Eksamensoppgave i POL1005 Vurdering av politisk risiko

Examination paper for POL1005 Evaluating Political Risk

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Eksamensstid/Examination time: 3 timer
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Sensurdato/Grades announced on: 23.12.2014

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Antall sider vedlegg: Ingen/None
Institutt for Sosiologi og Statsvitenskap (ISS)  
(Norwegian University of Science and Technology)

Political Risk (POL 1005) Examination  
2nd December 2014  
Time allotted: Three Hours (9.00 to 12.00 Hrs)  
Total Points: 100

General Instructions:

<p>| | |</p>
<table>
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<tr>
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<tbody>
<tr>
<td>(i)</td>
<td>Please check that this question paper contains 26 questions</td>
</tr>
<tr>
<td>(ii)</td>
<td>The question paper consists of three sections viz., Section I, Section II and Section III</td>
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<tr>
<td>(iii)</td>
<td>Section I consists of 6 questions carrying 15 points each</td>
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<tr>
<td>(iv)</td>
<td>You can choose to answer FOUR questions in Section I (4 × 15 = 60 points).</td>
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<tr>
<td>(v)</td>
<td>In Section I answering question 1 and 2 are mandatory.</td>
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<tr>
<td>(vi)</td>
<td>Apart from the mandatory questions, you can choose any TWO questions to answer from the remaining four.</td>
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<tr>
<td>(vii)</td>
<td>Answers should normally not exceed 5 pages each and should be brief and to the point.</td>
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<tr>
<td>(viii)</td>
<td>Section II consists of FIVE short–answer questions carrying five points each (5 × 5 = 25 points). Please restrict your answers to maximum one-page.</td>
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<tr>
<td>(ix)</td>
<td>Section III consists of 15 multiple choice questions carrying one point each (1 × 15 = 15 points). List the correct answers in your answer sheets.</td>
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<tr>
<td>(x)</td>
<td>Note: all questions in section II and III must be answered.</td>
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<tr>
<td>(xi)</td>
<td>All answers must be written in ‘answer sheets’ and NOT in the question paper</td>
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<td>(xii)</td>
<td>You can take the exam in Norwegian or in English (stick to one language throughout)</td>
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Section I
[04 × 15 = 60 points]

1. Discuss how Bilateral Investment Treaties (BITs); Political Risk Insurance and restructuring firms operations can help Multi-National Companies (MNCs) to mitigate political risk (mandatory).

2. According to Li and Resnick (2003) autocracies are more favourable to FDI because democracies cannot: (a) offer sweet deals; (b) monopoly profits to foreign firms; and (c) competing local interest groups in democracy hinder FDI. Please counter each of these arguments presented by Li and Resnick (mandatory).

3. What is resource nationalism? Discuss the three forms of resource nationalism. How resource nationalism can pose direct and indirect political risk for MNCs.

4. Explain if democracy (as against autocracy) can moderate the obsolescing bargain mechanism risk.

5. What is expropriation? Discuss various types of expropriations. Explain why expropriations increased during 1960-1979 period and declined thereafter.

6. Prepare causal chain analysis of political risk faced by the foreign companies as illustrated in the two case studies below. Prepare causal chain analysis for both case studies separately highlighting the actors involved; sources of political risk; political risk effects; parties affected; project specifics; and risk mitigation solutions.

**Case Study 1: China falls victim to Gabon’s expropriatory zeal**

Gabon (Gabonese government) has announced its intention to take assets back from Chinese petroleum company Sinopec, in a sign of Africa’s growing confidence in asserting control over its natural resources. For over a decade, Western investors have had assets seized and contracts renegotiated by resource nationalist governments that were keen to take advantage of Beijing’s ‘no strings attached’ investment policy. JLT Specialty, a Political Risk consultancy, has forecast for some time that Africa’s love affair with China would be short-lived and that Chinese assets would eventually become vulnerable to expropriation.
Gabon’s government is to reclaim the Tsiengui oil field, the main offshore site of China’s Addax Petroleum, when the contract renews in 2015 on account of alleged production contract breaches from the Chinese side. A month ago, Gabon already seized Addax’s oil Obangue field. The incident will exacerbate tensions over the lack of clarity in the ‘Terms and Conditions’ of Gabonese investments and has led to questions over contract interpretation. This ambiguity isn’t limited to Gabon and has occurred in Uganda, DRC and Liberia to name just three.

The move shows that even the influence of the Chinese state cannot safeguard Chinese investments and that companies should consider deploying a strategic risk management approach to Political Risks exposure when government actions are aimed at depriving investors of their rights of ownership or control of their assets. The fixed assets of natural resources (and infrastructure companies) are particularly susceptible to seizure by a host government. Knowing the country risks and taking steps before a government decides to act will better secure long term, big-ticket, investments.

Source: http://blog.worldriskreview.com/2013/06/06/china-falls-victim-to-gabons-expropriatory-zeal/

Case Study 2: Indonesia Expropriation of Churchill mining’s East Kutai coal mine

Churchill Mining, a London Stock Exchange-listed coal miner, is pursuing accusations against the Indonesian Government through the International Centre for the Settlement of Investment Disputes (ICSID). The dispute revolves around the revocation of Churchill’s East Kutai coal site license and its pursuit of recompense in Indonesia. The case has further raised the profile of expropriation risk and contract uncertainty in the Indonesian mining sector.

Although the Indonesian authorities claim that Churchill did not have the appropriate licenses for exploration and extraction at the Kutai site in Indonesia, representatives of the mining company claim that the government arbitrarily altered the terms after the site was found to have vast coal reserves.

Churchill was not only divested of its licenses, but also saw them effectively re-awarded to the Indonesia-owned Nusantra Group, having purportedly been led to believe they had allowed them to expire. That the Nusantra Group is owned by Mr. Prabowo Subianto, an Indonesian prominent politician, raises serious questions about political corruption.

Source: http://blog.worldriskreview.com/2013/04/01/political-risk-and-indonesia-coal-mining-sector-case-studies/
Section II

[05 × 05 = 25 points]

1. List five benefits and costs for host country when hosting FDI

2. What is the difference between Foreign Direct Investments (FDI) and Foreign Portfolio Investments (FPI)?

3. What is time inconsistency problem?

4. What is Extraterritoriality?

5. List four symptoms of ‘state capitalism’

Section III

[15 × 01 = 15 points]

1. For a non-market event to be counted as political risk event, it must have the potential to:
   a. Affect the profitability of a given MNC’s investment negatively
   b. Affect the security of MNCs’ employees negatively
   c. Affect the brand name of the MNC negatively
   d. All of the above
   e. None of the above

2. Identify from the following the unlootable natural resources:
3. The act of expropriation has the following features:
   a. Loss of ownership
   b. Involuntary in nature
   c. No compensation
   d. All of the above
   e. None-of the above

4. What is financial leverage?
   a. Financing firms assets by investing in fixed assets
   b. Financing firms assets by investing in liquid assets
   c. Financing firms assets by investing in equity
   d. None of the above

5. Identify the variables which constitute “demand side constraints” faced by foreign and private firms:
   a. Infrastructure bottlenecks
   b. Controlled banks
   c. Lack of Human capital
   d. All of the above
   e. None of the above

6. MNCs operate in developing countries using:
   a. Subsidiaries
   b. Joint ventures
   c. Subcontractors
   d. All of the above
   e. None of the above

7. If a firm possess substantial Ownership and Internalization advantages but the Location specific advantages favour the home country, then:
   a. FDI is preferred over domestic investments
   b. Domestic investments is preferred over FDI
   c. Both FDI and domestic investments are preferred
   d. Neither FDI nor domestic investments are preferred

8. When G.M from US builds a factory in Norway that serves the Norwegian market, this FDI is:
a. Vertical  
b. Complex vertical  
c. Horizontal  
d. None of the above  

9. Structuring leverage by an MNC operating in a risky country involves:
   a. Decreasing Debt/Equity ratio  
b. Maximize the size of operations  
c. Minimize Liquid/Fixed assets ratio  
d. All of the above  
e. None of the above  

10. Identify the factors influencing CSR policy of firms:
    a. Size of the firm  
b. Shareholder activism  
c. Stock-market listing  
d. All of the above  
e. None of the above  

11. Identify the variables which constitute “supply side constraints” faced by foreign and private firms:
    a. Tight monetary policy  
b. Export incentives  
c. Contractionary fiscal policy  
d. All of the above  
e. None of the above  

12. “Grease the wheel” theory argues that:
    a. Firms benefit from corruption  
b. Corruption creates economic efficiency  
c. Corruption reduces red-tape  
d. All of the above  
e. None of the above  

13. This type of risk is both unpredictable and impossible to completely avoid:
    a. Systematic Risk  
b. Unsystematic Risk  
c. Both A & B  
d. None of the above  

14. (Good/bad) Institutions effect the following risks (positively/negatively):
    a. OBM risk  
b. Risk of expropriation
c. Risk of breach of contracts
   d. All of the above
   e. None of the above

15. Identify the areas of difference between private risk insurance agency and MIGA:

   a. Insurance for political risk
   b. Claims collections
   c. Disclosure provision
   d. Undertake subrogation
   e. All of the above
   f. None of the above

******* Good Luck *******
## Instruksjoner

### Totale poeng: 100

<table>
<thead>
<tr>
<th>(i)</th>
<th>Sjekk at eksamensoppgaven har 26 spørsmål</th>
</tr>
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<tbody>
<tr>
<td>(ii)</td>
<td>Eksamensoppgaven består av tre deler., Del I, Del II og Del III</td>
</tr>
<tr>
<td>(iii)</td>
<td>Del I består av 6 spørsmål som hver gir 15 poeng</td>
</tr>
<tr>
<td>(iv)</td>
<td>Du kan velge å besvare FIRE spørsmål i Del I (4 × 15 = 60 poeng).</td>
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<tr>
<td>(v)</td>
<td>I Del I er det obligatorisk å besvare spørsmål 1 og 2</td>
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<td>(vi)</td>
<td>Utover dette velger du selv hvilke andre TO spørsmål du velger å besvare av de gjenværende fire.</td>
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<td>(vii)</td>
<td>Svarene bør normalt ikke være lenger enn 5 sider hver og bør være korte og poengmere</td>
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<td>(viii)</td>
<td>Del II består av Fem kort-svars spørsmål som hver gir fem poeng (5 × 5 = 25 poeng). Vennligst hold svarene dine til en side.</td>
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<tr>
<td>(ix)</td>
<td>Del III består av 15 multiple choice spørsmål som hver gir et poeng (1 × 15 = 15 poeng). Skrive det korrekte svaret på besvarelsen din.</td>
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<tr>
<td>(x)</td>
<td>Note: Alle spørsmålene i Del II og III må besvares.</td>
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<tr>
<td>(xi)</td>
<td>Alle svarene må skrives på besvarelsen og ikke på eksamensoppgaven</td>
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<tr>
<td>(xii)</td>
<td>Du kan besvare eksamensoppgaven på Norsk eller Engelsk (vennligst hold deg til et språk gjennom hele besvarelsen)</td>
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### Del I [04 × 15 = 60 poeng]

1. Diskutere hvordan bilaterale investerings avtaler (BITs); Politisk risiko forsikring og restrukturering av et selskaps operasjoner kan hjelpe multinasjonale selskaper (MNCs) å dempe politisk risiko? (Obligatorisk)

2. I følge Li og Resnick (2003) er autokratier mer gunstig for FDI fordi demokratier ikke kan tilby: (a) tilby gunstige avtaler (b) monopolprofitt til utenlandske firmaer; og (c) konkurranseende lokale interesse grupper i demokratier forhindrer FDI. Gi motargumenter til alle disse argumentene presentert av Li og Resnick (Obligatorisk)

3. Hva er ressursnasjonalisme? Diskutere tre former for ressursnasjonalisme. Hvordan kan ressursnasjonalisme utgjøre en direkte og indirekte risiko for MNCs
4. Forklar hvis demokratier (mot autokratier) kan moderere «the obsolescing bargain mechanism risk.»


6. Forberede årsaksjedeanalyse av politisk risiko som utenlandske selskaper møter illustrerte i de to casestudiene under. Forbered årsaksjedeanalyse for begge casestudiene separat, fremhev de involverte aktørene; kilder til politisk risiko; politiske effekter av risiko; berørte parter, prosjekt detaljene og risikoreducerende løsninger.

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Del II [05 × 05 = 25 points]

1. List opp fem fordeler og kostnader for et vertsland for FDI

2. Hva er forskjellen mellom Foreign Direct Investments (FDI) og Foreign Portofolio Investments (FPI)?

3. Hva er tidsinkonsistensproblemet?

4. Hva er «Extraterritoriality»?
5. List opp fire symptomer på «stats kapitalisme»

Del III [15 × 01 = 15 points]

1. For at en ikke-markeds hendelse skal bli regnes som en politisk risiko hendelse, må den ha potensiale for å:
   a. Påvirke lønnsomheten av en gitt MNCs investering negativt
   b. Påvirke sikkerheten til de ansatte i en MNC negativt
   c. Påvirke merkenavnet til en MNC negativt
   d. Alle alternativene ovenfor
   e. Ingen av alternativene ovenfor

2. Identifiser følgende ikke- plyndrebare naturressurser
   a. Gold, Diamanter
   b. Edelstener
   c. Narkotiske avlinger
   d. Tømmer, kakao
   e. Alle alternativene ovenfor
   f. Ingen av alternativene ovenfor

3. Ekspropriering har følgende funksjoner
   a. Tap av eierskap
   b. Ufrivillig av natur
   c. Ingen kompensasjon
   d. Alle alternativene ovenfor
   e. Ingen av alternativene ovenfor

4. Hva er økonomisk innflytelse?
   a. Finansierer firmaets eiendeler ved å investere i varige driftsmidler
   b. Finansierer firmaets eiendeler ved å investere i likvide midler
   c. Finansierer firmaets eiendeler ved å investere i egenkapital
   d. Ingen av alternativene over

5. Identifiser de variablene som utgjør «begrensinger på etterspørselssiden» som utenlandske og private selskaper møter:
   a. Infrastruktur flaskehalsen
   b. Kontrollerte banker
   c. Mangel på humankapital
   d. Alle alternativene ovenfor
   e. Ingen av alternativene ovenfor
6. MNCs som opererer i utviklings land bruker:
   a. Subsidier
   b. Joint Ventures
   c. Underleverandører
   d. Alle alternativene ovenfor
   e. Ingen av alternativene ovenfor

7. Hvis et selskap besitter betydelig eierskap og fordeler for internasjonalisering, men steds spesifikk fordeler favoriserer hjemlandet; deretter:
   a. FDI foretrekkes fremfor innenlandske investeringer
   b. Innenlandske inverteringer foretrekkes fremfor FDI
   c. Både FDI og innenlandske investeringer er foretrukket
   d. Verken FDI eller innenlandske investeringer er foretrukket

8. Når G.M. fra USA bygger en fabrikk i Norge som tjener det norske markedet, da er denne FIDen:
   a. Vertikal
   b. Kompleks vertikal
   c. Horisontal
   d. Ingen av alternativene ovenfor

9. Strukturering av innflytelse for en MNC som opererer i et risikofylt land innebærer:
   a. Avtagende gjeld/egenkapital
   b. Maksimere størrelsen på driften
   c. Minimere ratioen mellom flytende/faste driftsmidler
   d. Alle alternativene ovenfor
   e. Ingen av alternativene ovenfor

10. Identifiser faktorer som påvirker CSR policy for firmaer:
    a. Størrelsen på selskapet
    b. Eiernes aktivisme
    c. Oppføring i aksjemarkedet
    d. Alle alternativene ovenfor
    e. Ingen av alternativene ovenfor

11. Identifiser variablene som utgjør «tilbudside begrensinger som utenlandske og private be-
     drifter møter:
    a. Stram pengepolitikk
    b. Eksport incentiver
    c. Kontraktiv finanspolitikk
    d. Alle alternativene ovenfor
12. “Grease the wheel” teorien argumenter at:
   a. Firmaer tjener på korrupsjon
   b. Korrupsjon skaper økonomisk effektivitet
   c. Korrupsjon reduserer byråkrati/Red-tape
   d. Alle alternativene ovenfor
   e. Ingen av alternativene ovenfor

13. Denne typen risiko er både uforutsigbar og umulig å unngå:
   a. Systematisk risiko
   b. Usystematisk risiko
   c. Både A & B
   d. Ingen av alternativene ovenfor

14. (Gode/dårlige) institusjoners effekt på følgende risiko (positivt/negativt):
   a. OMB risiko
   b. Risiko for ekspropriering
   c. Risiko for kontraktsbrudd
   d. Alle alternativene ovenfor
   e. Ingen av alternativene ovenfor

15. Identifiser områder av forskjell mellom private forsikringsselskaper og MIGA:
   a. Forsikring for politisk risiko
   b. Samlinger av krav
   c. Påta regress
   d. Alle alternativene ovenfor
   e. Ingen av alternativene ovenfor