

# Managing Country Risk

A Practitioner's Guide to Effective  
Cross-Border Risk Analysis

Daniel Wagner



CRC Press  
Taylor & Francis Group

A PRODUCTIVITY PRESS BOOK

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Cross-Border Risk Analysis

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*Dr. Paul Armington, President, World Institute for Leadership and Management in Africa*

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*I dedicate this book to my spouse, family, and friends, who have all been an incredible source of love and support over the years.  
Thank you for being there throughout the ongoing journey.*

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# Contents

**List of Tables** . . . . . xiii

**List of Figures** . . . . . xv

**List of Maps** . . . . . xix

**Preface** . . . . . xxi

**Acknowledgments** . . . . . xxv

**The Author** . . . . . xxvii

**Abbreviations** . . . . . xxix

  

**CHAPTER 1—Country Risk in Perspective** . . . . . 1

Introduction . . . . . 1

Insight into the Foundation of the Arab Spring . . . . . 2

How Political Change in MENA Is Impacting Country Risk Analysis . . . . . 12

Perception versus Reality of Risk: Does Terrorism Negatively Impact  
Foreign Direct Investment? . . . . . 14

    Empirical Studies Can Yield Contradictory Results . . . . . 15

The Impact of Perception on Investment Decisions . . . . . 18

    Risk Management versus Profit Maximization . . . . . 20

    Be Wary of Statistics . . . . . 20

    What Statistics Say about the Global Recovery since 2009 . . . . . 23



Managing Country Risk in the “New Normal” .....	26
Notes .....	28
 <b>CHAPTER 2—Foundations of Country Risk Management.</b> .....	<b>31</b>
Introduction .....	31
Economic Nationalism in Pakistan .....	32
Extractive Enterprises Are Particularly Vulnerable .....	33
The Danger of Focusing Too Much on Net Income. ....	34
Bolivia’s Mass Nationalizations .....	34
The Importance of History .....	35
Ramifications .....	36
Papua New Guinea’s Natural Resource Curse .....	37
It Takes Two to Tango .....	38
Systemic Corruption Creates Risk .....	40
Lessons Unlearned .....	40
Defining Country Risk .....	42
Country versus Sovereign versus Political versus Transactional Risk .....	43
How Banks Approach Transactional Risk Management .....	44
The Lessons of the Asia Crisis .....	45
Elements of an Effective Risk Management Process .....	46
The Boardroom Vacuum .....	48
The Impact on Firm Performance .....	51
Separating Fact from Fiction .....	52
Notes .....	53
 <b>CHAPTER 3—Assessing Country Risk</b> .....	<b>55</b>
Introduction .....	55
Information Sources .....	57
Are Rating Agencies’ Ratings Worth Using? .....	59
Measuring Political Stability .....	63
Comparing Indonesia and Vietnam .....	68
Notes .....	73
 <b>CHAPTER 4—Country Risk Assessment in Practice.</b> .....	<b>75</b>
Creating a Risk Management Framework .....	75
Selecting Country Risk Management Tools .....	82
Economic Measures .....	86
Mapping Out a Country Risk Analysis Methodology .....	87
Alternative Measures of Country Risk .....	90
Corruption Perceptions Index .....	90
Democracy Index .....	90

Freedom in the World .....	91
Gini Coefficient .....	92
Global Peace Index .....	93
Human Development Index .....	93
Youth Unemployment .....	95
Conclusion .....	95
Notes .....	96
 <b>CHAPTER 5—Political Risk Insurance</b> .....	<b>97</b>
What Is Political Risk Insurance? .....	97
Who Needs PRI? .....	101
An Overview of Investment Insurance .....	101
Expropriation .....	102
Forced Abandonment/Key Operator's Endangerment .....	104
Financed-Asset Nonrepossession .....	105
Deprivation/Contingent Deprivation .....	105
Currency Inconvertibility/Nontransfer .....	105
Political Violence .....	108
Breach of Contract .....	109
An Overview of Trade Insurance .....	110
Contract Frustration .....	111
Non-Honoring of Letters of Credit .....	112
Wrongful Calling of Guarantees .....	112
Trade Disruption Insurance .....	113
Other Categories .....	113
Export Credit Insurance .....	114
Underwriters and the Underwriting Process .....	115
The Private Sector Players .....	116
Chartis .....	116
Lloyd's .....	116
Sovereign .....	117
Zurich .....	117
Market Capacity .....	117
Private Underwriters .....	117
The Public Schemes .....	117
The Underwriting Process .....	118
Underwriting Trade Transactions .....	120
Underwriting Export Credit Transactions .....	121
Premium Rates .....	122
Pricing Methodology .....	124
Recoveries .....	124
Reinsurance .....	125

Case Study: Assessing the Risk of a Power Plant in Indonesia . . . . .	125
Case Study . . . . .	127
The Project . . . . .	127
Technical/Financial Viability . . . . .	128
Host Country Benefits . . . . .	128
Insurance Requirements . . . . .	128
Risk Assessment . . . . .	129
Expropriation . . . . .	129
Currency Inconvertibility . . . . .	131
Political Violence . . . . .	133
Breach of Contract . . . . .	135
The Impact of the Asia Crisis and Lessons Learned . . . . .	136
Notes . . . . .	138
 <b>CHAPTER 6—Tales from the Battle Zone . . . . .</b>	 <b>141</b>
How Easy It Is to Make Costly Mistakes . . . . .	141
A Telecommunications Company in Pakistan . . . . .	141
A Paper Company in Russia . . . . .	142
A Power Company in Brazil . . . . .	142
An Arab Oil Company in Saudi Arabia . . . . .	142
An Oil Company in Russia . . . . .	143
A Fast Food Chain in Palestine . . . . .	144
A Media Enterprise in the Czech Republic . . . . .	145
An Energy Company in Venezuela . . . . .	145
A Technology Company in South Korea . . . . .	146
A Bank in Ecuador . . . . .	146
A Pharmaceutical Company in Yugoslavia . . . . .	147
An Oil Company in Peru . . . . .	147
A Power Company in Canada . . . . .	147
The Failure of a Bank's Country Risk Management Program . . . . .	148
How the Program Was Revised . . . . .	151
Underwriting Information . . . . .	152
Creating an Operational Foundation . . . . .	153
Recoveries . . . . .	154
Note . . . . .	155
 <b>CHAPTER 7—The Importance of Understanding China and Its Place in the World . . .</b>	 <b>157</b>
Introduction . . . . .	157
Geopolitics with Chinese Characteristics . . . . .	158

China as the Aggressor—The Case of the Spratly Islands . . . . .	162
Asia Looks Nervously over Its Shoulder . . . . .	165
The Maturing Chinese–Saudi Arabian Alliance . . . . .	168
FDI with Chinese Characteristics . . . . .	171
China’s Rare Earth Bravado . . . . .	177
China and the Power of the Dollar . . . . .	179
China’s Great “Development” Challenge . . . . .	180
China’s Real Estate Syndrome . . . . .	182
The Enigma of China’s Middle Class . . . . .	185
Investor Beware . . . . .	187
Notes . . . . .	189

<b>CHAPTER 8—Shifting Pendulums, Pressing Concerns, and the State of the World . . . . .</b>	<b>193</b>
Introduction . . . . .	193
Brazil’s and Turkey’s Messages . . . . .	194
Brazil’s and Turkey’s Nuclear Ambitions . . . . .	195
Rising Tension with Turkey . . . . .	196
The Lesson to Be Learned . . . . .	196
Turkey’s Foreign Policy Vision . . . . .	197
Turkish Foreign Policy: Moderation in the Extreme . . . . .	198
Is Turkey Really Rethinking Its Place in the World? . . . . .	199
Upheaval in the Middle East: An Opportunity for Turkey . . . . .	200
The Folly of Brazil’s Exceptionalism . . . . .	202
To BRIC or Not to BRIC—That Is the Question . . . . .	203
Too Big for Its Britches . . . . .	204
Pursuit of Autonomy versus an Adversarial Role . . . . .	205
Aid Recipient and Provider . . . . .	205
Its Own Worst Enemy . . . . .	206
BRICs Form Unstable Foundation for Multilateral Action . . . . .	206
Iraq’s Democratic Experiment . . . . .	208
Bolivia, Ecuador, and Nicaragua: Lofty Idealism versus Hard-Nosed Politics . . . . .	212
India’s Ongoing Concerns about Pakistan and Afghanistan . . . . .	215
Globalization Will Not Change Some Things . . . . .	218
Notes . . . . .	226

Appendix .....229

Country Risk Management Dictionary of Key Terms.....231

I. Country Risk Concepts.....232

II. Political Risk Insurance.....249

Notes.....259

  

Bibliography.....261

Index.....265

# List of Tables

<b>TABLE 1</b>	Percentage of Total Government Spending on Education . . . . .	5
<b>TABLE 2</b>	Food Subsidies as a Percent of GDP (1989–1999) . . . . .	6
<b>TABLE 3</b>	Incidences of Political Instability (1970–1995). . . . .	23
<b>TABLE 4</b>	Firm-Specific versus Country-Level Risks . . . . .	43
<b>TABLE 5</b>	Greece’s GDP Growth Rate and Deficit: 2000–2010 . . . . .	61
<b>TABLE 6</b>	Comparative Developmental Indicators: 2010 . . . . .	68
<b>TABLE 7</b>	Doing Business in Indonesia versus in Vietnam . . . . .	71
<b>TABLE 8</b>	Two Grade-Based Rating Options . . . . .	83
<b>TABLE 9</b>	Risks versus Mitigants for Turkey . . . . .	84
<b>TABLE 10</b>	Measuring Event Probability . . . . .	85
<b>TABLE 11</b>	Qualitative Assessment by Color Coding and Impact . . . . .	85
<b>TABLE 12</b>	Letter Ratings with General Definitions of Country Risk . . . . .	85
<b>TABLE 13</b>	Impact Matrix Using Number, Impact, and Color Ratings . . . . .	86

<b>TABLE 14</b>	Commonly Used Quantitative Economic Measures. . . . .	86
<b>TABLE 15</b>	Top and Bottom Three Countries in TI's 2010 Rankings. . . . .	90
<b>TABLE 16</b>	Freedom in the World 2011: The Examples of France and Turkmenistan. . . . .	92
<b>TABLE 17</b>	Private Sector Underwriter Capacity . . . . .	118

# List of Figures

<b>FIGURE 1</b>	Estimated break-even oil production costs for selected MENA countries .....	4
<b>FIGURE 2</b>	Percentage of population living in poverty in Tunisia by region ..	4
<b>FIGURE 3</b>	Health expenditures in 2002 as a percentage of GDP .....	5
<b>FIGURE 4</b>	Health expenditures in 2002 per capita .....	6
<b>FIGURE 5</b>	Tunisia versus selected countries and the world: GDP per capita at current prices.....	6
<b>FIGURE 6</b>	Number of strikes by country .....	21
<b>FIGURE 7</b>	Infant mortality rates for selected countries .....	22
<b>FIGURE 8</b>	GDP growth rates: 1970–1995, Indonesia versus Italy .....	23
<b>FIGURE 9</b>	FDI growth rates: 1970–2009, Indonesia versus Italy.....	24
<b>FIGURE 10</b>	Global net FDI flows: 2008–2009, billions of US dollars .....	24
<b>FIGURE 11</b>	Trade measures taken by the G20: October 2008–February 2010 .....	25



<b>FIGURE 12</b>	Two ratings agency ratings for 10 countries: Q3, 2007 to Q2, 2008 . . . . .	60
<b>FIGURE 13</b>	Inverted J-curve: Growth rate versus time . . . . .	65
<b>FIGURE 14</b>	The J-curve: A liberalized market . . . . .	66
<b>FIGURE 15</b>	Paths toward state development . . . . .	66
<b>FIGURE 16</b>	Indonesia and Vietnam's external debt . . . . .	69
<b>FIGURE 17</b>	Percent of the population in the middle class . . . . .	70
<b>FIGURE 18</b>	Comparative exchange rates: Indonesia and Vietnam (2004–2011) . . . . .	70
<b>FIGURE 19</b>	Indonesia and Vietnam's GDP growth: 1986–2009 . . . . .	71
<b>FIGURE 20</b>	The risk management process . . . . .	77
<b>FIGURE 21</b>	The country risk management process . . . . .	77
<b>FIGURE 22</b>	Comparing China and India's investment climates . . . . .	78
<b>FIGURE 23</b>	FDI in China and India (2002–2009) . . . . .	78
<b>FIGURE 24</b>	Projected working-age populations: 2000–2050 . . . . .	79
<b>FIGURE 25</b>	Real GDP per capita during takeoff (1990–2009) . . . . .	79
<b>FIGURE 26</b>	Selected country ratings of a country risk information provider and rating agency . . . . .	80
<b>FIGURE 27</b>	Selected country ratings of two country risk information providers . . . . .	81
<b>FIGURE 28</b>	Country classification by number and color . . . . .	82
<b>FIGURE 29</b>	Examples of risk attributes/indicators for inclusion in an analytical methodology . . . . .	87
<b>FIGURE 30</b>	USD/IDR monthly average exchange rate: July 1997 to December 1998 . . . . .	138
<b>FIGURE 31</b>	Projection of China's poor and middle class . . . . .	186
<b>FIGURE 32</b>	Do you think 2010 will be better or worse than 2009? . . . . .	209
<b>FIGURE 33</b>	The single biggest problem facing Iraq . . . . .	209
<b>FIGURE 34</b>	Average deaths per day from suicide attacks/vehicle bombs . . . . .	210
<b>FIGURE 35</b>	How do you rate the availability of services in your area? . . . . .	211
<b>FIGURE 36</b>	Monthly oil revenues from exports: June 2003–August 2009 . . . . .	212

<b>FIGURE 37</b>	Percentage of population in selected BRIC and developing countries living under the poverty line . . . . .	221
<b>FIGURE 38</b>	Percentage of population in selected developed countries living under the poverty line . . . . .	221
<b>FIGURE 39</b>	Global Gini coefficient: 1980–2006. . . . .	221
<b>FIGURE 40</b>	Gini coefficient for selected countries: 1980s–2000s . . . . .	222
<b>FIGURE 41</b>	Rising grocery bills lead to political unrest . . . . .	223
<b>FIGURE 42</b>	Percentage of population under 30. . . . .	224
<b>FIGURE 43</b>	Emerging risks and threats by perception of urgency (%). . . . .	226

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# List of Maps

<b>MAP 1</b>	The Democracy Index 2010 .....	91
<b>MAP 2</b>	The Gini Coefficient. ....	92
<b>MAP 3</b>	The Global Peace Index 2011 .....	93
<b>MAP 4</b>	The Human Development Index .....	94
<b>MAP 5</b>	The Human Development Index, Category by Country .....	94
<b>MAP 6</b>	Global GDP: 2010. ....	219
<b>MAP 7</b>	Percentage of Population Living on Less Than \$2 per Day .....	219
<b>MAP 8</b>	Ongoing Military Conflicts .....	220
<b>MAP 9</b>	Global Inflation Rate 2007. ....	223
<b>MAP 10</b>	Median Age by Country .....	224
<b>MAP 11</b>	Failed States Index 2010 .....	225

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# Preface

Almost any event can increase a trader's, investor's, or lender's cross-border risk. An unexpected resignation, a terrorist act, or a currency collapse can completely transform the political and economic landscape of a country, a region, or the world. Since the advent of globalization, politics and economics have been forever entwined, sometimes resulting in calamitous outcomes. There have been several sobering examples over the past two decades, including the collapse of the Thai baht in 1997. The sudden and dramatic collapse of the Thai currency set off a chain of events that ultimately led to the economic meltdown of many of Asia's economies, resulted in the overthrow of the Indonesian government, and sent gyrations across the rest of the world.

One of the disadvantages of globalization and instant communications is that the impact of such change is felt instantaneously. Today there is less time to react before someone else does; we may be sleeping while others are reacting. Perhaps the impact of localized economic and political events would not be so dramatic if the international marketplace were not so interconnected—if currency and stock trading did not occur and information were not broadcast 24 hours per day. The trend toward seamless international financial transactions has continued at an even more breathtaking pace over the past decade.

One action or event that may be forecast to have a certain outcome at a certain point in time may end up having a completely different or unanticipated outcome years later. For example, when former US President Carter granted ownership of

the Panama Canal to Panama in 1978, who would have imagined that, in 1999, when ownership was actually transferred, a Hong Kong company (Hutchison Whampoa) would spread enough money around the power brokers in Panama City to buy control over the ports at both ends of the canal? As a result, some would argue that China instantly gained the potential ability to influence the flow of global trade. On the flip side, by granting the concession to operate the ports to Hutchison, Panama, which has no national army, virtually guaranteed that US military influence would be present in the country for decades to come. This, in turn, will impact how future US military budgets are allocated and how US tax dollars are spent.

Consider also the impact that Turkey's possible accession to the European Union may have on Europe and beyond. Turkey has tried to join the EU for more than a decade, but strenuous objections from Greece and other members kept it from succeeding. Yet today, Turkey looks like the bastion of stability and conservatism compared to the economic "basket case" that Greece has become. Turkey and its political model—a pragmatic blend of civilian and military influence—have enormous political influence throughout the Arab world. What impact might the EU have in the Arab world today if Turkey had been admitted to the EU a decade ago? Today, Turkey is less interested in joining.

The impact of political change on businesses is as significant as it is on individuals—perhaps even more so. At stake are trillions of dollars of revenues derived from trading and investing abroad. For a business, the risks associated with political change are multifaceted. In general, an international investor often faces the risk of expropriation of assets when a new government takes power or an existing government adopts a negative orientation toward foreign investment. The risk of not being able to convert local currency into hard currency or to transfer hard currency out of a country because of a shortfall in the national foreign exchange supply or a change in law is ever present. And depending on where an investment is located within a country, the risk of damage to a facility or an interruption of business operations because of political violence can arise without warning.

For international traders, political risks are every bit as real. Imagine exporting goods to a government buyer only to discover after the fact that it has not been paying its bills, the United Nations has just imposed an embargo on the country, or your own government has just rescinded your export license. Cross-border partnerships can be unexpectedly tested as unanticipated events may unravel promising business prospects. These types of events happen all the time—even in times of peace. Political change only accentuates the political risks inherent in trading or investing abroad.

This book is about how to identify and manage the plethora of risks associated with conducting business abroad and how to think outside the box to be able to anticipate the impact of change on business operations. By reading this book, you will come to know more about country risk management than virtually all of your peers. You will also be able to add value to the risk management processes

in your organization, even if you are not formally part of a risk management unit. If doing so helps your organization become smarter about how it does business abroad and enhances its ability to make a profit, all the better, because in the process it will be contributing to development, job creation, and improving the lives of people around the world.

**Daniel Wagner**  
*Norwalk, Connecticut*



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# Acknowledgments

Over the course of the past quarter-century I have worked with a lot of really talented people, a number of whom were particularly influential in helping me better understand the nature and practice of country risk management. In the realm of political risk insurance underwriting, Christophe Bellinger of the Asian Development Bank, John Hegeman of Chartis, and Christina Westholm-Schroder of Sovereign Risk Insurance provided unique working-level insight based on their own in-depth experience and perspective. Luis Dodero, formerly general counsel of the Multilateral Investment Guarantee Agency (MIGA), and Srilal Perera, formerly chief counsel of MIGA, enabled me to better appreciate the impact of legal and regulatory risk on cross-border investment. It was a privilege to work with each of them. I also want to thank the many individuals I worked with along the way who helped me learn so much about managing country risk while I lived and worked in Asia, Europe, and North America. Doing so enabled me to amass the knowledge I am now sharing in this book.

I want to thank Professor Alexis Papadopoulos of DePaul University, Professor Mark T. Williams of Boston University, and Mark Yim of GAMCO Investors for providing their insights and comments on a draft of this book.

Finally, I wish to thank everyone at Taylor and Francis, who has been a joy to work with. In particular, I wish to thank Kris Mednansky, who first embraced the book and has been a great source of support and guidance, as well as Judith Simon, the book's very capable and patient editor. Thanks for recognizing the book's potential to influence our ever-changing world and helping to make it a reality.

# The Author



**Daniel Wagner** is the founder and CEO of Country Risk Solutions (CRS), a cross-border risk consultancy based in Connecticut, and Director of Global Strategy with Political Risk Services. Prior to founding CRS, Daniel was senior vice president of Country Risk at GE Energy Financial Services, where he was part of a team investing billions of dollars annually into global energy projects. Daniel was responsible for advising senior management on a variety of country risk-related issues, strategic planning, and portfolio management. He created a Center of Excellence for

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He began his career underwriting political risk insurance (PRI) at American International Group (AIG) in New York and subsequently spent 5 years as guarantee officer for the Asia region at the World Bank Group's Multilateral Investment Guarantee Agency (MIGA) in Washington, DC. During that time, he was responsible for underwriting PRI for projects in a dozen Asian countries. After serving as regional manager for political risks for Southeast Asia and greater China for AIG in Singapore, Daniel moved to Manila, Philippines, where he was guarantee and risk management advisor, political risk guarantee specialist, and senior

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Daniel has published hundreds of articles on risk management and current affairs, is a nonresident scholar at the Institute for Near East and Gulf Military Analysis in Dubai, and a regular contributor to [foreignpolicyjournal.com](http://foreignpolicyjournal.com), *The Huffington Post*, and the International Risk Management Institute (IRMI). His editorials have been published in such notable newspapers as the *International Herald Tribune* and the *Wall Street Journal*. His first book, *Political Risk Insurance Guide*, was published by IRMI.

Daniel holds master's degrees in international relations from the University of Chicago and in international management from the American Graduate School of International Management (Thunderbird) in Phoenix. Daniel received his bachelor's degree in political science from Richmond College in London. He can be reached at [daniel.wagner@countryrisksolutions.com](mailto:daniel.wagner@countryrisksolutions.com) or through [www.countryrisksolutions.com](http://www.countryrisksolutions.com).

# Abbreviations

ADB	Asian Development Bank
AID	Agency for International Development (of the United States)
AIG	American International Group
ASEAN	Association of Southeast Asian Nations
BCA	Brazil Cooperation Agency
BI	Business Interruption
BIS	Bank for International Settlements
BMI	Business Monitor International
BRIC	Brazil, Russia, India, China
BRICS	Brazil, Russia, India, China, South Africa
CCP	Chinese Communist Party
CDB	China Development Bank
CEND	Confiscation, expropriation, nationalization, deprivation
CF	Contract frustration
CI	Currency inconvertibility/nontransfer
CIRC	China Insurance Regulatory Commission
CNOOC	China National Offshore Corporation
CNPC	China National Petroleum Corporation
EBRD	European Bank for Reconstruction and Development
ECA	Export Credit Agency
ECGD	Export Credit Guarantee Department (of the United Kingdom)