NATION BRANDING AND PLACE MARKETING - III. THE PRICE

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A product's price reflects the shifting balance between supply and demand (scarcity) as well as the value of inputs, the product's quality, and its image as conveyed and fostered by marketing and advertising campaigns (positioning). Price is, therefore, a packet of compressed information exchanged between prospective buyers and interested sellers.

In principle, countries "price" themselves no differently.

But, first, we should see how the price mechanism comes into play in the global marketplace of sovereigns and their offerings.

The "price" of a country is comprised of two elements:

(i) The average (internal rate of) return on investments in its infrastructure, human capital, goods, and services - adjusted for (ii) The risks associated with doing business there.

The first component takes into account the costs of conducting business in the territory - everything from outlays on inputs to taxation. The second component considers the country's political risk, volatility (as measured, for instance, by fluctuations in the prices of its financial assets and obligations), quality of governance, transparency or lack thereof, dysfunctional institutions, stability of policies and legislation, and other hazards.

A country should strive to maximize it price and, thus, create an aura of quality and prosperity. "Selling oneself cheap" communicates desperation and compromised standards. The way to attract investors, tourists, and other clients is to project a kind of "promised land" but without resorting to exaggerations, confabulations, or outright lies.

The message should be relayed both directly (though not obtrusively) and subtly (though not incomprehensibly or deviously). The country should enumerate and emphasize its natural and human endowments, capital stock and infrastructure, favorable tax and regulative regime, political stability, good governance, transparency, functioning institutions, and so on. It should also appear to be substantial, sophisticated, forward-looking, pleasant, welcoming and so forth.

As an increasing number of people around the world "buy" the country's self-perception (where it stands now) and its vision (about its future) - its price keeps climbing and its value is enhanced.

It is much debated whether countries should engage in negative marketing and discount pricing. "Negative marketing" is the disparagement of sovereign competitors and their products and services which are comparable to the country's own offerings or substitute for them. Discount pricing is the strategy of providing at a discount products and services identical to those offered by the country's sovereign competitors.

An example of negative marketing would be to point to a neighboring country's uneducated and expensive labor as a reason not to do business there. An example of discount pricing is to offer tax holidays and rent-free facilities to a relocating multinational.

From my experiences, both practices diminish the country's perceived value and hence, its price. In the long run, the damage to its image far outweighs any dubious economic benefits engendered by these unsavory practices.

Still, some countries are geographically disadvantaged. Recent studies have shown that being landlocked or having a tropical climate carry a hefty price tag in terms of reduced economic growth. These unfavorable circumstances can be described as "natural discounts" to a country's price.

What can be done to overcome such negative factor endowments?