in external purchasing power. Finally, the relative importance of trading partners may change as an indication of evolving competitive conditions, or trade in invisibles (tourism, services, etc.) may increase in importance, both of which have critical implications for the stability of export earnings over time.

External Debt and Servicing. The following three series of data should be first considered:

-the level of outstanding foreign debt, public and private, in absolute terms and relative to GNP and export earnings;
-its maturity profile; and
-the level of debt service (including dividend payments on foreign investments) relative to national income and exports.

If difficulties in servicing foreign obligations are expected, the impact on the transfer risk and import controls must be assessed; just as effects on the domestic economy and political pressures are likely to emerge in parallel. One needs only to recall the recent experience of Argentina, Mexico and Peru, to name a few, to dramatize the importance of this analysis.

Foreign Investment. Countries which often shun external indebtedness as a solution to their exchange difficulties, turn instead to foreign investment on the twin assumptions that more real income is thereby generated to pay future claims and that dividend payments are cyclical and not likely to fall due in hard times. This, history has taught us, is not always the case. The size and importance of the foreign sector, its distribution by branches of economic activity, its diversification by country of origin, and so on are all critical elements to the analysis. They affect the probability that when all else fails a nationalistic government will point to the spectre of foreign ownership as the root of all evil. Not that expropriation need be wholesale, but that the probability of any intervention is a function of the saliency of the foreign controlled sector and, as such, it needs to be monitored.

Overall Balance of Payments. A general review of the overall payments position should complete this analysis. Emphasis should be placed on the capital account and on the level and changes in the country's reserves, that is, its liquidity situation. Lack of confidence in the government in power can manifest itself in various ways such as a drop in remittances by foreign workers (Portugal after 1974) or in sudden moves of short term capital flows and "errors and omissions".

General Indicators. The official and unofficial exchange rates, their movements over time (particularly relative to inflation differentials), and the spread and terms which national borrowers can obtain in international capital markets are all further clues as to how solid is the country's external position.

This set of questions serves to determine to what extent external constraints will dictate domestic economic policy. A high degree of dependency and instability together with external debt servicing difficulties will substantially increase the risk of host government interference with foreign investors in the country, both in terms of expropriation and convertibility. In Mozambique, shortly after the revolution, the government, faced with severe external payment difficulties, nationalized those enterprises that consumed significant amounts of foreign exchange. Likewise in Nicaragua, the grave shortage of foreign exchange after Somoza's ouster prompted the new revolutionary government to take control of the main sources of foreign earnings. And the frequent use of "temporary" suspensions of dividend convertibility during difficult times in countries like Brazil underscore the need for such analysis.

Socio-Political Factors - Internal

To understand the political situation of the host country and its potential for inspiring change one needs to begin with the cohesiveness of the social structure, the disparity between people's beliefs and aspirations on the one hand and the quality of leadership on the other, the relative power of government and opposition groups and the strength and traditions of national institutions. Again, six major headings will guide the analysis.

Composition of Population. The homogeneity of the local population in terms of ethnolinguistic groups, religious persuasion, or tribal and class components need to be examined as a guide to the cohesiveness of the social structure. The political and social status of these different groups, their participation in key governing institutions, their political activism and the distribution of wealth and power among them are key components of the analysis. Recent examples of countries plagued by these differences abound. Belgium with its struggle between Flemish and Walloons or Northern Ireland's religious wars are sources of instability in the respective regions. Equally, in many Arab countries minority sects (e.g., the Wahabites in Saudi Arabia or the Alawites in Syria) hold the reins of power against a background of religious fundamentalism stimulated by the Iranian revolution, ethnic separatism and the presence of large numbers of foreign workers. The Tamil

uprisings in Sri Lanka have been cause of major concern in recent months while in the Far East resentment of Chinese minorities has already brought about reactions such as Malaysia's program for increasing the share of economic activity in Malay hands.

Culture. An analysis of the underlying cultural values and beliefs of the host society may also hold the key to an understanding, not so much of the potential for instability, although this may be the case, but of the likelihood that foreign influences (e.g., the local affiliates of multinational corporations) will be the first to suffer the consequences of any potential disruption to the established regime. The concept of cultural risk is one that has been familiar to investors in tourism projects in many developing countries. The contrast of half-naked wealthy foreigners being served hand-and-foot in the midst of abject poverty is one that has given rise to considerable resentment and opposition, particularly in countries with strict religious and moral values. Similarly, foreign induced industrialization has led to the loss of traditional norms and values in many primitive areas of the world and may result in a level of cultural alienation that will heighten conflict and identify the foreign enterprise (and not the process of modernization) as the source of evil. The experience of Iran throughout the late years of the Shah's regime is a good example of this process.

Government and Institutions. Understanding how the country's system of government and its socio-political institutions work, or are meant to work, is a crucial point in the analysis. There is a formal aspect to this which consists of establishing the principal characteristics of the constitutional order, the relative functions of the head of state, the government (prime minister, cabinet officers, agency directors and other appointed officials), the legislative bodies and the legal system, and the nature and structure of bodies such as the law enforcement agencies, the armed forces and the political parties and similar organizations. For example, constitutional issues were paramount in the recent passage from military to civilian rule in Brazil, as the issues of direct election of the President and the right of the incumbent to appoint state governors were in direct conflict with one another. Finally, the resilience of national institutions, the role and stability of the civil service, the capacity of political parties to incorporate vastly different interest groups under a common banner (as the PRI has done in Mexico for many generations), the ability of the press or the educational establishment to serve as legitimate outlets for venting pressure, etc., are critical to the analysis for they will help assess the severity of any reaction to domestic or foreign forces calling for change.

Power. The effective structure of power, and not only the formal trappings of government and institutions, will determine the question of political risk. Who are the key decision makers, their background and education, their attitudes to critical issues and their relationship to each other; what is the role and power of the internal security apparatus; who are the main beneficiaries of the status quo; and what is the influence of pressure groups such as the trade associations, labour unions, army and media, are all part of the agenda. This is a particularly critical and difficult area of analysis since almost by definition the data are obscure or concealed. More than anywhere in the process, it calls for careful judgement and a great deal of skill in inferring from external observations (or interviews whenever possible) the real intentions of the players. No wonder, for example, that many heads of large multinational companies have been rushing to talk at length with representatives of the outlawed African National Congress concerning their intentions for South Africa should they come to exercise or share power.

Opposition. The basic problem in assessing the strength of opposition groups, their sources of support and their effectiveness is again the access to reliable and balanced information. Official sources must be treated with great skepticism. Authoritarian regimes in particular have a major stake in concealing the truth about instances of rebellious actions. The reaction of the Saudi Arabian government to the Great Mosque incident is typical of this tendency to obfuscate potentially serious evidence of internal dissention and present it to the outside world as an isolated minor incident involving a few religious fanatics. Equally, one would have been hard put to gauge the extent of opposition to the Marcos regime in the Philippines had it not been for the interest of the world's media.

General Indicators. In addition to the items above, data to be monitored include the level and frequency of strikes, riots or terrorist acts, the number and treatment of political prisoners, and the extent of official corruption.

It should be evident that most of the information sought under these various headings is highly judgemental and difficult to evaluate objectively. Sources intimately familiar with local conditions are essential to the analysis. Therefore, it is advisable that external expert opinion be obtained and that their views be crossexamined by on-the-field assessments carried out to a large extent by the firm's own local staff.

Socio-Political Factors - External

Political instability is often externally induced. At best, external influences can exacerbate internal conditions by playing on the fears or frustrations of the local population, or by lending moral, financial or ideological support to opposition groups. We now turn our attention to five such problem sources.

Alignments. The first feature to establish is the country's international alignment, its principal political allies, its public positions on key global issues (e.g., apartheid, the Middle East, etc.) and its mutual dependencies. In this context, an examination of the country's voting record in the United Nations may be useful. Historically, one should examine how treaties of friendship have been established and what is the scope of its sovereign freedom (e.g., the case of Afghanistan and the Soviet Union). The Polish case suggests that the aspirations of the people may not always be in line with the country's external alignment. The discrepancy may result in manifest expressions of dissatisfaction and internal unrest.

Financial Support. This includes both direct sources of economic support, such as the provision of financial aid, food and military assistance, as well as instances of de facto support by virtue of important economic and trade linkages. Many of the U.S. programs in Israel, El Salvador and Saudi Arabia, among others, are clear examples of the first kind. The position of France in Africa is also noteworthy: by virtue of the CFA franc system the French government and treasury exercise considerable de facto influence over many states in the region, while also engaged in direct military assistance programs such as in Chad or the Central African Republic. More complex, but not less critical, are the myriad of relationships which characterize Saudi Arabia's influence over many of its Arab neighbors. Recent events in the Iraq-Iranian and Lebanese conflicts illustrate the latter.

Regional Ties. Irrespective of the country's global alignment, its relations with its immediate neighbors is often of paramount importance to its political stability. Border disputes, external military threats, the spillover effect of nearby revolutionary activities, etc. can have a profound impact on domestic tranquility and on government priorities. The activities of Mr. Qaddafi with respect to his neighbors in Egypt, Tunisia or Chad, his support of guerrilla activities in Western Sahara, the Gambia, Senegal and the Central African Republic, plus his backing of terrorist movements in many other Mediterranean countries is certainly one of the most extreme cases of regional destabilization in recent history. Central America, where Nicaragua (with Cuban support) exercises a major

influence on events in El Salvador and Costa Rica, while the United States encourages Honduras to serve as haven for the American-backed "contra" forces attacking Nicaragua, is a case in point for careful evaluation of regional domino effects. The current situation in southern Africa is also illustrative of the importance of regional ties. Countries like Lesotho, Mozambique and Swaziland have to temper their inclination to support the struggle for black power in South Africa with the realities of their economic dependence on Pretoria. Finally, regional proximity and conflict may result in a flow of refugees, political or otherwise, which can tax the financial capability of the host nation or result in civil unrest, riots or increased delinquency, as has been the case in Thailand, Sudan and even Florida.

Attitude Towards Foreign Capital and Investment. More and more countries are codifying their attitudes and expectations with respect to foreign investment. Simultaneously, one can observe a general trend toward more liberal foreign investment policies among developing countries in the first half of the 1980s, often achieved by a generous interpretation of such codes as might exist. In 1974, Zaire nationalized a number of enterprises some of which were "protected" by its investment code; while a decade later the Mexican government approved a series of foreign investment proposals that would have been unthinkable a few years earlier. National codes of investment, therefore, serve only as guide to the scope for legal protection normally afforded foreigners in the country, and must be supplemented by other information on recent practice. Fortunately, many of the rating services cited above (e.g., Business International's Investment, Licensing and Trading Conditions Abroad) maintain up-to-date records on foreign investment flows and decisions by local authorities, and local chambers of commerce or similar groups conduct regular polls on local attitudes toward foreign investors, both of which can be very valuable in assessing trends in this area. The record of local courts in dealing with conflicts involving foreign subsidiaries, particularly questions of compensation for expropriated assests, can also contribute to this aspect of the analysis.

General Indicators. Other indicators that should be monitored might include human rights' records as published by international organizations such as Amnesty International, the existance of formal and active opposition groups in exile, signs of diplomatic stress between host and home country, and terrorist acts committed in third countries against citizens or assests of the host nation.

As with the section above, the knowledge and data sources

required to complete this part of the analysis are highly specialized. A similar conclusion is thus warranted as to the utility of seeking expert advise supplemented by the views of those in the field.

Project Associated Risk

Having specified the range of variables related to the level of risk associated with the country, we now turn our attention to those characteristics of the project or the foreign subsidiary which can alter significantly the potential for loss faced by the parent company. Once more, four major categories facilitate the analysis. As noted in the literature review and as we have gleaned from practice, industry and corporate characteristics have a major influence on the level of risk. Both of these sets of factors are generally exogenously determined and can be altered only over long periods of time, if at all. Structural and managerial factors, however, are subject to management action and can be tailored to meet local circumstances in such a way that the risk/return trade-off is optimized for the foreign investor. It is in the context of these two sets of variables that the concept of managing political risks takes a realistic meaning.

Industry Factors

It has been obvious from the early days of political risk analysis that different economic sectors experienced different propensity to expropriation and government intervention in general. Four industry characteristics seem to be closely associated with this.

Activity/Economic Sector. The historical evidence is that foreign companies involved in primary activities (extractive or agricultural) and public infrastructure (transportation or utilities) were relatively more exposed to political risks, subject to regional variations. There is a widely shared conviction among third world countries that natural resource endowments should be exploited for the national welfare rather than for private or foreign profit. More recently, financial institutions have been subject to increasing rates of interference as issues of capital flows have gained in importance. Brazil provides a good example of the shift in national priorities from primary to high technology sectors among the more advanced developing countries. Foreign investors in the electronics, information and telecommunication industries have been progressively squeezed out of many activities and forced to license their technology to local firms or abandon the Brazilian

market all together. The level of foreign capital, the size of the enterprise and its relative monopoly power may also contribute to make it a more attractive target for intervention. There are occasions where the foreign investor is the only agent capable to deploy the technology or capital resources required for a given project. However, it is usually only a matter of time before the government (or its succesor) begins to question the value of the foreign monopoly. Thus it seems that while sectoral factors remain important there will be critical variations in risk profiles based on the level of development and local priorities of the country as it relates to the political and economic saliency of the project.

Technology. The conventional wisdom, as well as the evidence cited above, point to the relative immunity of high technology projects from political interference. The higher the R&D intensity or the technological complexity of the business, the less likely that it will be expropriated and the higher the relative bargaining power of the foreign investor. Similarly, the more rapid the rate of change of the technology, the greater the protection enjoyed by the foreign subsidiary from arbitrary discrimination. The reasons are obvious: not only are local firms unable to assume the role of the foreign multinational in such cases, but also if they were to attempt they risk falling rapidly behind a constantly changing technological frontier. This argument is considerably less valid among the most advanced developing countries and in the industrial world. The experience of the information technology industries in some European countries, Brazil or Korea are indicative of the need to moderate the value of technological superiority on the basis of local conditions.

Product Differentiation. Highly differentiated goods require specialized inputs for their sale or service which are often exclusively provided by multinational corporations. The capacity of local firms to assume these functions is less in the case of differentiated products than for commodity goods. Therefore, ceterus paribus, producers of specialized, highly advertised, or otherwise differentiated goods will be less subject to government intervention as they are more capable to exercise their bargaining power.

Competition. The bargaining power model would also support the proposition that as the level of competition (and, therefore, alternative sources of capital and technology) increase, the foreign firm is more exposed to political intervention. The evidence cited earlier seems to confirm this view, notwithstanding the fact that monopoly power will also attract opposition and, subsequently, higher risk. Thus, one

emerges with a U-shaped configuration of the risk profile, largest whenever competition is either non-existant or very active.

Corporate Factors

A number of characteristics of the investor are in themselves associated with the level of risk, and can be represented by the four factors which follow.

Nationality. The nationality of the foreign investor is relevant to the risk factor inasmuch as it is subject to the quality of the relations which the host country has or has had with the investor's home country. Difficulties can arise from the vestiges of a colonial relationship or from previous support for an earlier government. The memories of its bitter struggle for independence still complicate Algeria's dealings with France, and the question of compensation for nationalized French interests has never been properly settled. The Nigerian nationalization of British oil interests in 1979 had more to do with the two countries position on the Rhodesian issue than with the sector or companies involved. U.S. corporations in Latin America tend to be exposed to relatively higher risks than their European counterparts since they have inherited, underservedly for the most part, an historical role as symbols of support for repressive military regimes. British companies in Argentina underwent a rough period during and following the Falklands war.

Scope of Activities. The nature of the company's activities and the geographic location of its affiliates may have a material influence on the level of risk. The Arab countries boycott of firms doing business with Israel, China's attempt to boycott Japanese companies engaged in trade and investment in Taiwan, and the current exposure to risk of companies with operations in South Africa are examples of this. Similarly, diversified corporations with sensitive activities in defence sectors may find as a result that the level of risk for their non-defence investments in other countries increases.

Corporate Image. Corrupt payments scandals or a history of involvement in the financing of political subversion have left lasting scars on certain U.S. corporations which are still viewed by local governments and opposition groups with mistrust. ITT's activities in Chile or United Fruit's actions in Central America are notorious in this sense. The disaster at Union Carbide's Bhopal subsidiary has deeply affected the company's image. Plans to open a new industrial ceramics plant in Allgau (West Germany) were cancelled after the local villagers rejected the proposed investment and the resulting jobs. On the other hand, stated

corporate policies on disclosure and joint ventures, for example, can contribute to a better world climate for its investments.

Previous losses. Careful scrutiny of the circumstances in the past that have led to politically motivated losses is essential. Not only can predictable patterns be derived from such analysis, but the relative bargaining strength of the company may be assessed from those instances where it avoided losses while most other firms did not. The classic example is how Gulf Oil managed to survive the transition from Portuguese colonial rule, through bitter civil war, to Marxist revolution and triumph in Angola, and emerge in a priviledged position.

Structural Factors

Irrespective of the quality of its industrial and corporate characteristics, how the project or investment is structured will have a major impact on its risk profile. Again, four aspects of the structure should be analyzed.

Contribution to the Local Economy. It is essential to attempt to quantify the perceived net benefits to the local economy resulting from the foreign firm's participation. Generally, transfers of foreign capital, employment creation, the generation of income and tax revenues, reinvested earnings, savings of foreign exchange due to import substitution effects, technology transfer, and the development of local suppliers and export sales are viewed positively. These may be partially offset by costs such as dividend and capital repatriation, the payment of license and management fees and royalties, transfer pricing losses, additional imports, the potential elimination of local competitors, etc. It should be noted that the view the local authorities will have on the relative merit of these costs and benefits will differ from the firm's, and that it is the former that counts (14). While more acute in the case of investments in developing countries, the same reasoning applies in sensitive sectors between industrial nations. Witness, for example, the West German government's unenthusiastic reaction to repeated attempts by the French Thomson-Brandt group to rationalize the consumer electronics industry in Europe by acquiring such German companies as Saba, Nordmende, Grundig and Telefunken. Lastly, one needs to examine any special agreements concluded between the investor and the host country in order to ascertain whether or not they increase the risk. To his consternation, the investor may find that contracts are not morally or legally binding if the situation has changed, and that they may be modified by unilateral acts. As the foreign firm's bargaining power deteriorates with time, initial attractive investment concessions by the host government may be subject to

renegotiation or withdrawal once capital and other commitments have been made. Only by assuring that social and economic benefits accrue to the host nation over the life of the project, and that these benefits are evident to all major political forces in government or opposition, can the foreign investor have a major impact on how it is perceived and, therefore, on the likelihood that changes in economic or political factors would result in a lower probability of intervention.

Intra-corporate Transfers. The more closely the affiliate or project is tied to the global network of the parent company, the lower the risk of expropriation or interference. If the local operation is managed as one more cog in the multinational's global wheel, with large intra-corporate transfers of products, intermediate goods, technology and management, it serves little purpose to take it over; one inherits an empty shell. On the other hand, a self-sufficient, local-for-local type of operation is considerably more exposed to local pressures for divestiture, regulation and, eventually, nationalization. Chrysler managed to salvage their Peruvian assembly operation in the face of widespread industry nationalization by keeping a stranglehold on the supply of key auto and truck components from plants in Brazil, Argentina and the United States, while simultaneously threatening the loss of export revenues in the event of nationalization. IBM's recent experience in Mexico shows the willingness of the government to make significant concessions (e.g., 100% ownership, reduced local content requirements, etc.) for a globally integrated subsidiary, while long-established foreign producers of microcomputers (Hewlett-Packard and Apple), which operated strictly local-for-local subsidiaries, had to face more stringent performance requirements.

Local Ownership. The degree of local ownership in the foreign subsidiary is both the result of the bargaining process and a major infuence on the risk. In local-for-local operations the presence of domestic partners is almost an immutable requirement. Otherwise, if at all permitted, chances are that the affiliate will be under considerable pressure for local integration in the medium term. Not all partners, however, are equally safe. Government agencies and members of the ruling classes may be in fact more dangerous than no local partners at all, as recent experiences in Nicaragua have amply demonstrated. Joint ventures in fields where technological superiority or product differentiation value has eroded, may actually hasten the day when total control of such affiliates passes on to local hands, as has been suggested was the case in many extractive sectors.

Environmental Dissonance. Various factors can be

considered under this heading. The actual location of the affiliate can have an influence on the risk factor as it affects the perceived contribution to national development goals and it exposes the firm to varying levels of population, ethnic, environmental, unionization or guerrilla risks. Cultural compatibility can also be managed as a function of location or in the project's structural design. Environmental impact has also gained in importance, specially following the recent disasters in Mexico and India. The renegotiation of RTZ's investment in Bougainville Island in the mid-1970s, for example, was made more difficult by the company's lack of sensitivity to traditional values of land tenure severely affected by the mine's operation and by the environmental impact of such a large project on the land and rivers of the area.

Managerial Factors

In the end, it is up to management to reduce the level of risk associated with their foreign operations by pursuing prudent policies of limiting exposure while attending to the national and corporate interest. While conflict is unavoidable, the four policy areas outlined below offer significant latitude for reducing risks consistent with minimum sacrifice in profitability.

Local Management. The use of local management to the largest extent possible can serve to reduce risks in at least three ways. First, they are likely to be better attuned to local conditions and better connected to the sources of power and influence than expatriates, thus in a better position to anticipate change and evaluate its impact on the firm. Second, their presence alone offers government certain guarantees that the national interest is represented in the highest councils of the firm. Finally, local managers by the training they receive and experience they acquire come to represent a valuable asset to both the firm and the nation. In fact, to the extent that technology is embodied in people and these are local nationals, the state can be assured of continued access to key technologies without the need to control foreign enterprises directly or interfere with their operations.

Corporate Culture and Management Philosophy. Expatriates will continue to play a key role in the management structure of multinational companies. In fact, the more complex and diversified the operations of the parent company, the more likely that it will have to rely on the judgement and skills of an international cadre of executives. The experience, training and sensitivity of these managers to the political and social reality of the countries in which they are called to serve will play a

critical role in anticipating and preventing potential trouble, as well as in dealing with the consequences of local turmoil when it arrives. Whether the point of view of the man (or woman) in the field will be accepted at headquarters depends largely on the quality of the management development function in the organization and on the corporation's value system. While little hard evidence exists on this point, there seems to be abundant annecdotal support for the view that many a situation fraught with danger can be resolved satisfactorily by having good management at hand whose voices are heard and respected at home.

Political Responsiveness. As cited earlier, there appears to be strong support for the view that an activist political role on the part of local management reduces risk. Frequent contact with national social and political forces, active lobbying for industrial issues, time spent on understanding the local environment, and significant investment on public affairs and on promoting a local corporate image have been shown to be positively correlated to low levels of government intervention. Obviously, any efforts in this direction must be carefully monitored less they be interpreted as meddling in internal affairs. But the foreign corporation has a role to play in the host country's political life, and, if well played, it can lead to a better relationship over the long term.

Financial Policies. Finally, there are a host of financial policies that any multinational enterprise can put into effect to either reduce or avoid the risks associated with political change. While this is not the place to describe these (15), it should be noted that many of the policies that reduce the magnitude of the loss in the case of intervention (e.g., the excessive use of local sources of finance), may unwittingly hasten such an intervention.

Summary

It is obvious from the preceding discussion that the cost in time and money of carrying out such detailed analysis for each country and each operation throughout the world would be prohibitive for any moderately large multinational corporation. Thus, any corporate system of forecasting political risks ought to strive for a compromise between the general and broadly based information available from multi-country rating and evaluation services, and the provision of case-by-case specific inputs from internal and contractual sources.

The macro or country risk component of the analysis is particularly suited to standardization and the systematic

manipulation of large time series data bases. No individual firm, except perhaps the very large, can hope to duplicate the resources available to specialized agencies for collecting, processing and analyzing macroeconomic and socio-political data on a global basis. There are significant economies of scale in this endeavor when operating across multiple countries and, most importantly, specialized agencies can amortize the cost of developing and constantly up-dating such a system over a large customer base. Both econometric models and expert-based systems would appear to be more cost efficient and preferable when developed and constructed outside the firm. Yet, they need to be understood and applied in the context of very specific conditions.

It follows that there remains a genuine requirement for an internal function in assessing macro risks: that is, to second-guess the results of any external inputs within the corporation by those who are familiar with the content of the models used in the analysis (i.e., its internal logic, sources of data, assumptions and specifications). These corporate executives would benefit from their knowledge of the specific circumstances of the firm's investments in various areas and the reality of past history and conditions in the field. They can then perform a control function, different from that of one responsible for the generation of data and output, and thus be free from any loyalty or commitment to the model itself or to its component parts. Their task is to make sure that the externally supplied assessments are suitable to the company's needs and acceptable to those who have to act on the basis of the information provided.

The second part of the analysis, that is, once the probability and time horizon of certain events have been established, can only be performed by those intimately familiar with the company's operations. How will certain events affect the profitability of, or the capacity to repatriate funds from, a given project or subsidiary needs to be determined on the basis of data only available to management. Therefore, a second role for the function of political risk assessment within the corporation consists of interpreting the results of the country risk forecasts in terms of the realities of industry, corporate, structural and managerial factors only known internally.

There is, however, an important qualitative difference between these two roles. Monitoring the quality and accuracy of country risk forecasts provided by external services and adapting them to the corporate reality should be a function performed and coordinated centrally. While operational management can and should have an input to the process, the modification of the

models' specifications and the interpretation of their biases can only be appropriately conducted after considerable experience with such a system over relatively long time periods. Given the value of corporate memory in this process, it would be logical to centralize responsibility accordingly. The second role, that of evaluating micro risks from a given set of country risk forecasts, can only be done at the local level. Obviously, corporate involvement may be desirable to assure impartiality and comparability across countries and projects, but since local management will be called upon to act on the results of the analysis, they must be party to its conclusions. Besides, they are often the only point where both the corporate and national vision converge on many of the key issues upon which actual events and consequences will hinge.

IV. CONCLUSIONS

In assessing whether to set up, expand or contract operations in a given country one should distinguish between two sets of issues. The first has to do with the contribution the project or the affiliate is likely to make to the corporation's global strategy, including the returns from the venture proper as well as any synergistic or competitive contributions to other units in the corporate system. Such an assessment of "strategic attractiveness" will be based on a number of factors such as the degree of global competition (vs. fragmented national markets) prevalent in the industry, the size and importance of the market, the fit with the company's long-term strategic priorities and so forth. It should also result in a differentiated approach to global opportunities. The more attractive a particular location and the more critical to the achievement of corporate objectives, the more willing the company should be to undertake a high level of risk and commit the necessary resources to achieve these objectives. It follows that the higher the piority accorded to a particular subsidiary in the company's global strategy, the greater the firm's need for management integration and control. This typically means either control through majority ownership, or effective managerial control over all aspects of the project critical to its success.

These views ought to be tempered by a second set of assessments concerning the quality of the "investment climate" in the country in question. To the extent that the risk of political upheaval and intervention is high, the expected returns may not materialize, or be significantly reduced, irrespective of the market's attractiveness. As the investment

climate deteriorates, the foreign investor will attempt to reduce its financial, technological and human commitments (and exposure) while still attempting to retain the maximum market performance allowable under the circumstances. This may call for unorthodox approaches to ownership and control which take into account the need to minimize exposure consistent with market presence. In contrast, an excellent investment climate is no substitute for market potential and thus a joint venture or independent arms-length transaction may be the preferred vehicle to gain a foothold in such a market without undue commitment of scarce corporate resources. Where poor market prospects coexist with a bad investment climate, it is clear that the firm will tend to limit both its commitments and exposure by resorting to market transactions, if at all. Figure 6 summarizes these choices.

Multinational corporations are accustomed to making the first set of assessments as part and parcel of their normal strategic planning process. This paper has dealt with the need to make the second set of assessments in such a manner that it can be incorporated into the global strategic review process.

It should have become clear by now that there exists such a diversity of factors inpinging on an evaluation of the risk profile of a particular corporate project that the challenge of constructing a single model that will faithfully and accurately represent their interaction and complexity is monumental. Yet, the importance of adequate political intelligence cannot be underestimated as a greater proportion of corporate decisions and assets are exposed to political change and intervention in a multitude of national environments. The difficulties inherent in the analysis do not make it any less urgent.

No mechanical system could be expected to deal with the subtleties required for political risk analysis. Rough rankings of countries in terms of their relative political stability have limited use as predictors of potential losses in specific situations. The facts that causality is not easily determined in political phenomena, that up-to-date information is difficult to obtain, and that stability itself is not necessarily a good measure of risk, all contribute to the many doubts often expressed about such methods. Furthermore, we have argued that the nature of the industry and the investor, and the timing and characteristics of the project are critical variables that alter significantly the risk profile within the same set of economic and political conditions.

Yet, no human being could possibly master this complexity for more than just a handful of countries. Unaided by standardized quantitative tools, the political risk analyst would

drown in a sea of information. Judgement can best be applied when the range of variables to consider has been reduced to a manageable set. Here lies the challenge of truly modelling political risk at the corporate level. It must make use of good measures of quantifiable variables and systematic analysis that can reduce large quantities of data, according to accepted causal models, to probabilistic estimates of possible events in an efficient fashion. Secondly, it must call for many qualitative assessments of elusive trends, such as levels of national aspiration and frustration, that can only be obtained through intimate knowledge of the terrain. Thirdly, it must make all of this relevant to the particular project at hand. And finally, it demands good judgement above all, to mix the many inputs in a coherent manner so as to spot, as Holmes, the dog that did not bark in the night.

A final question that may be asked is how best to incorporate this analysis into the strategic planning process. Various sources confirm the confusion which reigns in corporate headquarters in the industrial world about the proper scope and role of political analyses in evaluating foreign investment opportunities. This is partly due to the lack of accepted standards and has resulted in significant disenchantment and skepticism with the concept. Is political risk forecasting one more short-lived corporate fad? Most executives would readily agree with the desirability of having such an input available to the planning function, but not many firms have made the necessary investments in terms of both staff and administrative systems to generate the information and incorporate it into the decision process. As existing models are perfected, one might predict that the required commitment and organizational linkages will emerge.

Figure 1

Exposure to Political Risks

Contingencies may include:	Loss may be the result of: The actions of legitimate government authorities	Events caused by actors outside the control of government
The involuntary loss of control over specific assets without adequate compensation	-Total or partial expropriation -Forced divestiture -Confiscation -Cancellation or unfair calling of performance bonds	-War -Revolution -Terrorism -Strikes -Extorsion
A reduction in the value of a stream of benefits expected from the foreign-controlled affiliate	-Non applicability of "national treatment" -Restriction in access to financial, labour or material markets -Controls on prices, outputs or activities -Currency & remittance restrictions -Value-added and export performance requirements	-Nationalistic buyers or suppliers -Threats and disruption to operations by hostile groups -Externally induced financial constraints -Externally imposed limits on imports or exports

Figure 2

The Nature of Political Risks

	Macro risks: Sudden convulsive chances that threaten most of the population of foreign direct investors within the country.	Micro risks: Interventions generally motivated by specific consideration closely related to the economic and social conditions prevailing at the time, and to specific industry and firm characteristi
Loss contingencies: An involuntary loss of control over specific assets without adequate compensation	Type A: Massive expropriations	Type B: Selective nationalizations
Value continencies: Reduction in the expected value of the benefits to be derived from the foreign affiliate	Type C: General deterioration of the investment climate	Type D: Restrictions targeted to key sectors

Figure 3

Political Forecasting Models Classified by their Orientation and their Geographic Scope

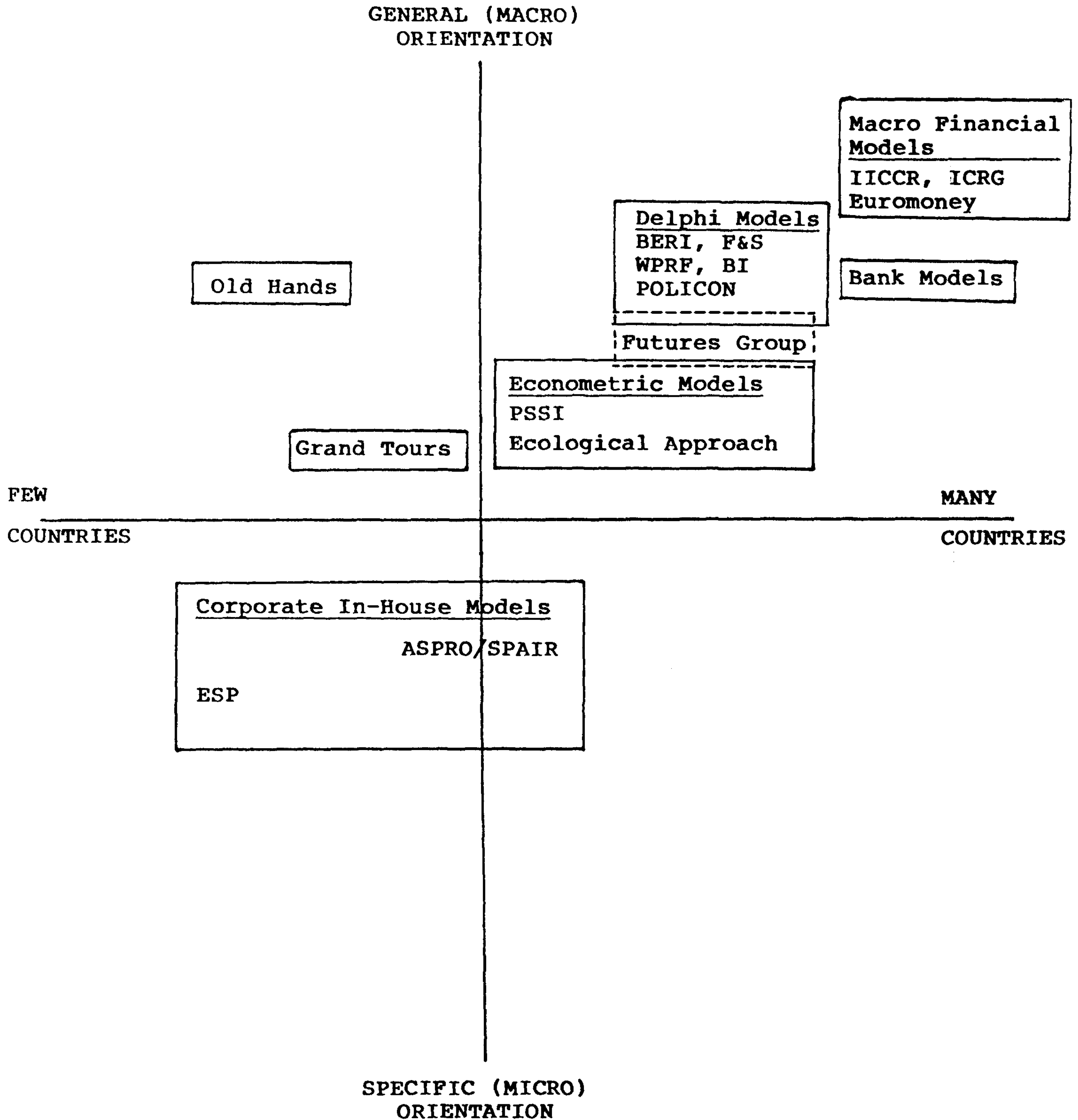

Figure 4

A Conceptual Model for Project-Specific Political Risk Analysis

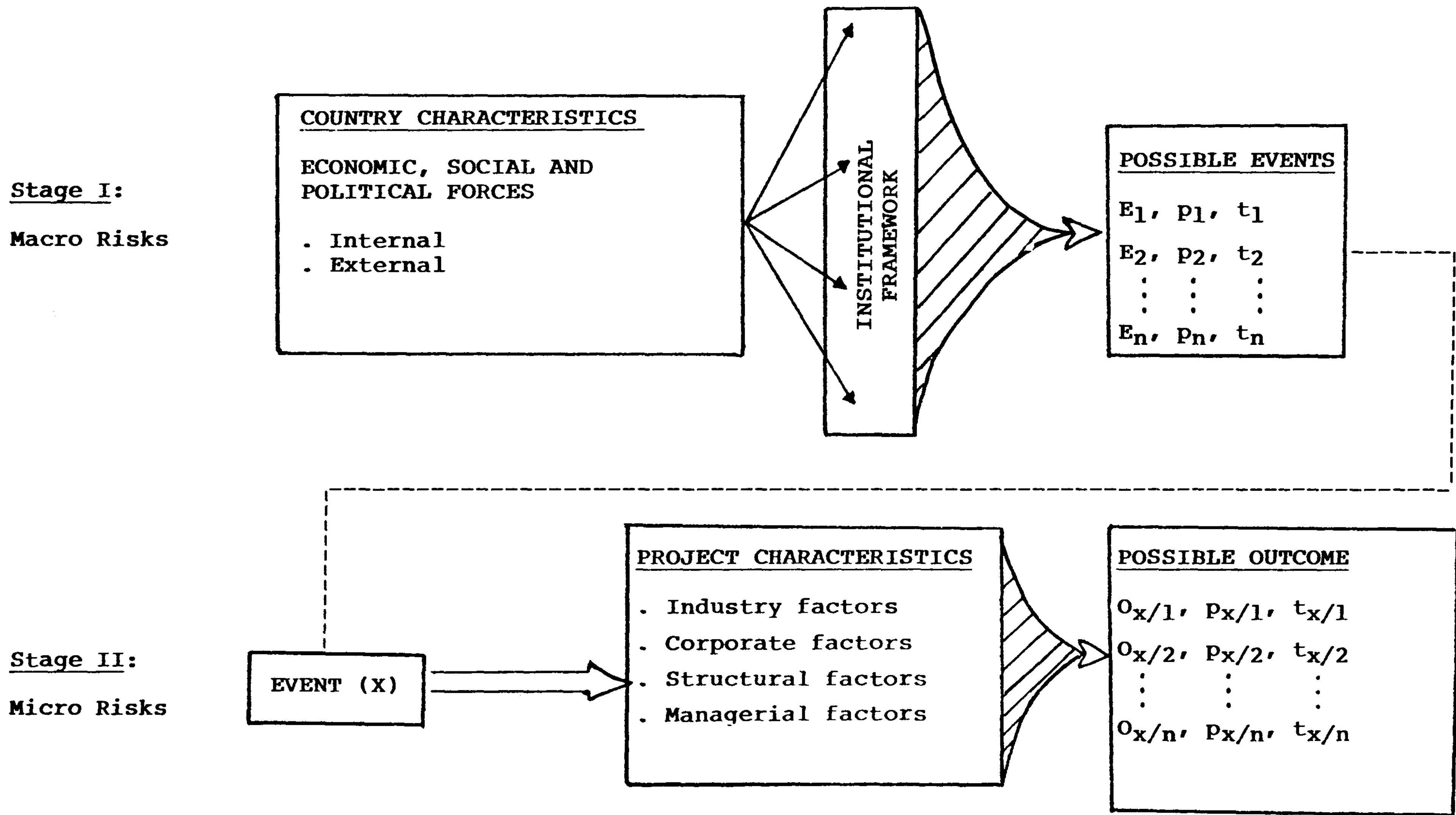

Figure 5

Major Variables (Factors) for Assessing Project Specific Political Risk

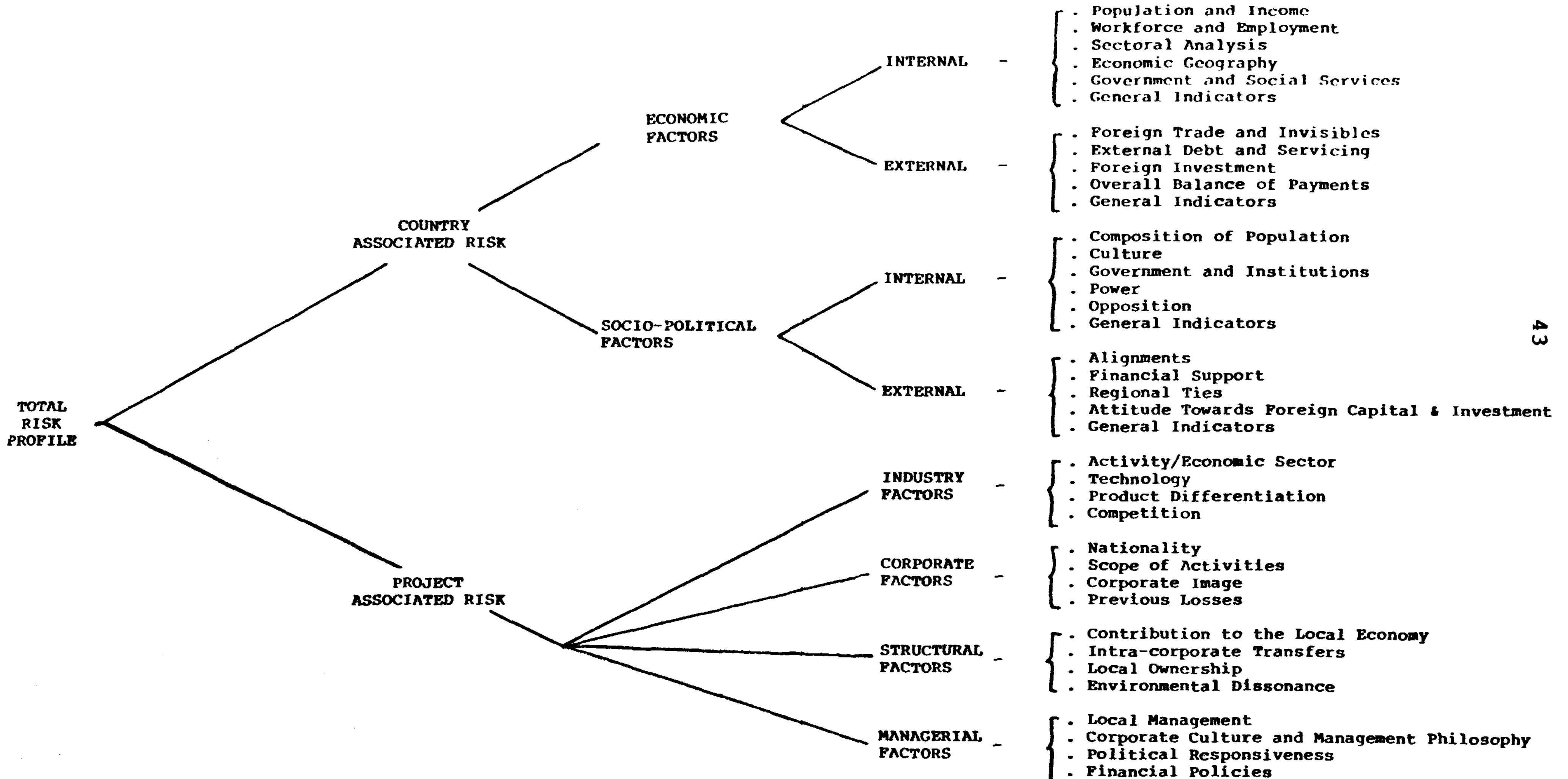

Figure 6

Preferred Strategic Posture in Foreign Markets According to Strategic Attraction and Political Climate

Market Attractiveness or degree of Fit With Corporate Strategy

	Assessment of Political/Investment Climate		
	Good	Unstable	Poor
High	Maximum commitment of human and financial resources and high tolerance for commercial risks: wholly-owned affiliates preferred.	Limit financial exposure while sustaining market and human investments; accept normal commercial risks; majority-owned affiliate preferred.	Minimize financial exposure consistent with market presence; aim for minority position with licensing as a long-term hedge.
Medium	Maintain high resource commitment and risk tolerance subject to better alternative investment opportunities.	Unwilling to commit significant resources; prefer to act through joint venture if necessary or appropriate.	Little interest in market presence; pursue only if possible without financial exposure of any consequence.
Low	Indifferent to market opportunities; token financial or human commitment possible; independent distributor or joint venture.	Little if any resource commitment desirable; export sales agents preferred vehicle for any market activity; licensing possible.	No interest except for occasional exports or limited licensing agreements.

FOOTNOTES

(1) There is no denying the importance of these losses. As summarized by Burton and Inoue (1984), the expropriation risk has been variously estimated to: affect 1% per year of the number of foreign affiliates active in less developed countries (LDCs) during the 1960-77 period; represent cumulatively over the 1956-72 period a total of 18.8% of the stock of foreign direct investment in 1972 plus the value of the expropriated assets [Williams (1975)]; amount to 1.6% of the total value of U.S. foreign direct investment in LDCs during 1960-74 [Huffbauer and Briggs (1975)]; and account for a cumulative (1960-76) 4.4% of the 1976 stock of wholly and partially owned firms in LDCs plus the value of the seized assets [Kobrin (1980)].

(2) Simon (1982) makes a similar distinction between "societal" forces (i.e., those that emerge from general social phenomena) and governmental actions.

(3) It is also important to make a distinction between sudden changes in governments, government policies or externally induced events, and gradual evolution along a more or less predictable socio-political pattern. For more on this see Kobrin (1979).

(4) For a more elaborate approach which adds whether the actors' impacts on the firm are direct or indirect (that is, by influencing those that can impact directly), and whether they are caused by internal (within the host country) or external (home country or global) forces see Simon (1984).

(5) See de la Torre (1981).

(6) For a comprehensive review of the literature up to the early 1980s see Kobrin (1979 and 1982), Simon (1982) and Robock and Simmonds (1984).

(7) Evidence of these advances can be found in Gillespie and Nesvold (1971), Armstrong (1978), Choucri and Robinson (1978), Heuer (1978), and Simon (1982).

(8) For a complete set of references on studies on expropriation see Burton and Inoue (1984).

(9) The Jodice (1980) and Kobrin (1980) papers have a wealth of data on the history and regional distribution of expropriations in recent years. They show, among other things, that some of the smaller countries, e.g., Italy, the Netherlands, Belgium and Canada have a much higher ratio of share of expropriations to

share of FDI than the United States, Britain or France. Also, Africa and the Middle East show a greater propensity to expropriate than Asia or (the lowest!) Latin America.

(10) An interesting divergence between the Kobrin (1980) and Burton and Inoue (1984) studies concerns this point. While the former argues that mass expropriations account for slightly over 10% of all takings in his sample, the latter, using essentially the same data base, conclude that large scale nationalizations account for more than 70% of all firms taken. The discrepancy arises from the use of acts (by Kobrin) vs. firms, although in both analyses it appears that selectivity is on the rise.

(11) Among the best see Vernon (1971 and 1977), Reuber (1973), Robinson (1976), Penrose (1976), Lall and Streeten (1977) and Frank (1980).

(12) A recent survey by Blank et al (1980) revealed that by 1979, 55% of the firms surveyed had taken some steps to establish formal responsibility for political assessment.

(13) For a review of the use of scenario techniques in corporate planning see Raubitschek (1983). Wack (1985) offers a detailed description of the same methodology as applied at Shell Oil International during the 1970s.

(14) Wells (1975) summarizes the arguments for a rigorous analysis of social costs and benefits on the part of multinational corporations.

(15) For some of the policies in question see Bradley (1977), Doz and Prahalad (1980), Gladwin and Walter (1980), Shapiro (1981), Eiteman and Stonehill (1982), Ghadar, Kobrin and Moran (1983), Ghadar and Moran (1984), and Encarnation and Vachani (1985).

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