NEWS
Big events boost nation branding

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Many have criticized mega-events such as the Olympics and World Cup. Critics argue that the events create huge public debt that takes decades to recoup. Data vindicate these critics -- but also show that other factors determine an event's effectiveness. Usually, poor returns derive from mismanagement and ill-considered investments, and not from hosting the event per se.

While mega-events can involve colossal facilities of little use post-event, they can also provide reputational benefits and be seen as an investment in a nation's brand.

Beijing, for example, viewed its massive Olympics investments in 2008 as a way to build people's skills, including English-language fluency, and to cultivate a service culture.

Strong nation-branding boosts trade and investment. In a 2009 paper, economists Andrew Rose and Mark Spiegel determined that going through the Olympics' bidding process resulted in a 30% increase in national exports. It signaled to domestic and international interests that nations sought economic and trade liberalization, resulting in greater growth.

Paul Krugman, the economist and columnist, has identified how nations pursue perverse-appearing policies to increase investors' confidence. Yet, even perverse mega-event investments provide reputational benefits.

The process of applying to host the 1960 Rome Olympics prompted Italy to join the United Nations and begin negotiations leading to the Treaty of Rome and the European Economic Community.

Similarly, in the lead-up to the 1964 Tokyo Olympics, Japan entered the International Monetary Fund.

Beijing's Olympics bid in 2001 signaled China's commitment to trade liberalization: China joined the World Trade Organization months later.

Investors may derive incorrect inferences from mega-event investments, but herding effects lead to increased trade and capital flows through burnished nation branding.

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