8.2. The problem of reputation of developing countries

Marcin Leszczyński | DOI 10.56091/psde2.11

In the 21st century, countries have fully become participants in global competition. Progressing globalization has led to a situation in which they function in the international environment on the principles similar to enterprises. What plays an increasingly important role in this market is reputation, which, on the one hand, influences consumers by the products they buy, to which access on the global market is increasingly easier – the case of state competition for sales markets – and on the other hand, relates to capital which in the 21st century meets hardly any barriers in the international arena – the case of competition between states for its attraction.

As a result, states had to adapt their strategies, tools and activities, also in the area of communication, to building their competitiveness on the global market. There is a lot of space devoted in the literature to state reputation management, and a number of tools and relationships between this type of activity and the state's position in the international environment and its competitiveness in global economic life are described. However, there are few publications on the role that reputation can play in shaping the position of developing countries (DC). These countries are characterized by certain specific conditions that significantly affect the process of building their reputation. The most important problems faced by developing countries in this area are presented below.

8.2.1. The role of reputation in shaping the international position of developing countries

The information economics is at the heart of the discussion of the role of information in global economic life. Information asymmetry among investors is compensated by the ratings of rating agencies, which allow for the verification of the creditworthiness of countries. On the other hand, the asymmetry of information among consumers is leveled on the global market by the country of origin of the product, which has been described as the country-of-origin effect (Leszczyński 2020; Dinnie 2003).

A number of models of market communication of countries have been developed in the literature. They have been applied in various scientific disciplines, ranging from economics, where they are analyzed through the prism of the reputation of the economy and business (Leszczyński 2019), through political science, which talks about the soft power of the state (Nye 2004), and ending with management. In the latter area, the state's reputation takes the form of a national brand (Anholt, 2013; Olins, 2004; Aronczyk, 2008; Kotler & Gertner, 2002). Countries, like business, have their own material and immaterial capital, thanks to which they can build their own national brand.

It is the national brand that constitutes a set of intangible assets in the form of a vision, distinguished from others by its character and promise that a given country offers on the market (Anholt, 2005). Not every country in the world is economically developed, but most of the countries have a number of intangible assets, which include various types of capital, inter alia: human, intellectual, cultural, geographical and historical. Each of these capitals, if properly used, can provide the basis for accelerating the pace of economic development (Anholt, 2005). Image shaping specialists believe that DC insufficiently use their potential, which would allow them to improve their economic situation and position in the international environment. They also indicate that the tool that can reverse this trend is national branding (Anholt, 2005b; Szondi, 2006).

S. Anholt sees national branding as the main opportunity to improve the position of DC, which will allow for a higher return on funds transferred in the form of development aid and foreign investments (Anholt, 2005). Conducting appropriate national branding is not only about improving the reputation of the country, but is also a tool for building national identity and modern patriotism, which may translate into favoring products from the consumers own country over strong global brands (Akotia et al., 2011; Browning, 2014). It should be noted that, especially in the case of DC, a national brand may support commercial brands from a given country on the international market (Ali & Rehman, 2015).

It is significant that changes in the economic reality in a DC often are not followed by the change in its image. S. Anholt emphasizes the time issue here. Changes in the economic reality can take place quickly, but the negative image built over the years often does not reflect them, which leads to a discrepancy between the image and the actual situation of these countries. He also points out that this problem was encountered by the majority of countries undergoing economic transformation, whose image over the years was shaped in the times of the previous political and economic era. This resulted in their hindered political and economic aspirations in the international environment (Anholt, 2005).

8.2.2. Reputation of developing countries

Most consumers are able to say that the best watches come from Switzerland, German cars are a symbol of reliability, while France is equated with top-quality wine. Similarly, in financial markets, mature markets are seen as safer than emerging markets, which translates into lower debt service costs. It should be noted that DC, both in terms of the country of origin (COO) effect and creditworthiness, are assessed much lower than developed countries. In the case of the COO effect, negative perceptions of DC translate into lower consumer expectations regarding quality, and thus lowering the price they are willing to pay for the product (Gulsoy, Ozkanli, Lynch 2011). Therefore, in order to eliminate the negative consequences of the COO effect, some countries decide to acquire strong global brands, e.g. the purchase of Volvo or Pirelli brands by Chinese investors. It should be noted, however, that investors in DC do not always have the resources at their disposal and can afford government support to carry out such transactions.

DC continue to be mainly suppliers of agri-food products, raw materials and semi-finished products. Food and raw materials belonging to the group of mass (standardized) goods and easy to unequivocally classify, regardless of the place of production, can also be replaced without major problems. Their functional values are identical. Therefore, when deciding to increase the price, a producer of a mass product must take into account the highly probable situation (as long as the producer market and distribution channels of these goods are not monopolistic) that the buyer will find another supplier who has kept the prices at the current level. In fact, the only factor that may influence the differentiation of the price level of standardized goods are the costs of transport and insurance related to the actual distances from the outlets (Deszczyński, 2001c, p. 54).

DC, due to their weak position in the awareness of the public opinion, have limited possibilities of equipping a product with intangible value in the form of a brand. Therefore, their main role is often the supply of raw materials, the creation of semi-finished products and products, which are then given intangible value by companies from developed countries. For example, Brazil and selected other South American, Asian and African countries are famous for high-quality coffee and are global export leaders in this market. Despite this, it would be a problem for the general public to name strong brands from DC that are recognized in the global coffee market. In turn, the largest coffee importers are countries such as the United States, France, Italy and Germany. Although DC is the largest coffee producer, the benefits in this market are generated by strong brands from developed countries, such as German Tchibo, Italian Lavazza, Swiss Nespresso, American Starbucks or British Costa.

In this context, the key problem of DC is the structure of the global market, where they function mainly as a supplier country whose role is to provide raw materials, semi-finished products and labor to enterprises from developed countries, which give the products their own brand and generate high margins. S. Anholt argues that as a result of increasing globalization, supplier countries compete with each other continuously and directly at the global level. This process, on the one hand, leads to a depletion of the resources of DC, and on the other, to a strong dependence on other entities, which translates into lower profitability of this cooperation and less stability of this type of relationship (Anholt, 2005b).

The brand of supplier countries in transactions with enterprises from developed countries is also of less importance. Firstly, the role of the brand in the "business to business" relationships is definitely smaller compared to the "business to consumer" relationships. Secondly, raw materials and semi-finished products from different supplier countries in the era of globalization are so similar to each other that the price-quality ratio is the only determinant of business decisions. The problem of DC is also the fact that the role of supplier countries in the value chain is least related to the research and development phase of new products and the sales phase, where the product is branded (Anholt, 2005b).

Although this trend, especially at the stage of research and development of new products, is more and more often reversed, companies from developed countries are still responsible for creating brand value for products, for which consumers from supplier countries are also often the markets. This leads to a situation in which the problem of limited opportunities for DC to create strong brands deepens even further. S. Anholt points out that companies in DC are generally thought to have trouble getting rich by exporting branded goods for several reasons:

- they are often unable to produce products or services of sufficiently high quality,
- they often do not have sufficient financial resources for promotion or global distribution,
- they lack the experience to build strong global brands,
- building a strong brand in such countries would not guarantee demand for products in developed countries,
- in a situation where some brands could generate demand in the global market, the benefits and profits would not translate into the entire economy, but only into individual units (Anholt, 2005b).

That is why many scientists believe that national branding is a tool that can improve the situation of developing countries in the global market. This problem, however, has signs of "squering the circle". For example, the lack of a good, widely recognized international reputation of national banks and the weakness of developing countries' national currencies generated additional costs. Foreign exporters, in order to guarantee themselves payments for the exported goods and to avoid the risk of exchange rate instability, usually turned to their own banks for confirmation of letters of credit. They also demanded that payments be made in foreign currencies. Each time it was associated with incurring fees – manipulation and for the conversion of one currency into another, usually transferred to a weaker partner from a developing country, which increased their import costs and limited the possibilities of eliminating economic underdevelopment (Deszczyński, 2001c, p. 60).

8.2.3. Restrictions on building the reputation of developing countries

However, in the case of DC, national branding faces some key limitations. First, it should be remembered that state branding is a long-term process in which it is not enough just to communicate about the state, but to make real change. This leads to the conclusion that it is difficult to talk about building the image of an open and technologically advanced country in a situation where the country is facing such basic problems as e.g. corruption (Browning, 2014). Second, when it comes to LDCs, where there is malnutrition, a lack of drinking water or illiteracy, it is difficult to undertake actions to build strong product brands. In this case, the only legitimate strategy is to engage in communication activities to attract development aid and investment (Anholt, 2005b). P. Deszczyński points out that solving the problems of DC is not possible without their thorough internal reforms and external aid (Deszczyński, 2001c).

The development assistance provided to DC may, however, hinder the process of building their reputation. Experts in this area believe that state branding is somewhat inconsistent with development aid and charitable activities, which often perpetuate negative stereotypes about DC in the minds of global public opinion. This may translate into a reduction in investment attractiveness and a weakening of their political position. It should be noted that, paradoxically, it is charitable organizations that contribute to the deepening of the negative image of developing countries, mainly in the case of Africa (Browning, 2014). This leads to a situation where tools that are otherwise effective in arousing sympathy and increasing the propensity of citizens of developed countries to participate in charity actions and finance aid for DC, may have a very destructive impact on the perception of these countries through the prism of poverty and unsolvable problems.

An example of such activities is India, which drew attention to the negative publicity that accompanies the process of accepting British aid by that country and in order, inter alia, to eliminate it, it established its own aid agency (Browning, 2014). It should also be noted that development assistance can be a tool for building the reputation of developed countries (Leszczyński, Rabczun, 2018). Christopher Browning refers to the example of South Korea, where one of the diagnosed sources of the problem of perceiving this country as a poor state was its low commitment to providing aid to other countries (Browning, 2014).

In the light of the above considerations, it can be noted that often not the developing countries themselves, but the developed countries are responsible for building the image of developing countries. DC governments have actually lost control over building their reputation. This leads to a situation where their negative reputation translates into perceiving these countries as a hopeless case that needs help but not investment (Browning, 2014). Aid activities also strengthen the so-called negative brand effect of the continent (Anholt, 2007). Browning points to Africa, where the reputation of some countries that are more progressive is burdened with a negative image of Africa as a continent (Browning, 2014).

Ch. Browning also points out that the assumption that the main cause of underdevelopment in DC is their poor brand, which translates into limitations in building their economic position, is wrong. Especially because all other causes of underdevelopment are ignored. The author explains this by saying that, unlike national branding, development aid plays a central role in solving global inequalities in the market. Another problem is the fact that in the light of the negative effect of the continent's brand, image-building activities of one country may have a negative impact on the perception of other countries, an example of which is South Africa, which builds the image of a leader and a country more advanced than other countries in the region (Browning, 2014).

On the basis of the above considerations, it should be stated that building the reputation of DC encounters some significant limitations that prevent the application of strategies used in this area by developed countries. The development aid provided to these countries, on the one hand, is by definition the main tool for solving economic problems of DC, and on the other hand, along with the activities of charitable organizations, it strengthens negative stereotypes about them. This apparent contradiction leads to a situation where consumers and investors often see DC as countries that need help but not investment. The lack of a strong reputation translates into limitations in the possibility of shaping strong brands in the global market, which would allow producers from DC to generate margins. Importantly, it should be noted that the negative effect of the continent's branding translates into DC building their reputation at the expense of other countries in the region. This means that attempts to improve one's position in the awareness of global public opinion translate into its deterioration in the case of other DC and de facto strengthening of the negative effect of the continent's brand. In this light, actions aimed at building the reputation of entire regions, such as the Brand Africa initiative launched in 2009, seem justified. However, it should be remembered that the actions of DC should not be limited only to this type of cooperation. DC should also conduct activities aimed at building their own reputation, which, in order to avoid strengthening the negative effect of the brand of the continent or region, should be closely coordinated with each other, so that the initiatives of one country do not adversely affect the perception of other developing countries.