Introduction: managing international political risk: arising challenges for multinationals in the post Covid-19 world

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Abstract: Political risk is an increasingly relevant phenomenon in the current global environment characterised by political uncertainty and volatility. Consequently, multinational corporations need to be sufficiently equipped with the appropriate tools and frameworks to navigate this turbulent context. In this paper, we provide a review of the literature on political risk as well as on recent political developments affecting multinationals. Finally, we review the seven articles that are included in this special issue, which illustrate how the literature on political risk can be extended with valuable theoretical and practical insights.

Keywords: political risk; multinational corporations; post Covid-19 world; uncertainty.

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1 Introduction

Foreign direct investment (FDI) by multinational corporations (MNCs) is one of the major drivers of economic globalisation. The past three decades marked an unprecedented increase in FDI flows and stock. According to the data published by UNCTAD, the world FDI stock increased phenomenally from US$ 698 billion in 1980 to US$ 41 trillion in 2020 (UNCTAD, 2021). The growth in FDI flows has indeed outpaced the rate of growth in international trade. However, FDI flows declined after the global financial and economic crises in 2007 and onwards. This was not surprising as the crises have severely restricted economic growth and international private capital flows, urging outrageous government interventions in big economies such as US, EU and Russia. Global FDI flows have also been severely hit by the Covid-19 pandemic. In 2020, they fell to $1 trillion, by one third of the earlier year (UNCTAD, 2021).

Currently, while the world has been going through a turbulent process, policy uncertainty and exposure to political risks currently seem as the major concerns of any company. However, as the MNC operates in the sovereignty of at least in two countries, this makes the situation rather complicated for multinationals. In other words, owing to its very nature, the MNC is exposed to significant political risks in its cross-border business operations. World history is full of countless examples of the ever-changing political situation and its effects on multinationals, and it is not possible for multinationals to stand against this constant change. Instead, being able to manage change is not an option but a necessity for them. Of course, change may bring opportunities as well as risks. With regard to changes in political environments, political risk will be a very important issue in the agenda of multinationals. Furthermore, considering political risks and multinational business operations, the issue is not only limited to the host country environment, but rather, also about the home country, and even third countries involved.

In fact, any company, even if it operates entirely and exclusively in its home country, is open to the effects of political conditions as it is in an external environment. However, when a firm expands the scope of its activities to the international level, the impact of political conditions on its activities will become much more significant. Even just export-import activities may bring significant political risks though they are at level of the lowest in complexity among the international modes of commercial operation. The situation becomes more complicated when a company moves up on the foreign operation modes ladder from exporting through contractual operation modes to foreign direct investment at the top. In essence, if a firm becomes a multinational, then the importance of political environment would be much more significant and complex.

Political risk is also in the agenda of international banks for cross-border lending. Moreover, cross-border lending is not a business undertaken only by international banks. Even in a simple small export transaction, lending could easily be an issue in the form of a supplier credit. And, sometimes commercially very credible buyers may not pay due to a number of political risks such as a transfer or foreign exchange restrictions imposed by governments. In other words, even in very basic business transactions, political risks may cause loses for companies. It is then not surprising that when multinationals are concerned all aspects of political risk may be relevant as FDI operations may be involved in all types of international business activity from direct investments, or international lending to export or import transactions. In other words, political risk becomes a fully relevant and very complicated issue when it comes to the agenda of the multinational enterprise.

As the modern multinational corporation is a post Second World War phenomenon, the New World Order designed after the war, and the Cold War afterwards had provided an interesting background to understand the political risk management agenda of the modern multinational. In this period, many US multinationals enlarged their operations in the Western European countries, and also in developing countries (Bonin and De Goey, 2009). European multinationals responded quickly by enlarging their operations in the USA as well as the others (Wilkins, 2005; 2008). Japanese multinationals came to the scene sometimes later in the 1970s (Buckley, 2009). The existence of a bipolar world until the end of the Cold War in the early 1990s was geographically limiting the activities of multinational companies in the communist part of the world. Though this is true in essence, even then some Western multinationals were active in some East European countries at least within the limitations imposed by the host governments (Richman, 1976). Such limitations or restrictions were significant by the early 1990s. For example, 100 per cent equity ownership was only allowed in 1989, the year of revolutions in Eastern Europe, and only in a few countries (Murrell, 1990). Therefore, just after the regime change in the Soviet Union, and the Eastern European countries, new opportunities have emerged for multinationals in this region (Morawetz, 1991). Starting from 1979 when the Chinese government initiated opening its economy to the world, China has also emerged as a major host country. In the 1990s the country became the major FDI recipient especially due to its government's policies encouraging foreign capital, and but also due to its huge market (Osland and Björkman, 1998). In this process, political risk has been a major concern for multinationals in all industries. In fact, much earlier in the 1970s, after the Oil Crisis, especially international banks suffered heavily due to the losses during the Debt Crisis (Emminger, 1985; James, 1996).

With this regard, before the end of the Cold War, the concept of political risk was rather easy to understand in comparison with the current period (Rice and Zegart, 2018a, b). Then, an authoritarian or socialist government's decision to expropriate or confiscate or nationalise foreign assets was a typical example of political risk for multinational companies. These examples could be extended to cases in relation to war damage, labor turmoil, acts of subversion, restrictions on foreign exchange transactions, or vandalism. During the Debt Crisis, non-payment risk gained a particular importance due to foreign exchange shortages of oil-importing developing countries which faced some balance of payment problems due to hugely increased oil prices following the OPEC's decisions.

Since the beginning of 1990s, however in many countries, the political agenda has been rapidly changing, and the ever-diminishing stability has been replaced by huge uncertainty and high dynamics. Under such conditions uncertainties caused by unexpected political developments in various countries involve significant politics-induced financial and commercial risks for MNCs. Surprisingly, this situation is not limited only to multinationals operating in developing and emerging countries. In fact, in some cases the focus for political risk seems even to be shifting from developing countries to developed industrialised ones. For instance, it seems that there is a rise in populist and nationalist views among a number of politicians in the western world. When such people are elected they may bring trade and investment restrictions, higher government spending and lower taxes, resulting in wider fiscal deficits and restrictions on immigration. As is known, some of such views have even been able to gain additional power recently. Therefore, there are serious concerns among business people, politicians, academics and thought leaders that the world is getting more insecure due to global terrorism, nationalist and authoritarian tendencies etc. On top of all these recently in all over the world, due to the climate change, environmental problems, and increasing large scale health issues, force majeure also becomes a very important concern for businesses. The Covid-19 pandemic has been the paramount of these experiences and proved that political risk management has an utmost importance for all businesses (Hartwell and Devinney, 2021).

2 Literature on political risk

Clarification of what we should understand by the term 'political risk' is important. As emphasised earlier political risk today encompasses a much wider spectrum than it used to be. Therefore, it is more difficult today than in the past to understand what political risk is. In the literature it is not difficult to find a number of different definitions. For example, Multilateral Investment Guarantee Agency defines political risk as "the probability of disruption of the operations of multinational enterprises by political events or forces, whether they occur in host countries, home country, or result from changes in the international environment" (MIGA, 2011a, b). Another definition can be "the probability that political decisions, events, or conditions" that "significantly affect the profitability of a business actor or the expected value of a given economic action" (Matthee, 2011). With a special focus on the acts or decisions of governments, political risk can be also defined as the probability of a government using its monopoly power over legal coercion to refrain from fulfilling existing agreements with companies, to affect the redistribution of rents between the public and private sector, either through direct measures such as expropriations or nationalisations, or more indirect measures such as forced renegotiations of previously agreed conditions (Jiménez et al., 2011). In host countries, political risk is dependent upon the actions of host governments and political institutions, and also of minority groups, such as separatist movements (MIGA, 2011a, b). Similarly, in home countries, political risk is mainly caused by actions of home governments directly targeting either host countries, as in the case of sanctions (i.e. sanctions against Iran, Cuba or Russia etc.), or owing to home government policies that restrict outward direct investments in relation to intellectual property or likewise. Therefore, political risk refers to the exposure to a loss in a business caused by decisions of political actors such as governments or events that are under – partly or fully – the control of political decision makers. In this sense, instability and unpredictability in host countries' legal and political environments may cause problems for MNCs. Hence, unstable political structures, often changing regulations, and even unpredictable attitudes of policymakers in host countries may create uncertainty and political risks for MNCs. However, we cannot limit the political risk only with political decision-making. In addition to that, the effects of force majeure or act of God (i.e. natural disasters or events such as the Covid-19 pandemic) also count to understand political risk in a larger perspective. All these mostly beyond the control of business enterprises in markets. Some social and political nonmarket cases may require further attention, since nowadays, many companies support associations, hire former government officials or bureaucrats to lobby political decision making for favourable conditions. These are called non-market social and political factors affecting business enterprises, national or multinational (Parnell, 2019). On the other hand, it seems that their influence on MNCs is rather significant owing to their liability or disadvantage of foreignness (Cuervo-Cazurra, 2007; Nachum, 2018). As a result, political risks are substantially influential on FDI decision processes, and thus can cause shifts in FDI flows, regarding for instance the location choice of MNCs etc. (Jiménez, 2010; Alcantara and Mitsuhashi, 2013).

Although the concept of 'risk' usually evokes the concept of loss mainly, and political risk has often perceived as a threat imposed by the act of governments; interestingly recent literature suggests that it may also be a source of opportunities for MNCs. For example, exposure to and accrued experience dealing with political risk allows companies to better undertake a set of actions, such as negotiation of entry conditions, lobbying, litigation, campaign contributions and coalition formation, leading to favourable conditions, reduced uncertainty, reduced transaction costs and increased long-term sustainability. These advantages facilitate investments in countries with higher and more diverse levels of risk and make political risk to be positively associated with the firm's internationalisation (Jiménez et al., 2014).

Political risk and international business-government relations is a widely investigated area (Simon, 1984; Brewer, 1985; Boddewyn, 2005), and in this field, there are three major theoretical perspectives analysing the relationship between governments and MNCs (Stevens et al., 2015; John and Lawton, 2018) namely the 'Bargaining Power Approach', the 'Political Institutions Approach', and the 'Legitimacy Approach'. Though these are different perspectives, they also complement each other.

The Bargaining Power Approach was first developed and used in the 70s and 80s, to analyse how big multinationals' assets in the extractive industries and infrastructure projects were expropriated by some developing country governments. Vernon's (1971) Obsolescing Bargain Model (OBM) was the pioneer of this approach, and the others (such as Fagre and Wells, 1982) followed this (Vivoda, 2011). This approach relies on the concept of bargaining power, and the constant and dynamic relationship between the multinational and the host government. With this regard, in the beginning before the entry decision, the MNC has very high bargaining power when negotiating with the potential host government to invest or not in the potential host country. At this stage, the MNC's bargaining power is very high because it can negotiate with multiple governments to see which one provides better conditions. Then, the MNC is very mobile, as it doesn't have assets in the potential host, and hence no sunk costs. However, once the company makes the investment, the bargaining power is transferred progressively to the host government, because some assets are already owned, and technology is transferred. This means that the option of leaving the country is not free any more. The major criticism to this approach was about its assumption that the multinational-government relationship is a zero sum game, and thus there is no room for mutual gain. In addition, in later decades it has been observed that multinationals are not so weak before governments. They can take actions such as expropriations or government demands for renegotiations to international arbitration, and may win billions of dollars under bilateral investment agreements (Sauvant and Wells, 2021). The Bargaining Power Approach, however, was quite useful and capable of explaining the expropriations in sectors with very high sunk cost in the earlier decades. But, as pointed out, its current explanatory power is lower in the current economy and needs to be complemented.

The Political Institutions Approach is the second major perspective on political risk, and it builds on the analysis of institutions and constraints that the political system imposes on governments to limit their discretion. Accordingly, researchers attempted to understand if there are connection between types of country profiles and riskiness regarding multinationals investment decisions. Or in other words, which types of countries are more attractive for multinationals concerning the level of political risk. The majority of studies indicate that if the country is safer from the viewpoint of the MNC with regard to the economic freedom, protection of property rights, and corrupt practices, then the likelihood of investment is higher. However, there also some other studies arguing that multinationals may also develop significant political skills and capabilities to deal with unsecure political environments. As a result, they may sometimes deliberately prefer to invest in riskier countries with rent-seeking behaviour. These multinationals are usually either from home countries or already having FDI operations in such third countries characterised by weak institutional environments and significant redistributive pressures. Therefore, such multinationals have already developed capabilities to deal with risky but rent-seeking political structures (Holburn and Zelner, 2010). Though, this approach also attracts some criticisms on the basis that the likelihood of political intervention does not guarantee of the host government's intervention; it is still useful as it provides a perspective for the host country characteristics and likelihood of political risk together with likelihood of investment decision.

On the other hand, both of these two approaches are not fully capable of addressing an important question: 'What motivates governments to intervene in multinationals' operations whenever there is an opportunity?' In addition, government intervention and political risk is not only limited to extractive or infrastructure industries as exemplified by the Bargaining Power Approach. On the contrary in recent years, there is increasing political risk for multinationals in high-tech and service industries that do not usually have physical assets in host countries (Stevens et al., 2015). Furthermore, political risk is not a phenomenon just limited to host countries but also home countries (Stevens et al., 2015). In addition, it seems that the nature of MNC-host government relations has also a tendency to shift incrementally from adversarial behaviour toward cooperative and competitive behaviour (Dunning, 1998; Luo, 2001, 2005).

To respond to all these issues, a third approach namely the Legitimacy Approach was developed. This approach postulates that there is a need to analyse how the host government's motivation to intervene is influenced by the societal context; the political risk at the home country; and the increasing political risk for high-tech multinationals in host environments. Accordingly, this approach also argues that political risk is still very important though it has changed in nature recently. As a result, multinationals are not exposed to political risk in a mechanical framework in the host country on the basis of their initial bargaining position and the host's characteristics. But rather, their own actions can greatly affect their bargaining power, legitimacy, and the host institutional structure with which they interact. And therefore, in a way multinationals can create or mitigate their own political risk (Stevens et al., 2015).

All these arguments take us to what we said earlier: It was easier to understand political risk from the viewpoint of multinationals by the 1990s. However, this has changed because of the recent trends since then. These FDI trends can perhaps be categorised under a number of points: Firstly, as result of the Cold War's end, and transition from the centralised economic planning system to market economies in the ex-Soviet Block (i.e. USSR and the communist Eastern European countries), the approach to foreign direct investment and multinationals have been shifted, not only in these countries but also in many parts of the world. As mentioned before by the 1990s, communist countries were quite cautious towards multinationals activities though there had been a tendency towards softening this approach throughout the time due to the need of external capital and transfer of new technologies. Even non-communist developing countries were rather cautious to multinationals due to nationalist and developmentalist tendencies and the import substitution policies which were widely adopted during the 1960s and 1970s. However, following the Cold War's end, on the contrary to the earlier period, a race started among nearly all countries for attracting multinationals and FDI. Another dimension of this process was related to China's policy shift with regard to FDI. Under the post-Mao leadership in 1978, the Chinese government adopted a new policy to absorb foreign capital to accelerate economic growth. But this was not a simple 'opening up' policy as the government was willing to accept foreign capital only in line with the Chinese terms (Pearson, 1991). All these developments have created such an environment for FDI in which even the 'race to the bottom' has been a case for many developing countries (Amaro and Miles, 2006; Asghari, 2012).

Therefore, in the 1970s, major concern was about political risk was expropriations mainly extractive and infrastructure industries in developing and/or socialist countries. Currently however, political risk is an issue regarding all countries and industries. It is still true that conflicts and geopolitical struggles in different parts of the world pose risks on their own. But nowadays, there is also a further need to monitor politics not only at the level of political regimes and governments, but also at the level of the individual and society. On top of these, the recent developments such the Covid-19 pandemic and the climate change crisis warn us that political risk should be carefully evaluated from a much larger perspective.

3 Recent political developments affecting multinationals

Having said that the focus for political risk seems to be shifting from developing countries to highly developed ones. Interestingly, for instance, there is a rise in populist and nationalist views among a number of politicians in the western world. When these people are elected, they may bring trade and investment restrictions, higher government spending and lower taxes, resulting in wider fiscal deficits and restrictions on immigration. Surprisingly, some of such views have even been able to gain additional power recently.

For example, Donald Trump was elected as the US president in 2016 by campaigning over such perspectives. And one of the first decisions of his government was abandoning the Trans Pacific Partnership Agreement. Even the future of Transatlantic Trade and Investment Partnership Agreement was not really clear under the Trump administration though the negotiations were still in progress. His policies on free trade, inward foreign direct investment, NATO, foreign policy and immigration, etc. reflected a significant shift from traditional approaches in the USA. The relations between the USA and the EU countries were also in a general deterioration since Trump came into power. Trump left the seat to Joe Biden by losing the elections in 2020. However, it seems that the USA may have further problems in the future as recently argued by Kagan (2021): "The United States is heading into its greatest political and constitutional crisis since the Civil War, with a reasonable chance over the next three to four years of incidents of mass violence, a breakdown of federal authority, and the division of the country into warring red and blue enclaves. The warning signs may be obscured by the distractions of politics, the pandemic, the economy and global crises, and by wishful thinking and denial."

When Trump came to power, he reacted to the US' huge trade deficit, especially with China, by imposing punitive tariffs on imports from China but also from other allies like the European Union. President Trump accused China of unfair trading practices and the theft of intellectual property. With the introduction of additional tariffs, the USA especially wanted to force the Chinese to change their economic policies and stop subsidising domestic companies. Beijing however had a different perception of these measures and interpreted the US tariffs as an attempt to curb its rise as a global economic power. Therefore, the Chinese government also imposed tariffs in the same amount on the US imports. This example shows urgently that unilateral decisions of countries can bare a high potential of political risk. In the specific case it led to a trade war that heavily affected not only the producers and consumers in the USA and China, but also in many other countries of the world. Fatally, the US trade barriers are not only affecting the targeted Chinese economy but the US companies are also suffering by those tariffs (Harrison, 2019). Many US companies decided to produce in China and import their products back to the USA, but saw the prices of their goods rising because of that trade war between the world's two largest economies. To solve this problem and reduce the risk for the US companies, the American business community requested the new Biden administration after the change of the government to abolish the trade barriers and ease tensions with China. The Biden administration however even strengthened the anti-China alliances and declared the trade war between China and the USA as "a battle between the utility of democracies in the twenty-first century and autocracies" (Huang, 2021). With this decision Biden has officially shifted the US trade deficit with China from an economic to a political layer with all the consequences for the American businesses and consumers. Meanwhile, three years after Trump imposed the tariffs on Chinese imports to reduce the US trade deficit it turns out that the bilateral trade between the USA and China returned back to normal. Interestingly, even with the punitive tariffs on Chinese imports the US trade deficit did not improve (Crutsinger, 2021). This leads to the fact that protectionist measures like trade tariffs are not suitable to solve trade deficits or other economic problems in the long run (Lemieux, 2018).

The increasing tensions between the USA and China are also extended to trade-related investment issues. Not only the USA but also the EU are highly concerned by the rise of emerging country multinationals, especially state-owned ones, owing to the risk of losing intellectual property related ownership advantages of their multinationals and companies in general. With regard to the case of Chinese and Russian multinationals, this issue is also about state capitalism as many Chinese and Russian multinationals are state-owned. In fact, this is not a recent issue; rather state capitalism, emerging markets, and emerging market multinationals are the phenomena of the last decades. In the 1990s it was the liberal spirit of countries like the USA, Japan or the European Union that shaped an economic model that was based on private investments and private enterprises (Bremmer, 2008). It seemed that with the breakdown of the Soviet Union the era of the state-controlled political economy belonged to the past. Today, after 30 years have passed, the world faces a growing influence of emerging market multinationals. Huge companies from often autocratic countries are gaining more and more economic and also political influence. As an example, in the first decade of the 21st century over 100 state-owned companies from the so-called BRIC (Brazil, Russia, India and China) countries appeared in the Forbes Global 2000 list (Bremmer, 2010; Rygh and Benito, 2021). Meanwhile state-owned enterprises (SOEs), political banks, and other state-sponsored entities have become leading players in the world market. Usually in a free-market economy additional companies are no problem because they regulate the market. The situation however with the state-owned companies is different because of the attitude of China and Russia who tend to dominate the markets. They use their state companies not only for economic, but also for political reasons to put pressure on other countries, to control certain types of natural resources or undermine environmental and labour norms in the countries where they are active (Kurlantzik, 2016). A prominent example of such a behaviour is the Chinese New Silk Road Project. Instead of promised investments into trade route projects, Chinese state-owned banks are giving loans to finance the new infrastructure. The loans however have the precondition that Chinese state-owned construction companies, such as the China Road and Bridge Corporation (CRBC), have to be engaged in the projects (Prtoric, 2020). Therefore, the economic benefits for the host countries are rather small. Furthermore, with rising debts towards China, the political influence of China in those countries is steadily growing. Through corporations with local telecommunication- and television companies the Chinese state-owned media companies like CCTV are able to broadcast unfiltered propaganda and influence the countries educational sphere and political narratives. On top of that China is promoting and implementing its 5G telecommunication technology in those countries. Companies such as Huawei, which are suspected to spy for the Chinese government, are meanwhile questioned or even banned in some states (BBC, 2020).

The situation with Russia is similar. In contradiction to China, Russia is not producing high tech products and services which they use to gain political influence in other countries. Russia is using their natural resources like gas. With their state-owned company Gazprom, they are playing a major role in the world's energy market. Gazprom is not only used as the cash cow for Russia to finance their political interventions, for example in Ukraine, Georgia or in Syria. Russia is also using its state-owned company in conflicts to threaten other countries by stopping the energy delivery. Interestingly, those state capitalist models have a charm for some countries. Especially in less democratic countries such as Turkey, Thailand or Malaysia, state capitalism is eroding political freedom and stability (Kurlantzik, 2016).

Another interesting political risk event has been Britain's exit from EU, Brexit, following a referendum in June 2016. The referendum generated significant uncertainties, not only for the British economy, but also for the EU, and even the global economy, and hence for the multinationals having operations in Britain (Syafrian, 2020). Auto manufacturers' position was really critical. To that end, major car companies in Britain such as BMW, Daimler, Jaguar Land Rover (JLR), Peugeot, the PSA group, and Toyota warned the British government about the importance of free trade between the UK and EU for the automotive industry. For example, Toyota considered temporarily closing its Derbyshire plant, which employed about 2600 people, and its future would be uncertain (*The Guardian*, 2018). However, after the British people's decision to leave the EU, many Eurosceptic politicians in other European countries celebrated the result, and expected other countries to follow the British example. For example, the French presidential elections in 2017 were a very important stage in shaping such expectations for the future for France as Marine Le Pen was also running for the presidency, based on an anti-EU campaign. Pro-EU Emmanuel Macron's presidency has later currently calmed down such concerns. But, it seems that by the time there is a full recovery from the global financial and economic crisis, those discussions and the risks against the existing establishments could be still on the scene sometimes. And, all such changes may easily affect multinationals strategic behaviour in those countries similar to the case of Britain after the Brexit.

European affairs were not limited only to these events. For instance, the Ukrainian territory Crimea's annexation by Russia in March 2014 with a military intervention has changed the security position on the European continent significantly. Though there were contradicting views even within EU over the conflict, it now seems that Poland for example has particular concerns due to the unpredictability of Russia, which does not avoid using even military power.

In the late 1980s, after the collapse of communist regimes and the end of the Cold War, however, there was initially huge optimism for peace and political stability in Europe. Yes, there was a very long civil war in ex-Yugoslavia in the centre of Europe; but with the impetus of the end of the Cold War, the European Union started an ambitious enlargement process and since then many newly independent or ex-communist countries have either joined the EU or applied for full-membership. While all such developments were in progress, Russia was forced to accept all these, as she was also busy with her own restructuring process. In 1999, Vladimir Putin first became the prime minister and then the president in Russia. Since then, Russia's stand regarding the world's political events has resembled the Soviet period.

While the Western world has been struggling with these developments, developing countries are also experiencing important problems with further implications for the industrial word. One of such major affairs is the civil war in Syria, which started in 2011 and still continues. At the moment, nobody can predict which type of resolution will be the final stage. But even this single event has caused millions of refugees to flow from the region, mainly to Europe. The Syrian refugees have particularly had an impact on neighbouring Turkey, and also on Greece and Germany, not only financially but also regarding social and political aspects.

In fact, one of the important issues in recent years is international migration itself. Migration may be a very important issue in every period of world history, but recently, during the war between the countries that were the heirs of the former Yugoslavia, the migration movement from these countries, especially to the Western European countries, stopped with the end of the war in the Balkans. Then, as mentioned earlier, the civil war in Syria started a great migration movement from Syria to the whole world and especially to Western European countries. In this process, Turkey, which is the border neighbour of Syria, has also become a country of immigration. Negotiations between Turkey and the European Union on slowing down the migration of Syrian immigrants to European countries resulted in an agreement. Turkey currently hosts more than 3.7 million Syrian refugees according to official statistics (McGregor, 2021). Although migration from Afghanistan has been on the agenda in every period since 1989, when Afghanistan was occupied by the Soviet Union, the migration of Afghan refugees to the West became massive, with the Taliban regime dominating Afghanistan a short time ago. In this process, it is seen that Turkey will also play the role of a buffer immigration country between Europe and Afghanistan. Migration to Europe is not only Asian-based either. There is a huge movement of African migrants heading to Europe via the Mediterranean. The USA has also problems with immigration, especially in terms of the immigration of the Hispanics from mainly the Latin American countries. Prior to the Biden administration, the issue of immigrants was among the most important ones on the political agenda during the Donald Trump administration. Interestingly, immigrants are also used as a weapon against other countries by some states and non-governmental actors in our time of migration (Emmott et al., 2021). A prominent example is the Belarusian President Lukashenko who is using immigrants from Syria or Afghanistan to put pressure on the European Union to convince them to reduce the sanctions against his country. Since the Belarusian elections in 2020, when Lukashenko was re-elected and the protests against him began, Belarus was a country that attracted FDIs because they were a reliable business partner. Therefore, it is possible to consider the issue of migration as a political risk factor in terms of multinationals operations.

Another interesting political risk case has been Turkey. Since the coup attempt in July 2016, there have been important political developments in the country. For instance, just after the coup attempt a state of emergency was declared; and then a referendum was held on 16 April 2017 to amend the country's constitution. This was followed by a major structural change in the political structure to replace the existing parliament-based government with a presidential system. As a result, there are serious concerns as to whether Turkey is evolving into an authoritarian regime.

A latest outburst has come from the Middle East. The four Arab countries led by Saudi Arabia first cut off their diplomatic relations and then initiated a boycott against Qatar stating that the government in Doha has links to terrorist groups. The conflict arose less than a month after Donald Trump's visit to Saudi Arabia, where he called for Muslim nations to unite against extremism. This issue was escalated as Iran and Turkey backed Qatar while the other countries increased their pressure. There were serious worries that the dispute could be ended with military action in the region. But then, the situation calmed down. However, the region is still faced with significant stability and hence security concerns. For instance, as one the most important global energy producers, Saudi Arabia is having internal political clashes in the kingdom's palace while the oil price has hugely declined and plummeted the oil-rich kingdom's finances. It is interesting to see that even such a resource-rich country is financially struggling, and has tripled the value-added tax as a cure for the deteriorating fiscal position by also taking the risk of public dissatisfaction and downgrading economic growth. Saudi Arabia's stability is not under immediate threat, but there are still questions about the kingdom's longer-term fate.

But more importantly, a new event, the recent global Covid-19 outbreak has also significantly increased political risk in many countries, as the pandemic has exposed further economic fragilities particularly to developing nations. In a way, the pandemic has created systemic risk for many countries and industries altogether (Linkov et al., 2021). The Covid-19 outbreak has significantly increased political risk in many countries, as the pandemic exposes further economic fragilities particularly to developing nations. It is now clear that the pandemic has already worsened the existing recessionary tendencies in many counties by significantly decreasing GDPs, and rising unemployment. Therefore, high unemployment and potential dissatisfaction with public services due to burdening fiscal position of governments may even drive social unrest in some countries in the coming quarters. It is also expected that the pandemic may cause tensions regionally and globally that could end up with terrorism, immigration, and hence further instability in a larger framework. In addition, while lockdowns and rising unemployment decreases the global demand in many industries such as tourism, air travel and related areas, widespread restrictions on large-scale gatherings and mobility has also disrupted many industries' supply chains. All such developments also expose further risks to multinational companies with regard to business continuity. It also affects FDI policies of countries though policy response varies. While some countries adopt policy measures to support investors as a cure against contracting production, some others put in place measures to protect their critical infrastructure and industries. On top of these, the pandemic has also proved that global supply chains are so sensitive to such global and systemic risks. As a result we now see observe a growing tendency towards 'nearshoring' (van Zijverden et al., 2021).

The Covid-19 pandemic is characterised by global disruption simultaneously in numerous subsystems of our societies. As a result, we are seeing structural shocks everywhere with the resulting compulsion to reorganise. What is special is the high speed at which the problems have arisen, which has made necessary immediate reactions with simultaneous existential effects. Basically, we are experiencing challenges like in most sustainability-related problem areas, but at very fast speed. Glaciers are melting more slowly, and climate change is also being felt much more slowly, though certainly with comparable force. Global interactions forced activities through the pandemic with the result of a high level of uncertainty for almost all international supply chains, but also for some national supply chains. Especially in the liberal part of the world the adaptation reactions can only be coordinated voluntarily and democratically self-organised in an almost free market environment.

As a result of the pandemic, global supply chains and just-in-time production are fragile, social imbalances in education are exacerbated by digitalisation deficiencies, limited available capital buffers and debt sustainability restrict room for manoeuvre, etc., etc. This results not only in the obligation to address all these challenges systematically and in the perspective of a global nexus of human life, but at the same time also in the opportunity to now address long-missed development steps in such a way that we can finally live up to the paradigm of sustainability.

Since the crisis also reveals some structural strengths, we already have an impetus for discussion – and this is already taking place intensively. For example, subsidiarity is proving to be a strong element of competitive crisis management. Although states act as an effective actor for maintaining services of general interest in the event of a crisis. This has to be grounded by a permanent political discourse through broad decision-making authorities constantly delegitimised by relevant stakeholders. These processes also increase the risk of unpredictability of political decisions all over the world. Borders get closed and opened at lightning speed and collaborations between nations often stop from one day to the other in affected sectors. On the other hand, we often see discourse-ethical multi-stakeholder approaches with which situations are permanently re-evaluated and which, shaped by regional peculiarities, lead to different solutions for one and the same challenge. We can therefore not simply make projections about the further development of the globe. The high interdependence between nations, markets and industries all over the world can multiply single decisions up to global problems. Only one example for that is the lack of computer chips that leads to many follow-up problems in several industries. It seems that the world will not get out of this crisis by growth alone, but with growth and above all with social, ecological, and health-related innovations in all sectors worldwide. These challenges also have impact on regulatory risks, as they might directly come out of political decisions to fight short term problems.

Under such conditions, it is interesting to go through all of these events which are, in fact, far from giving the complete picture. Let us keep in mind that we have not yet even mentioned the acts of global terrorism in major cities in the world. These issues are not only political; they may also have significant economic or business-related consequences. For instance, Brexit has already proved that there will be unexpected outcomes for multinationals' operations in Britain. For example, it is claimed that many banks and financial sector companies based in London are planning to relocate their operations elsewhere in continental European cities such as Frankfurt. Or similarly, as a major direct investor in the world, Germany's political relations with Turkey may affect German multinationals' operations in Turkey. Or, as pointed out, the pandemic has also started to force multinationals to review their investment and operational decisions. It would not be then naive to expect government reactions accordingly. We have not yet even mentioned the trade wars, the heated US–Chinese relations, the Libya affair, the tensions caused by oil and gas exploration in the Mediterranean, etc.

In this environment there are serious concerns among business people, politicians, academics and thought leaders that the world is becoming more insecure due to pandemics, climate change, environmental degradation, global terrorism, nationalist and authoritarian tendencies, etc. Naturally, multinational corporations' FDI activities cannot be isolated from all such developments. Therefore, political risk management will surely be a very interesting area to study these days. In other words, in the current global environment of high political risks and policy uncertainty, it will certainly be valuable to examine the evolution of political risk perceptions of multinationals, and also the tools and techniques they use to skilfully manage such risks. Analysing how investors perceive and deal with these risks will additionally contribute to a better understanding of the role of political risk insurance in the post-crisis investment landscape, and how it can help multinationals' direct investment activities in high-risk regions or countries.

4 Overview of the special issue

This special issue came to the fore in May 2018 at the 1st International Business Conference of the Würzburg International Business Forum, held at the FHWS. Professor Ilan Alon was the keynote speaker of the conference, and his topic was "Managing International Political Risk: Arising Challenges for Multinationals in a Changing World". Professor Alon suggested that the *European Journal of International Management*, of which he is the chief editor, could be the right place for a special issue on the topic. The conference brought together a small group of experts working in the field of multinationals and political risk management, some of whom also contributes to this issue. Therefore, this special issue is the end result of a long process starting in May 2018.

This special issue seeks to illustrate how international political risk, particularly in the post-Covid-19 World, is a critical variable for multinationals. Submissions were expected to be theoretically and empirically rigorous, while at the same time relevant for practitioners. We received 15 official submissions in response to our call for papers, plus an additional dozen inquiries from researchers whose proposals did not fit the aims of the special issue, so we recommended them to submit their works as regular submissions to the journal. We are extremely grateful to the many reviewers who graciously assisted us during the peer-review process of the submissions, as their feedback allowed authors to significantly refine and improve their contributions. As a result of this process, seven papers were finally selected for inclusion in this special issue, addressing various aspects related to the management of political risks. We briefly introduce these papers here:

In the first article, titled ‘A configurational approach to explain non-market strategies in emerging economies’, Heredia, Rubiños, Flores, Heredia, and Arango study the likelihood of firms’ engagement in corruption in emerging economies. To do so, they build on a fuzzy set qualitative comparative analysis and investigate the multiple possible configurations of combinations of antecedents that predict the probability of engaging in corruption. Integrating insights from the strategy tripod, they find empirical evidence of a dual effect of foreign ownership as well as a counter-intuitive one for high e-governance and press freedom. Finally, their study shows how the impact of specific antecedents, such as diversification and informal competition, depends on the specific configuration in which they are included.

In the second article, titled ‘The effects of home country political risk and uncertainty on the financial performance of firms’, Grellmann, Amal and de Vasconcellos analyse the impact of home country political risk and uncertainty on the financial performance of MNEs from countries with different development levels and with different technology intensity levels. Contributing to the International Business literature focused on the impacts of the home country’s institutional environment at the firm-level (Cuervo-Cazurra et al., 2018; Stevens and Shenkar, 2012; Zaheer, 1995), they analyse a sample of 1415 firms from 37 home countries and 10 different sectors, and they find that responses to political risk and uncertainty shocks critically depend on the type of economy and technology intensity of the sector. Besides, they show an important distinction between political risk and uncertainty. While the former can be mitigated via a stable, secure, and robust institutional context, the latter persists even in strong and highly developed institutional environments.

In the third article, titled ‘So, what comes next? Company’s uncertainty on regulatory void over Brexit: the case of Polish companies’, Mroczek-Dąbrowska and Matysek-Jędrych address the disruptions to regional integration caused by Brexit. The authors draw on a survey of Polish companies doing business in the UK to investigate their responses to the increased uncertainty in two dimensions, namely uncertainty towards the future arrangements between EU and UK and uncertainty over the institutional agility in the UK. They find empirical evidence of the existence of heterogeneity in the level of firm responses, with a large group of firms not particularly affected, but also two specific groups, those with significantly longer experience in the host market and those who not only trade but also invest in the UK, showing significantly greater concerns.

In the fourth article, titled 'The response of EU trade dependent firms to the globalisation backlash', Curran and Eckhardt explore the strategic responses of trade dependent firms in the EU to the recent backlash against globalisation. Their findings make a contribution to the increasingly growing literature focused on Corporate Political Activity (CPA) (e.g., Hillman and Hitt, 1999; Lawton et al., 2018). The authors conducted 26 interviews, focusing on four cases of trade policy changes over the period 2016–2019, and observe that the majority of companies mobilised against protectionism in a collective way, via trade associations, rather than independently. In turn, sectoral associations mobilised collectively or independently, depending on the specific nature of the threats. Finally, they find little evidence of trans-national lobbying or mobilisation with civil society groups, with the exception of Brexit.

In the fifth article, titled 'Regulatory uncertainty and foreign subsidiary strategic proactiveness: an institutional approach', White and Rajwani investigate why foreign subsidiaries proactively seize opportunities and compete in uncertain environments, focusing on their regulatory origins and managerial perceptions. The authors build on neo-institutional theory and the institution-based view and contend that the greater the perceived regulatory uncertainty, the more the subsidiary will behave proactively. Yet, they also argue that the home country characteristics in terms of regulatory stability can negatively impact proactiveness. Finally, they propose that greater perceived regulatory uncertainty will increase the positive effect of lower home-country regulatory quality on foreign subsidiary strategic proactiveness. Empirically, they validate their hypotheses drawing on a sample of 215 foreign subsidiaries in the Philippines.

In the sixth article, titled 'A tale of two international strategies: how telecom operators of the European Union and the USA dealt with the political-institutional environment after the global financial crisis', Ramiro, Arahuetes and Robinson address the internationalisation process of telecom operators since the beginning of their international expansion in the 1980s. They pay particular attention to the factors conditioning the competitive strategic behaviour and internationalisation of both US and EU operators, comparing international profile and financial positions. Building on a case study methodology based on a comparative analysis of seven telecom operators and opinions of 50 senior executives, board members and professionals, their findings underline that the institutional environment and the strategic reaction of operators in the USA was more effective than that of European operators.

In the seventh article, titled 'Project finance and recourse loans: determining debt choices in political, economic and financial risk positions under global perspective', Arif, Nazir, Qamar and Abid analyse how country risk affects the debt structure choice, distinguishing between political risk, financial risk, and economic risk. Drawing on a sample of 63,992 asset-based loans from 98 countries, they find empirical evidence that country risk influences project finance or full-recourse loan selection. Their multi-faceted conceptualisation of country risk allows them to provide finer-grained results. Specifically, their results show that political or economic risk increases the predictive probability of project finance loans, whereas financial risk decreases the project finance loan selection probability.

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