GEOPOLITICAL RISK – FINAL INDEX 2024

Construction of a geopolitical risk index

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1. Introduction

In our geopolitical risk final index, we capture geopolitical risk through 6 dimensions:

1. Political risk
2. Government interference
3. Globalization
4. Conflict and unrest
5. Geographical risk
6. Geoeconomic dependency

We were able to expand our final geopolitical risk index both geographically and temporally. Indeed, the final index spans from 2011 to 2022 and includes 147 Countries. Overall, compared to last year's index which included only 2020 and 2021 data for 33 countries, the explanatory power of the index has increased significantly.

2. Political Risk sub-index

We improved the political risk index by enhancing its historical depth, geographical reach, and accuracy, encompassing political, social, and economic dimensions. The political index changed structurally, now focusing on State Legitimacy (25%), Public Services (12.5%), and Human Rights and Rule of Law (12.5%), all from the Fragile State Index. Government Effectiveness and Rule of Law were replaced to reduce overlap and source inconsistency. The social index remained unchanged, while the economic index now covers four macro-categories, incorporating more sub-indexes from the Index of Economic Freedom and the Fragile State Index. The database now spans from 2009 to 2022, compared to the previous 2013 to 2022 range.

3. Government Interference sub-index

The index has been significantly improved considering both the number of countries and the time horizon. Our final index spans from 2000 to 2022 and includes 165 Countries.

The previous "subsidies and transfers" sub-index was changed with an index representing spending in percentage of GDP. We decided to retrieve data from other sources for the remaining sub-sub-indexes. This was done for different reasons, such as improving the number of countries and the number of years, or for using another data, with a methodology that could better capture the variable we were considering to build the sub-index. In conclusion, modifying the sources of the sub-sub-indexes gave us the possibility to significantly improve the explanatory power of sub-index with respect to the previous year.

4. Globalization sub-index

Overall, we found the previous year' index to be a good representation of the globalization status of the countries that were included.

Therefore, we updated the various sub-indexes, both timewise and country-wise, and we formatted the Excel file to make it more comprehensible and uniform.

In the Excel we have also updated the formula to assign the score as a percentile for the various countries. To make the formula more straightforward to understand we replaced the "=IFS" with the built-in formula ("=Percentrank") to assign the percentile to each country.

The final index spans from 2000 to 2022 and it includes 217 countries.

5. Conflict and Unrest sub-index

The conflict and unrest sub-index was modified with respect to the last year. The protest tracker was removed while the safety and

security and militarization tracker was added. We decided to remove the protest tracker because of issues related to limited coverage of international protests (it only looked at news in English) and because it covered only anti-government protests. Hence, it was not applicable in non-democratic regimes where there isn't always a free right to protest. The weight for the protest tracker was shared equally between the new sub-sub-indexes.

Some countries were added, such as Côte d'Ivoire, Czech Republic, Cyprus, Eswatini, Myanmar, Czech Republic, Cyprus, Eswatini, Myanmar, North Macedonia, Republic of the Congo, Republic of the Congo, and Gambia

The timespan was extended to include 2008-2015 and 2022/2023, with data available for 160 countries.

In conclusion, the formula for ongoing conflict was corrected to $10*(x-min)/(max-min)$ to harmonize values on a scale of 1-10.

6. Geographical Risk sub-index

Changes in the geographical risk index aims at widening the number of years and countries. Most of the proxy variables used for the subindex have been changed, except Natural Resources and Climate Change for which we just proceeded with an update of the past data. The weight assigned to the subindexes remained unchanged, and we reached data for 167 countries from 2011 to 2023 after having crossed the data of all sub-indexes.

7. Geoeconomic Dependency sub-index

The Geoeconomic Dependency Sub-Index has been improved on three main levels.

Firstly, the database has been expanded significantly in terms of historical depth, both in the past and in the recent years, including also the period 2021-2022. By maximizing the exploitation of the available sources, the number of years has increased from 5 to 16,

covering the timespan 2007-2022. Furthermore, the geographical reach and representativeness have been enhanced at the sub-sub-index level, improving the reliability and accuracy of the Geoeconomic Dependency Sub-Index.

Secondly, the Excel file has been substantially upgraded, now providing a fully streamlined process that starts with the sources, includes the relevant raw data and calculations, and ends with a completely automated summary sheet. As a consequence, the future update process will be fast and straightforward.

Lastly, the past inaccuracies have been rectified, also introducing a new indexation method that prevents the underestimation of Geoeconomic Dependency risk.

In conclusion, the 2024 Geoeconomic Dependency sub-index tackles some of the limitations present in the past editions, growing significantly in size at the same time.

8. Methodology

To consolidate the six subindexes and create the final geopolitical index we had to (i.) standardize the names of the countries, (ii.) make a list of countries that were present in every subindex, (iii.) use the Excel index match formula to fetch the data from the subindexes and (iv.) weight the subindexes according to the percentages below.

We assigned the following weights to the six subindexes: 25% to political risk (-5% vs last year), 15% to government interference (+5% vs last year), 10% to globalization, 30% to conflict and unrest, 10% to geographical risk and 15% to geoeconomic dependency. (unch. vs last year)

9. Results

Country	Final Geopolitical Risk Index 2022	2020	2021	2022
Top 5				
Ireland	2.35	1	1	1
Singapore	2.83	2	2	2
New Zealand	3.01	6	4	3
South Korea	3.13	14	17	4
Finland	3.14	3	5	5
Worst 5				
Mali	7.01	141	140	143
Mauritania	7.02	140	136	144
Central African Republic	7.34	145	145	145
Syrian Arab Republic	7.50	146	147	146
Yemen	7.74	147	146	147

We highlight the results for the top 5 countries (with the lowest geopolitical risk) and the worst 5 (with the highest geopolitical risk).

Only the countries for which all the 6 sub-indexes were available compose the final set of countries. The final set of countries includes 147 states from 4 different continents (Europe, America, Asia, and Africa). We have ranked the countries from the lowest to the highest, according to the value of the Final Geopolitical Risk Index. The scale goes from 0 to 10, the lowest score being the safest country and the highest score being the riskiest country.

Ireland emerges as the safest country of our set, over the last 3 years, with a score slightly above 2. Yemen instead is the riskiest, with a score of 7.74 followed by Syria and Central African Republic. Those countries are torn by wars, especially in Yemen there is a civil war that started more than 10 years ago.

10.   Conclusions

The geopolitical risk index has been developed to help business and non-business Institutions.

What we have delivered is a more accurate and easier to read measure of geopolitical risk. Indeed, we focused on improving the reliability and the accessibility of the index built by our predecessors. We believe that our work can give the possibility to easily access the sources that we used to retrieve the data. In addition, the use of formulas in Excel files improves the accessibility of the sources and it makes it easier for future users to update the index. We also added our limitations and possible room for improvements for each sub-index, with the aim of giving users possible suggestions to further improve the final index.