

ASSESSING THE POLITICAL RISKS IN EURASIA IN THE WAKE OF THE FIFTH CHINA'S “GRAND STRATEGY”

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Abstract: Political risk assessment (PRA) is usually performed at the national polity level. With a novel and globally significant reality exposed in the Belt and Road Initiative, the vast Eurasian space has risen high on the political risk assessment agenda. This has especially become dominant in Western academic narratives. How the various PRAs find their place in practice is an issue that constitutes a significant scientific void. This study aims to supplement such vivid endeavours by reviewing the current state of research and applying its findings to three regions: China's geographical neighbourhood, Southeast and Central Europe, and Central Asia and the Middle East. Firstly, the findings of several major studies into the fifth so-called “Grand Strategy” of the People's Republic of China as a major driver of its security policy will be contextualized. This will be followed by two segments, one which will stress the rudiments of PRA both in terms of the geographical realm and the *modus operandi* of the process. The second segment is devoted to contemporary scientific endeavours that include Big Data and deployment of artificial intelligence tools to determine the level and nature of political risk across the BRI space. After the findings are systematized, their implications for the BRI countries in the wake of the latest challenges will be underlined, such as the investment critiques and the decline in euphoria about the format “17+1”. The results demonstrate a significant change in the components of political risk for most of the Eurasian countries, which will consequently influence the process of reformulation of China's foreign and security policy preferences.

Keywords: political risks, foreign policy, China, Belt & Road Initiative, Grand Strategy, Big Data

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CONTEXTUALIZING THE BRI'S POLITICAL RISK INTO THE FIFTH GRAND STRATEGY OF CHINA

With the tremendous rise of China, its presence across a wide range of geographical areas has recently intensified. China's quest to benevolently participate in global affairs has spilt over the last two decades. What made this Asian country further emerge on the global stage was its "rivalry for global dominance", on which the US has insisted.³ This has become a pivotal topic, especially in a setting in which the system of international relations maintains extreme turbulence in multifaceted crises globally. In parallel, China articulates its political-economic interests across the Eurasian space, which culminated in 2013 with the Belt and Road Initiative (BRI) establishment. A formalized initiative that initially compounded more than 65 countries populated with more than 2 billion people has grown in the years to come. The main penetrating tools were concretized in economic means of presence, such as the foreign direct investments (the FDI) – both the Greenfields and the Brownfields, acquisitions, mergers, and loans. Besides the economic sphere, China's companies (and the state's leadership) are naturally interested in internal political and social occurrences within the country targeted by the potential investment. That is why political risk analysis (PRA) takes an important place in the corps of various analytic tools of the foreign and security policy of PR China, thus making it worthwhile for academic study.

Most of the PRA processes were focused on discovering the association type between internal political stability and the decision to invest. Such PRAs lack a concrete perspective as they are *actor-centric*. But what if the analysis of political risk is oriented towards the end-state (i.e., the target) of a specific foreign policy initiative? Is the foreign policy similarity positively correlated to state fragility? What are the main components of political risk that might impede China's Grand Strategy (re)formulation towards the BRI space? This paper intends to provide clearer answers to these questions. The BRI space in terms of this research is split into three parts: China's nearest neighbours, Central Asia, the Middle East, and Southeast and Central Europe.

³ Notwithstanding China's relatively inert policy towards the US, the latter side expands its national and global security concerns over the recent "malign rise of China" in its doctrinal documents such as the Interim National Security Strategic Guidance issued in March 2021. The Biden administration identified "growing rivalry with China...and other authoritarian states" as a strategic challenge the US is facing, which creates an environment of "unprecedented challenges" and also an "unmatched opportunity" (White House 2021). The document classifies China as the "only competitor capable to combine its economic, diplomatic, military, and technological power to mount a sustained challenge to a stable and open international system" (White House 2021). For an in-depth analysis of US-China relations over the specific geographic regions, see: Shambaugh 2018; Scobell et al. 2020.

China's quest to "catch up" with global affairs over the last few decades is causing its endeavours to formulate and codify its newest Grand Strategy. As some authors point out, the international system experiences the "fifth" Chinese Grand Strategy nowadays (Scobell et al 2020). That is specifically why the contextualization of the area compounded by the BRI is important within the setting of political risk assessment. Scholarly debates over the different "Grand Strategy periods" in modern China's history that shaped its foreign and security policy are usually coherent. Scobell and associates (2020) enumerate revolutionary (1949-1977), state-centric (1978-1982), national comprehensive power (1982-2003), and rejuvenating (2003-onwards) phases of China's foreign and security policy. Each of these phases has left a special emphasis on its views on global affairs. While the first, revolutionary phase covered the period between the establishment of the People's Republic of China (1949) and the beginning of the "great opening", which followed the establishment of Deng Xiaoping at the helm of the Party in 1977, the second phase (state-centric) contributed to China becoming what it now is in the first two decades of this century – a world superpower.

The third evolutionary phase of China's security policy (and thus its Grand Strategy) covers the period when Jiang Zemin played a crucial role and lasted between 1990 and 2003. In the literature, it is known as a phase of strengthening the "Comprehensive National Power".⁴ The fourth and last Grand Strategy, posits the "rejuvenation" of China's nation through the achievement of four great ideals: a great project, a great struggle, a great cause, and a great dream (Xi Jinping 2017). In the meantime, China has made great progress and achieved all four set ideals by establishing itself as a relevant global player. Now is the time for a somewhat more assertive role of this country in international relations, which raises the question of the emergence of a new, fifth Grand Strategy, and the need for its systematic study. These endeavours could be facilitated through analysis of doctrinal acts and actions that China's leadership is undertaking in the wake of emerging global political issues, but also with the inclusion of the political risk matrix into the analytical framework.

Thus, the aim of this article is twofold. We first want to point out the rising academic significance of PRA as a contemporary analytic toolkit for the BRI and/or China's foreign policy preferences. Not only are foreign policy preferences

⁴ Comprehensive national power (capacity) is a measure that quantifies the potential of a state at a given moment. This measure most often includes economic and natural resources, military resources, the level of technological development and human resources. This concept is immanent to Chinese political thought, and is believed to have been first developed by Deng Xiaoping. During 1992, the concept of CNP was recognized as an element of the official foreign and security policy of the People's Republic of China at the XI Congress of the Communist Party of China. During 2013, Xi Jinping re-actualized this concept in his notable speech.

in the analytical framework, but the investment policy is in the game also. Since the BRI has been dominantly built on foreign direct investments (and other means of economic presence), we will derive specific premises that will be insightful in further analyses of these phenomena. Second, this review will yield specific outlooks for contemporary risk assessment along the BRI route, which will be used as a case study in this paper. Thus, this article is an initial instance that serves as a potential base on which further PRA could be done. The data that will be compared, to some extent, indicate a decreased political risk level one year before the BRI's establishment in 2013 to data that describe the same variables in 2020. Following the vast consensus in the literature (Sottillotta 2013; Leverett and Bingbing 2017; Zhang et al. 2019), in this paper is initially assumed that political risk has significantly changed within the BRI space over the course of a decade.⁵ Besides, it is claimed that by reviewing the most notable examples of such analyses, this paper contributes to a growing analytical potential of the given space in the IR science, which is the second aim of this study.

The paper's structure proceeds as follows. Firstly some preliminary elaborations on the political risk notion and methodologies of PRA are offered. Following the evolution of this concept, the review of PRA is split into two main segments. The first one tackles the rudimentary stages of scientific PRA. The second elaborates on the main achievements of contemporary scientific PRA based on the Big Data and artificial intelligence tools deployed for their processing. In the end, the main characteristics from both analytic traditions are identified and applied to the complex reality of China's instrument of political-economic global rise – the space of the Belt and Road Initiative. In that respect, four variables are added into the descriptive analysis: the dynamics of the political regime type, GDP growth, political instabilities, and FDI dynamics. The discussion provides deeper insights into the findings and puts the future vectors of China's foreign and security policy in the context of a complex matrix of contemporary debates.

SOME PRELIMINARIES ON PRA AND ITS METHODOLOGIES

Political risk is a hugely debated issue among the IR scholars since the literature abounds with conceptual models of political risk (Kobrin 1978; Chevalier and Hirsch 1981; Robock and Simmonds 1983; Chermack 1992; Jarvis 2008). Most academic papers in the earlier phases of PRA thematization stress the importance of the term *economic* within the political risk concept (Robock and Simmonds 1983). Among the early scientific considerations of the political risk literature, Stephen

⁵ Of course, the high possibility that these changes in variables could also be significantly influenced and caused by other factors or processes are not excluded, on the contrary, they will be further elaborated in the discussion of this article.

Kobrin stands out for his association of political risk to international business (Kobrin 1978). His working paper published in 1978 puts economic first, as he argues, “much of politics is economics, and most of economics is politics” (Kobrin 1978). This author cites the reciprocal relations between *political* and *economic* and acknowledges that in some cases of PRA, this association might be statistically (or even qualitatively) independent (1978, 12). Stating that “abstract phenomena”, as it refers to the sphere of economics and politics, significantly influence the formation of political risk, Kobrin treats PRA as “the degree of stability of the environment that affects the company’s operations at a given time” (Kobrin 1978). He concretizes the relationship between the environment and the company’s business activities through three factors of affection: the uncertainty, then the degree of “objective uncertainty” (as this author described it), and the bounded subjective uncertainty (Kobrin 1978, 16). Kobrin further illustrates his allegations with the example of the election of American presidents during the pre-electoral campaigns. In this process, it is never completely clear who will become the next president and have a significant influence on the economic policy of foreign companies operating in the United States. Such environmental influence is referred to by Kobrin as “uncertainty” (1978, 17). However, if researchers thoroughly examine the election campaign as well as the history of all previous campaigns in which statistical regularities in the election of the president can be observed, the winner of the election can be predicted, and such an influence of the political environment on the economy takes the form of objective uncertainty. Finally, if uncertainty is limited by the absence of possible outcomes and statistical probabilities, but only by partial attitudes, then such an attitude of the environment towards risk is characterized as bounded subjective uncertainty (Kobrin 1978). Such voices from “traditionalists” have vastly been supported by other “old-school” authors who observed the analytical framework as well as the theoretical aspects of political risk.

Anaam Hashmi and James Baker (1988) have put forward PRA into the matrix of the analytical frame of the investment activities of multinational corporations (MNCs). They identify two problems that each (corporate) researcher of PRA is facing: the absence of historical data that shed light on the environmental influence on the socio-political conditions within a specific state, and the specific orientation of the variables that are used as predictors (1988, 188). In an empirical study conducted in the late 1980s, these authors sought to identify which political risk assessment techniques were most appropriate for the size of corporations (clients of these analyses) and investment decision-making. In a sample of over 50 companies, they found that quantitative techniques showed prevailing statistical significance when it comes to the relationship of corporations to PRA. However, they concluded that large corporations that generate more than 20% of their foreign sales operations were combining the two techniques (1988, 200). Robock

and Simmonds consider that the general division of risks into macro and micro risks is the most adequate. According to their view, the first group of risk manifests when companies and business activities are affected by the political events that prevent their further continuation (Robock and Simmonds 1983).

On the other hand, micro risks are manifested when the business processes are affected only in one part of the sector or business area (1983, 23).⁶ Political risk was also defined as any “contingency that arises from the political environment which takes the form of constraints imposed on operations” (Kobrin 1982 [Frei&Ruloff1988]). The traditional wave of the literature suggests the importance of some distinctive risks, such as sovereign risk, which indicates the foreign governmental debts of the countries, country risk, which involves both economic and political occurrences, the so-called “transfer risk”, which refers to the financial activities of the governments, as well as pure political risk, which is associated with governmental preferences over some FDI decisions by the third countries (Frei and Ruloff 1988).

Some more contemporary distinctions of the political risk methods are widely recognized in the literature. Mortanges and Allers (1996) advocated quantitative and qualitative methods of PRA while setting the latter ones into two sub-groups: structured and unstructured. Under the unstructured methods, they enlist the judgment and intuition of managers and experts’ opinions, while under the structured methods, they involve the Delphi technique, standardized checklist, and scenarios (1996, 307). Llewellyn Howell provided a view on political risks as all the “political or societal events occurring within the single state that will affect the business climate in such a way that investors will lose money or not make as much money as they expected when the investment was made” (Howell 2001, 4). Further advances in the field were made by Cecilia Emma Sottilotta, who systematized modern academic discussions of political risk. This author cites a summary of the five technical meanings of political risk. The first among them is the political risk as a non-economic risk (Sottilotta 2013). This is the initial phase in which companies, but also the state that implements foreign policy, notice “on-sight” disturbances (2013, 4). Another meaning of political risk treats this term as “unwanted interference of local governments” in business processes (2013, 3). This presupposes unnecessary interference by the governments of the “target” state in business, and this author also refers to Kobrin’s view that local governments are the cause of political risks (Kobrin, 1978 [Sottilotta 2013, 4]). The third meaning of political risk in Sottilotta’s matrix treats this phenomenon as the possibility of disrupting the security of multinational corporations by political violence or high-

⁶ As examples of macro risks, these authors cite civil wars, revolutions, and protests, while they see discriminatory tax policies, import restrictions, and sanctions that affect only individual companies as micro risks (Robock and Simmonds 1983).

intensity political events (2013, 3). For this definition of political risk, this author argues that it is the most accurate because it treats risk as a probability calculated in each individual case (2013, 4). When the political risk is viewed as a discontinuity of business of companies resulting from political changes “that has the capacity to influence business”, then it is referred to the fourth definition of political risk proposed by Cecilia Emma Sottilotta. The author argues that this category of political risk is somewhat broader because it includes the entire business environment and not just one specific company for whose security PRA is performed (2013, 4). The last in a series of political risk operationalization by this author is the observation that risks are equal entities to political instability and radical political changes in target states (Sottilotta 2013). This definition of risk is cited by this author as crucial in bridging the gap between the science of international relations and economics. She cited the contribution of Green, who focused on studying the influence of the type of political regime on political risk in 1972 (Green 1972 [Sottilotta 2013, 5]).

PRA IN PRACTICE

As stated earlier in the text, political risk is a domain that holds exclusively the notion of *economic*, especially in early research stages, while in parallel neglecting the political occurrences in the analysed states. This segment of the paper is divided into two sub-segments, of which the first initially presents the rudimentary PRA attempts. The second part continues with a description of modern research endeavours that involve Big Data and artificial intelligence usage within PRA. Such a systematic review will strengthen the basis on which further academic attempts can be made. In essence, advanced and scientifically grounded PRA was developed during the decade of the eighties of the last century. Cengiz Erol was among the ones who advocated the usage of PRA in the framework of the decision-making process of FDI, developing a specific exploratory model on PRA (Erol 1985).⁷ However, this and similar models remained “below the radar” of the IR sciences. It suffices to say that the most notable ones are purely quantitative and require complex mathematical knowledge to satisfy the minimum criteria of PRA, which will be discussed later.

⁷ The model assumes the existence of three systems that coexist in parallel. The decision to make a foreign investment is based on one of three potential “systems”: *System A* which eliminates all the nations with high political risk from the investments; *System B* in which, due to the high instabilities or state fragility, the investments are done but with higher requesting revenues; and *System C* which assumes that the decision on investment is made solely on the specific country’s PRA (Erol 1985, 78).

The use of complex data sets in political risk assessment as a significant segment of foreign policy has also been recognized among the “traditionalists”. Daniel Frei and Dieter Ruloff (1988) were the first to systematically describe the (then available) database usage for political risk analysis. Among the most notable, as the most fruitful, they identify the following ones: the Biography Master Index, Scisearch and Social Scisearch, produced by the Institute for Scientific Information (ISI), GLOBE Global Lending and Overseas Banking Evaluator, F&S Political Risk Letter, and NEXIS data, which is used to index media coverage of political occurrences (1988, 10).⁸ Such an academic stance on political risk was the rudiment of the contemporary political risk analyses based on Big Data and supported by emerging tools of artificial intelligence.

Nowadays, researchers have at their disposal numerous data collection tools that might help them to successfully build estimates of political risks across the globe. In principle, these tools can offer a wide range of data solutions, but without high data accuracy, they become quite inadequate for scientifically rigorous analyses. In systematic research conducted at the end of the eighties, Hashmi and Baker (1988) confirmed that arising hardware technology favoured quantitative over qualitative risk assessments. They surveyed MNCs which intended to invest overseas and concluded that corporations are more confident in the quantitative data that they collected over time, which is why they trusted more to the quantitative risk analyses (1988, 200). To support the “traditionalists” claim, many models demanding strong software arose. Two of them stand out due to their widespread usage: the Economist and ICRG model. The most adequate of them is the International Country Risk Guide – ICRG, developed by the International Reports Group – IRG. Their product, Political Risk Services (PRS), provides a model with 3 forecasts at the micro risk level. According to the Methodology Codebook, the PRS system forecasts risk in 2 stages – “first identifying the three most likely future regime scenarios for each country over two periods and then by assigning a probability to each scenario over each period, 18 months and five years” (PRS 2021). For such scenarios, PRS’s experts then establish likely changes in the level of political turmoil and 11 types of government intervention that affect the business climate (PRS 2021, 1).

The Economist political risk index methodology deploys ten different risk categories: labour market risk, tax policy risk, infrastructure risk, financial risk, foreign trade risk, legal risk, macroeconomic risk, government effectiveness risk, political stability risk, and security risk (GAR, 2013). It assesses 10 criteria on a scale of 0-100, in which 0 demonstrates very little risk to business profitability,

⁸ These authors labelled all available systematized datasets at the time as “inevitable infrastructure for political risk assessment” (1988, 20).

while 100 shows very high risk. Each of the 66 indicators within the main criteria is scored on a scale from 0 (very little risk) to 4 (very high risk) (GAR 2013).

Besides these models, many datasets offer systemic data on this issue. The Armed Conflict Location & Event Data Project (ACLED) is a specific project that indexes and maps data on political violence across the globe. This huge dataset involves variables that describe fatalities, types, locations, and involved stakeholders in all the cases that satisfy the definition of political violence according to its methodology (ACLED 2021). ACLED collects disaggregated data, and, from 2020, its methodology differs a bit from region to region. The database involves available data (with some exceptions) back to 1997 and is indexing all the events that are occurring in real time. With all the critiques addressed to this project (Eck 2012), ACLED has managed successfully to be widely used by the scholarly community in political risk assessments (Raleigh et al. 2010). Similar to this, there is another project, the Global Database of Events, Language, and Tone – GDELT, which monitors the world’s media from almost every part of each country in print, broadcast and web formats in over 100 languages. The data span from January 1, 1979, to the present, and the database consists of a quarter of billion geo-referenced records covering the entire world over 30 years.

DIVERGING POLITICAL RISK TO FOREIGN POLICY PREFERENCES MATRIX: COMPONENTS OF THE BRI’S POLITICAL RISK

In an article published in 1996, Llewellyn D. Howell and Donald Xie were the first to analyse the political risk of the Asian continent systematically. They proposed that the composition of political risk should consist of political instabilities, economic dynamics, and bilateral ties between the analysed entities (Howell and Xie 1996). Authors accept Green’s (1975) notion of the political constituents of political risk, i.e., political regime type, political instabilities and state fragility, and bilateral ties between the implementing and end-state (Green 1975). In this sense, they deployed the political regime type measure, the state fragility index measure, GDP growth, and the FDI dynamics as four variables that constitute a political risk. For the purpose of this analysis, data for three specified regions will be presented: China’s neighbourhood,⁹ Central Asia and the Middle East,¹⁰ while the third region of Southeast and Central Europe comprises 16

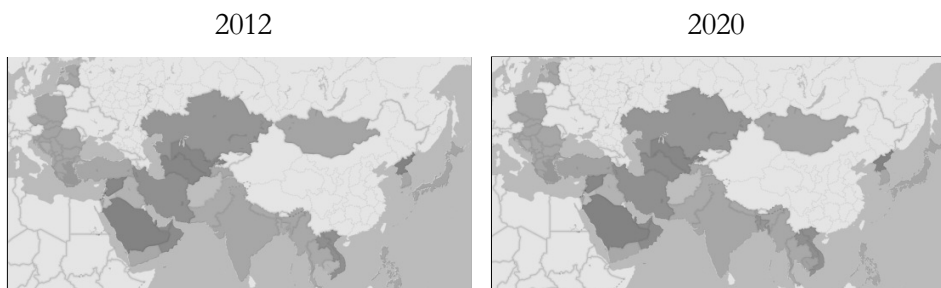
⁹ Namely: Japan, South Korea, North Korea, Mongolia, Cambodia, Vietnam, Laos, Thailand, Philippines, Myanmar, Bangladesh, India, and Nepal.

¹⁰ This region comprises the following states: Kazakhstan, Uzbekistan, Tajikistan, Turkmenistan, Iran, Iraq, Afghanistan, Pakistan, Israel, Syria, Lebanon, Jordan, Saudi Arabia, UAE, Qatar, Oman, Yemen, and Turkey.

countries that form the “16+1” Initiative.¹¹ Depending on the available data, the findings for around 50 Eurasian countries are presented. The results proceed as follows: initially, specific datasets that are the sources of our analysis are deployed. For most of the identified variables, data was used specifically for the years 2012 and 2020. The political risk indices across Eurasia are mapped by selecting the most notable constituting variables identified by the scholarly literature.

The authors efforts are aimed at identifying possible deviations and differences in the same variables just before the BRI was established in 2013, as well as in 2020, which will mark the initiative’s tenth anniversary. Political regime type data is measured by the Polity IV project. The total score ranges between -10 and +10, where -10 stands for a closed autocracy and +10 denotes full democracy. Figure 1 presents the level of the type of political regime in the Eurasian area covered by the BRI during 2012 and 2020.

Figure 1: Political regime type dynamics in the Eurasian space covered by the BRI¹²



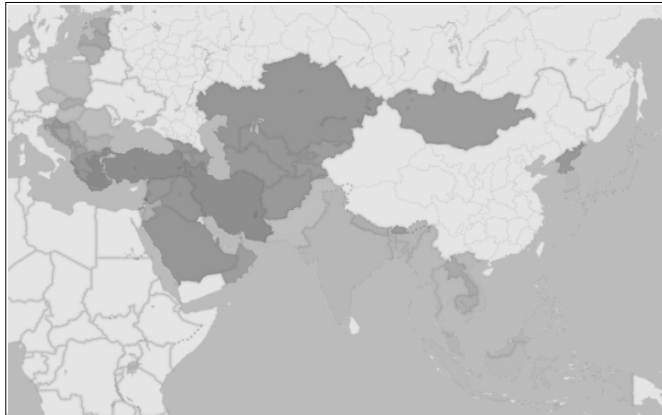
Source: Marshall 2020.

Overall, the political regime type has slightly changed within eight years. According to displayed data, five countries (Turkey, Thailand, Cambodia, Myanmar, and Bangladesh) experienced political-regime type’s change towards autocracy (Figure 1). Generally speaking, there is a measurable trend of autocratization in this measured space between 2012 and 2020. The following variable refers to the analysis of the achieved gross domestic product. Subsequently, the following graph presented the changes in GDP that the countries of this area achieved between 2012 and 2020. For the years 2012 and 2020 the data were taken from World Bank Data, while the difference was shown in Figure 2.

¹¹ Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Greece, Hungary, Latvia, North Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, and Slovenia.

¹² Figure 1 displays democratic states (light grey) and autocratic ones (dark grey) according to the Polity IV data. The graphics were calculated and created by the Microsoft Power BI analytical software.

Figure 2: Differences in national GDPs between 2012 and 2020 (current US dollar) in Eurasian space¹³



Source: World Bank Data 2021.

Of 55 sampled countries, 39 had positive GDP growth between 2012 and 2020, with an outstanding figure referring to Japan, India, South Korea, Bangladesh, Israel, and Indonesia, which achieved incredible growth over the measured period. The largest decline in GDP, by far, was registered for Iran and Turkey, followed by Greece, Iraq, Karat, Kazakhstan, Saudi Arabia, and Azerbaijan (Figure 2).

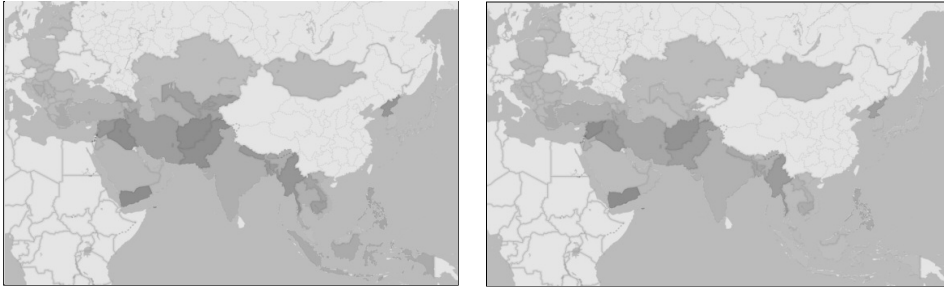
The next variable of political risk is operationalized in the concept of the Fragile State Index (FSI), issued by the Fund for Peace. The FSI is essentially linked to one project that was implemented during the 1990s – the Conflict Assessment System Tool CAST. Based on this project, the FSI collects data through three different channels: content analysis (which includes over 50 million analysed articles and reports in English), then the use of quantitative data (through available databases such as the UN, the World Bank, and the WHO), as well as a qualitative analysis that should complement the previous two techniques (FSI 2021). Such “three streams”, as the FSI stands for, confirm the quality of the analysed and provided data.

¹³ Figure 2 displays the highest positive changes in GDP (light grey), maintaining the same or similar level (grey), and GDP decline (dark grey) in 2020 compared to 2012, according to the World Bank Data. The graphics were calculated and created by the Microsoft Power BI analytical software.

Figure 3: Fragile State Index in Eurasian space¹⁴

2012

2020



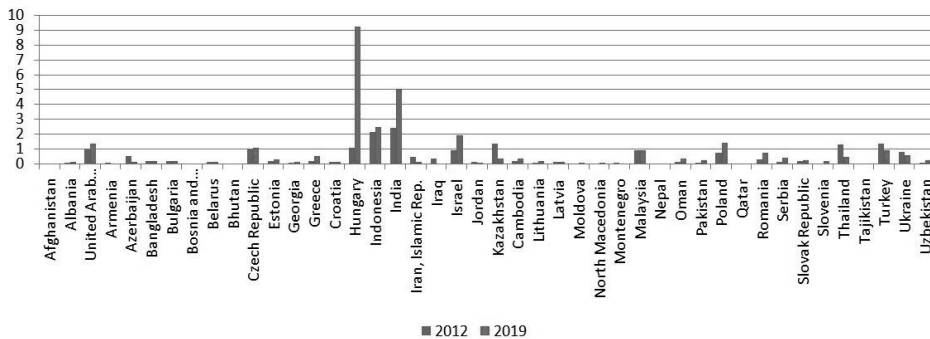
Source: The Fund for Peace 2021.

Like the previous two variables, Figure 3 also presents a slight difference in the fragility of the national institutions. It increased between 2012 and 2020, albeit slowly, but some quantitative marks are observable. This area has experienced a vast number of challenges over these years, which is why it registers with less efficient overall governance.

FDIs possibly take the most important place within PRA, especially in the space covered by the Belt and Road Initiative. Many authors recognize the significance of observing the FDIs' dynamics in the same space over time, as a segment of political risk (Chevalier and Hirsch 1981; Erol 1985; Mei 1999; Sottilotta 2013). Thus, the last variable displayed in this paper is the FDIs dynamics in the Eurasian space covered by the BRI. For 2012 and 2019 were used the World Bank Data, and the results are shown in Figure 4.

¹⁴ The FSI index is calculated as a composite figure from the following variables: security apparatus, factionalized elites, group grievances, the economy, economic inequality, human flight and Brain Drain, state legitimacy, public services, human rights, demographic pressures, refugees and IDPs, and external intervention (FSI 2021).

Figure 4: Foreign Direct Investments in Eurasian space¹⁵



Source: World Bank Data 2021.

The data in Figure 4 show that, in general, the FDI’s amounts are more consolidated and focused on specific regions. Unlike in 2012, when the FDIs were dispersed across Eurasia, they were concentrated in only a few countries in 2019. Relatively unexpectedly, investments were grouped in the macro-region of China’s neighbourhood surroundings during 2019, which was not the case with the 2012 data. India, Hungary, Indonesia, Japan, and Nepal managed to perform a high ratio of the FDIs within their territories (Figure 4).

POLITICAL RISK FEATURES OF THE EURASIAN BRI

Having in mind the huge corpus of knowledge acquired in this area, it could be beneficial to select and elaborate on several major outcomes for the “modernistic” application of political risk that each analysis of the BRI space and China’s role must take into account. In this segment, the inevitably changing segments of PRA as seen from China’s Grand Strategy postulates will be discussed and justified. In this instance, several dilemmas arise.

First, what does the Grand Strategy offer to PRA? Jisi Wang (2011) proposes a set of analytical questions putting forward the Grand Strategy “to respond” to what are the vital national interests; what external threats may endanger the identified national interests; and what does the state leadership do to preserve such national interests? China’s white papers on defence do not offer a clear answer to the very last issue. In the mid-1990s, China initially codified its own security policy. China’s “new security concept”, as characterized by Kerry Dumbaugh, was

¹⁵ The measure indicates the total amount of FDIs a single country receives in a given year. This measure is then calculated through the World Bank Data formula which involves GDP, territory size, population, and annual national budget into the equation. World Bank Data’s latest registered year was 2019. Thus, this year’s data is included in this analysis.

supposed to convince other countries that economic and military growth did not pose a threat to international security (2008, 5). In several published White Papers, China has defined the post-Cold War global environment as an area that requires a “more pragmatic security policy based on mutual equality, cooperation and trust” (White Paper on Defense 1998). Theresa Fallon believes that China’s Grand Strategy does not distinguish countries based on their internal political (in)stabilities, but rather with the willingness to “mutually engage” with them in economic and political spheres (Fallon, 2015).

Some authors rightly pose several dilemmas about possible conductors of PRAs. Although they are considered “traditionalists”, Frei and Ruloff prophetically identify issues that are significant even in contemporary studies of political risk. According to them, the analysis of political risk should be performed by both so-called “insiders” and “outsiders” (Frei & Ruloff 1988).

In terms of the analysis of the foreign policy preferences of China, the role of insiders is played by the representatives of state institutions and agencies that propose, adopt, and ultimately implement the policy towards the Eurasian region. However, as pointed out at the beginning of this article, the response of the “targets” – the states that are the end-state of this process – is of great importance. This completes what Mei Jianping calls “political risk cyclicity” (Mei 1999) since the analysis of the success of foreign policy and economic investment in each individual country along the route is improved with inputs obtained from the field.

China’s foreign and security policy is also heavily oriented towards the distinctive regions: Southeast Asia, Central Asia, the Middle East, Central Europe, and Southeast Europe. That is why this discussion encounters with four major variables for these regions: the dynamics of the political regime type, GDP growth, political instabilities, and the FDI dynamics. The political regime type dynamics takes an extremely important place in the IR and Security Studies. It could arguably be declared that the political regime type measurements are the most developed part of the area. This article’s comparative findings confirm that, in general, the Eurasian space tends toward further autocratization. However, because China does not view its partner countries through the lens of political regimes, this should not pose a major issue in its relations with the BRI states. Since the region tends to autocratize, other major superpowers (US) might use it to diminish China’s role in this part of the globe as an “autocratic influential player” (White House 2021).

There is also an additional issue that should bring attention to China’s quest to be politically *omnipresent*. In early 2000, Harms and Ursprung raised an intriguing hypothesis which denied common knowledge that political repression was a factor that increased FDIs (2001). They inspected causal mechanisms between the political regime types, human freedoms and liberties on one side, and the FDIs inflows on another side. In their empirical study, they statistically confirmed that

the higher political liberties level were, the more FDIs these countries attracted (2001, 11). If the general trend of autocratization is ongoing, China's Grand Strategy principles must take into account that the competing western superpowers will invest more in more stable and politically democratic societies rather than in autocratic ones. Figures 3 and 4 reveal geographically less dispersed FDIs and more fragile state apparatuses in 2020 than in 2012. That might be the outcome of the most complex factors but important for the evolution and planning of China's new security policy for Eurasia.

Lastly, it is worthwhile to demystify what makes PRA of the space covered by the Belt and Road Initiative so specific. Three characteristics make this PRA so unique. Eurasian space is the most dynamic macroregion in the world. Although the political changes and dynamics of relations between the states in this area seem to be slow, a more thorough analysis reveals many layers that could point to structural problems in maintaining peace and political stability in Eurasia. The relatively sudden and escalating armed conflict between Armenia and Azerbaijan over the disputed Nagorno-Karabakh territory in 2020, the withdrawal of US troops from Afghanistan and the re-establishment of the Taliban regime, the armed conflict between Palestine and Israel in 2021 are just some indicators of significant "potential" for violating the security situation in this part of the world. Although all these events have deeper roots in the history of their own conflicts, their sudden manifestation was not inherent in previous decades, as is the case in modern times.

In addition to the sudden occurrence of a phenomenon that might shape political risk, the following specificity of PRA refers to the exceptional diversity of countries, the types of political regimes, cultures, religions and other national peculiarities that inhabit this area.

Although Eurasia is a region *per se*, as noted above, it is made up of very heterogeneous socio-political contexts. Unlike the security policy advocated by the so-called regional approach, which was established by the United States during the 1990s, the People's Republic of China still does not (officially) have a codified policy towards the single regions of the world. That will probably become an important asset in the new fifth Grand Strategy outlook.

The third important feature of the political risk in the BRI area concerns the geopolitical code of the nation in which the economic forms of the presence of China are conducted. In an effort to thwart China's overall growth, the United States and other major powers in the system of international relations are treating the area as a proxy for possible competition with China. The most notable example occurred at the beginning of April 2021 when Lithuania officially left the "17 + 1" format and thus became the first country to openly oppose this type of formalized cooperation with China in the past decade. This act was applauded by

the Western world as “a sign of trans-Atlantic solidarity in the XXI century” (DW 2021). Lithuanian leaving also opened up issues raised by academic authors through “the end of China’s benevolence”, while a group of other authors believed this would only strengthen China’s efforts to intensify cooperation with European countries (Oxford Analytica 2021). Due to such problems, China’s investment in Eastern Europe may be slowed down by complex rules imposed by the European Union for which Chinese companies are not yet ready. In addition, some of the investments have been deliberately suspended or even thwarted due to “concerns about excessive Chinese influence”. Similar problems can occur in other countries along the route, especially those having a divided geopolitical code or whose society does not agree on a clear foreign policy orientation.

CONCLUSION

This article introduced the novel idea of shifting the thesis from the purely economic to the political moment of PRA. Authors tend to involve political risk in the so-called fifth Grand Strategy of the People’s Republic of China, which, unlike the previous ones, will aim at the wider political promotion and China’s presence in all parts of the world. In such a complex matrix, authors have included the modern concept of risk analysis in one of the central geographical areas on which the foreign and security policy of China is focused – in the area of Eurasia covered by the Belt and Road initiative. Presenting data for four indicators of political risk – the dynamics of the political regime, FDI dynamics, GDP growth, and political instability – authors noticed significant differences in the period before and after the establishment of this Initiative. That is why further and more concrete political risk analyses must be performed to explain the growth of China’s influence in this part of the globe.

Literature on the PRA concept and methodology is abundant. Within the several identified waves of academic thought on PRA, two distinctive branches have emerged as important. Their distinction is based on the temporal domain of publishing. Thus, all of these are classified as traditionalists who favour economic in PRA and prefer to perform the analyses exclusively based on quantitative techniques. In this paper authors represented models (Economist, BERI, and ICRG) and data sources, which authors believe to be the most used in the literature and empirical research – ACLED and GDELT. After a comparative presentation of the constituents of the political risk in the BRI space, they conclude that some of them, such as political regime type, might not deeply interfere with the newest Grand Strategy of China. However, FDI distribution, GDP growth, and internal political instabilities such as poor governmental apparatus functioning may have a significant impact on China’s foreign and security policy preferences in the future. It remains to be seen whether or not China will choose the *sui generis* path towards

establishing itself as a global player. The certain fact in this process is that its own foreign and security policy will be formulated based on more systematic political risk assessments done both by its own civil servants and policy (decision) makers, as well as externally by the scientific community.

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PROCENA POLITIČKIH RIZIKA NA PROSTORU EVROAZIJE U SVETLU PETE KINESKE „VELIKE STRATEGIJE“

Apstrakt: Procena političkih rizika se obično sprovodi na nivou nacionalne države. Sa novom i globalno značajnom stvarnošću izloženom u Inicijativi „Pojas i Put“, ogromni evroazijski prostor se etablirao visoko na agendi procene političkog rizika, što je posebno postalo dominantno u zapadnim akademskim narativima. Način na koji različite procene nalaze svoje mesto u praksi je pitanje koje predstavlja značajnu naučnu prazninu. Cilj ovog članka je da dopuni takve poduhvate pregledom trenutnog stanja istraživanja uz primenu nalaza na tri regiona: geografsko susedstvo Kine, jugoistočnu i centralnu Evropu i centralnu Aziju, kao i na Bliski istok. U radu će prvo biti kontekstualizovani nalazi nekoliko velikih studija o takozvanoj petoj „Velikoj strategiji“ Narodne Republike Kine kao glavnog pokretača njene bezbednosne politike. Nakon toga će uslediti prikaz dva segmenta, prvog koji će naglasiti osnove procene političkih rizika, kako u pogledu geografskog područja, tako i samog procesa. Drugi segment je posvećen savremenim naučnim poduhvatima koji uključuju *Big Data* i primenu alata veštačke inteligencije za utvrđivanje nivoa i prirode političkog rizika širom prostora Evroazije. Nakon sistematizacije nalaza, biće pružene implikacije političkih rizika za zemlje obuhvaćene Inicijativom „Pojas i Put“ u svetlu najnovijih izazova za Kinu, poput kritika povodom ekonomskih ulaganja, kao i pada euforije o formatu „17+1“. Rezultati pokazuju značajnu promenu u komponentama političkog rizika za većinu evroazijskih zemalja tokom poslednje decenije, što posledično utiče na proces reformulacije kineskih bezbednosnih i spoljnopolitičkih preferenci.

Ključne reči: politički rizici, spoljna politika, Kina, Inicijativa „Pojas i Put“, Velika strategija, *Big Data*.

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