

## **Country Names as Brands: Symbolic Meaning and Capital Flows**

John Pantzalis

Saint Leo University

john.pantzalis@saintleo.edu

Carl A. Rodrigues

Montclair State University

Rodriguesc@saturn.montclair.edu

## Introduction

The financial crisis that started in Thailand in 1997 and spread in several countries all over the world during the next 18 months became the focus of study among academics, professional fund managers, central bankers, governments, businesses involved in international transactions and markets, as well as individual investors (Hunter, Kaufman and Kruger 1999; Goldstein 1998). For a while there was a danger of the crisis moving beyond the developing countries and plunge the global economy into a new depression. Although this did not happen, several questions remain as to the origins of the crisis, and as to potential means to prevent something similar from happening again (Anthony and Goh 1998).

Several theories have been proposed to explain the causes of the crisis, and it looks like the debate will occupy economic historians and policy makers for some time (Pempel 1999). Our paper is an introduction to what we consider a contributing factor to the crisis, rather than a complete explanation. We propose that the movement of international capital is influenced by perceptions of countries as brands by investors. Thus, brand positioning and brand management where the brand is the country become critical in attracting global capital, and they also affect how and when capital may flee a country in situations such as the 1997 crisis.

The paper is organized as follows: We discuss first how certain geopolitical and ideological developments in the last 20 years have changed the ways the international financial markets operate. Then we look at how these developments have resulted in countries being perceived as brands and how these perceptions may have affected the

spreading out of the 1997 crisis. Finally, we develop some propositions and we outline a future research agenda for testing them.

### Geopolitics, Ideology, and the International Financial Markets

During the 1980s several factors contributed to the change in the way the international financial markets operated. These factors were either older trends that accelerated, such as technological changes in telecommunications and computer power and cost, shifts in ideology reflected in Ronald Reagan and Margaret Thatcher being elected, or in more singular events such as the fall of the Berlin Wall. These factors continued throughout the 1980s and 1990s and changed the operations of the international financial markets dramatically.

The first major change was geopolitical. The fall of the Berlin Wall in 1989 signaled the end of the cold war and of communism as a credible opponent to the western democracies. The Soviet Union dissolution in the early 1990s created several new countries and changed the focus of both east and West from military buildup to economic development. Communism was discredited both as a theory and as a practice; even countries that nominally remained communist such as China and Vietnam started opening up their economies to international capital and markets and adopted free market ideas.

This opening up of several previously isolated countries created a strong competition for attracting international capital. Places like Russia, Estonia, China, Vietnam, even Cuba suddenly were trying to attract foreign investment, realizing that this was their best bet in developing their economies. International investors were suddenly presented with a more diverse menu of investment choices. Thus, the end of the cold war

opened up a larger number, type and risk-return set of investment opportunities around the world.

The second development was ideological. Until the mid- to the end seventies, most advanced economies in the west regulated their economies extensively, including money and capital controls. During the 1980s the United States and the United Kingdom started moving to the opposite direction, reducing the role of the government in the economy. This deregulation created tremendous investment opportunities as mergers and acquisitions as well as the search for better returns increased the global capital movement. Gradually, during the late 1980s and throughout the 1990s the trend to relying more on the market and less on government planning spread all over the world. Governments from France and Italy to Argentina, Mexico and Brazil deregulated their economies and privatized previously state-owned assets. This, in turn resulted in international capital pursuing these investment opportunities.

The third development was technological. Computing power exploded while cost contracted dramatically. At the same time telecommunications became cheaper and more reliable. Long distance calls became very affordable not only for major companies but also for small businesses and individuals; the use of cellular phones already exceeds the use of regular phones in several countries. In addition, the Internet created an integrated network that provides almost instant information 24 hours a day. Financial news are now available to practically everyone almost instantaneously and at an extremely low cost. This has changed the participants in the international money flow process; in addition to banks, governments, retirement funds, insurance companies, and large corporations, we

now have an increasing proportion of medium and small businesses and individual investors who do their own trading from their own PCs.

The fourth development was financial innovation. The beginning was again the early 1980s when a variety of new financial securities were created. This has continued to the present day, and now investors can bet on a variety of financial products from Mexican bonds, NASDAQ 100, light sweet crude, pork bellies futures, heating oil, the Russian ruble, soybeans, mortgages on credit card debts, derivatives, etc. In addition, the development of 401(k), IRAs and other similar retirement plans in the US and in other parts of the world resulted in more people managing their retirement money directly and making investment decisions. Mutual fund assets in retirement funds in the United States were \$412 billion in 1992, but by 1997 had grown to \$1.6 trillion.

In summary, the changes during the last 20 years have resulted in:

- (1) more countries being open to international financial transactions and thus more countries competing for scarce global capital,
- (2) more opportunities for investment due to the global trends of deregulation and privatization,
- (3) more participants due to the global telecommunications network, and finally
- (4) more types of investments due to financial deregulation and innovation.

### Countries as Brands

The speed at which global information spreads combined with the larger number of participants and with the variety of financial products means that any advantage in

terms of identifying a good deal before the competition moves in is bound to be very short-lived. This has resulted in what Friedman (1999) called an "electronic herd." By that he describes the herd-type mentality of global capital to move fast based on the latest information and to often overreact and overshoot. The result is that very often capital movements, especially short-term ones are guided not entirely by rational economic analyses, but to a large extent also by perception and image.

Let us take the case of Russia. After the dissolution of the Soviet Union in 1992 Russia created for itself the brand image of a developed country with skilled human resources that was temporarily poor and needed financial assistance. Thus, the positioning of Russia was of a country with great potential that would soon join the economic powerhouses of the west. A clever brand management of Russia where it gained admittance to the G7 Group as the eighth member reinforced this brand positioning. The proof of how image affects investor decisions beyond the fundamentals was the way the international financial markets reacted to Russia's brand. Although there was limited information and transparency, and although the legal system including property rights, bankruptcy, etc. was underdeveloped, investors bought into the image and for a while the image became a self-fulfilling prophesy. The Russian stock market was the best performing stock market in the world in 1997; by the end of 1998, though, reality had caught up with the hype and the Russian ruble and the stock market had collapsed. Both short-term investors, lenders (particularly German banks) and large companies (by the middle of 1999 BP Amoco had already written off \$200 million of its investment) had lost a lot of money due to them having "bought" the brand image of Russia as an investment opportunity. As Stephen O'Sullivan, head of research at United

Financial Group, a Moscow investment bank said, "People see Russia as a poor first world country, when it's really the third world in many ways" (Banerjee 1999).

Country brand image has also been used to shape investor perceptions in Asia. Both academics and businesses have classified the economies of Hong Kong, Singapore, Taiwan, and South Korea as "the Asian Tigers." Thus, these four countries were positioned close to each other in the investors' mental perceptual map, and they shared a similar brand image despite the considerable differences in the structure of their economic, political, cultural and social systems. A lot of academic research has treated these countries as brands sharing a common position (Kim 1998). The tendency of investors to group countries together and assign to them a similar image is also evident in the way the developing economies of Thailand, Indonesia, Malaysia, and the Philippines were bundled together as the "new Tigers." As long as the good times lasted, this common image attracted foreign investment without any careful scrutiny as to the fundamentals of these economies. In 1996 alone, \$93 billion poured from international investors into just five countries: South Korea (one of the established "Asian Tigers"), Indonesia, Malaysia, Thailand, and the Philippines (the four "new Tigers"). It was all based on country brand image rather than careful market analysis. As James Wolfensohn, president of the World bank said, "... very sophisticated banks loaned to Indonesian companies without any real knowledge of their financial condition, based on name, based on competition" (Kristof and Sanger 1999).

The timing of the crisis, and its path also indicate the brand effects. The same countries that attracted the most money due to their shared brand positioning were the ones that were affected first; in 1997 when the crisis started there was a net outflow of

\$12 billion from the same five countries. Officially the crisis started in Thailand July of 1997 with the devaluation of the baht. It moved to Indonesia in October of 1997 and to South Korea in November of 1997. Countries with a similar position in the country brand perceptual map were affected in a similar manner and in about the same time (Garran 1998). The crisis eventually spread to other developing countries such as Russia and Brazil, but because of their different country brand positioning the timing was different; investors started dumping the ruble in June of 1998, and Brazil devalued the real in January of 1999.

### Future Research Agenda

The tendency of the markets to treat countries as brands and to cluster them in groups of similar positions in a perceptual map is evident not only in the east Asian example, but also in other emerging markets. Developing economies in Africa that have done well lately are already being called "African lions" (Bowditch 1999). The following propositions are the key to the research agenda:

Proposition 1: Countries are treated like brands by the international financial markets; a country's brand equity is a combination a component consisting of the markets' assessments of its politico-economic situation (fundamentals) and a component consisting of an intangible perception (image).

Proposition 2: The ratio of the image component to the fundamentals component within the country brand equity is higher in developing economies relative to the advanced economies.

Proposition 3: Country brands with similar positions in the markets' perceptual brand maps are clustered together; perceptual changes of a brand spread faster to other brands within the same cluster than to brands outside the same cluster.

Our next steps are to create measures of the country brand equity construct, to translate the above proposition into concrete hypotheses, and to test them using data from the international financial markets. Other future research topics include the study of country brand management techniques, the way the image component affects the fundamentals component and vice versa in country brand equity, and the way country brands can be repositioned in different perceptual clusters.

## References

- Anthony, C. and C. Goh (1998). *IMF and the Asian Financial Crisis*. World Scientific Publications.
- Banerjee, Neela (1999). "From Russia with Bankruptcy," *The New York Times*, (August 13), pp. C1 and C17.
- Bowditch, Nathaniel H. (1999). *The Last Emerging Market: From Asian Tigers to African Lions?: The Ghana File*. Praeger Publ.
- Friedman, Thomas L. (1999). *The Lexus and the Olive Tree*. Farrar, Strauss and Giroux: New York.
- Garran, Robert (1998). *Tigers Tamed: The End of the Asian Miracle*. University of Hawaii Press.
- Goldstein, Morris (1998). *The Asian Financial Crisis: Courses, Cures, and Systemic Implications (Policy Analyses in International Economics 55)*. Institute of International Economics.
- Hunter, W. Curt, George G. Kaufman, and Thomas H. Kruger (editors) (1999). *The Asian Financial Crisis: Origins, Implications and Solutions*.
- Kim, Eun Mee (editor) (1998). *The Four Asian Tigers: Economic Development and the Global Political Economy*. Academic Press.
- Kristof, Nicholas D. and David A. Sanger (1999). "Global Contagion: A Narrative," *The New York Times*, (February 16), pp. A1 and A10-11.
- Pempel, T.J. (editor) (1999). *The Politics of the Asian Economic Crisis*. Cornell University Press.