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Press Release – For Immediate Release

Tax Reform Inertia Puts Australia's Nation Brand at Risk

- **Australia's AAA- nation brand strength rating threatened by investor perceptions**
- **US dominance as the most valuable nation brand threatened by Trump's presidency**
- **China is the fastest growing nation brand in absolute terms, up US$3.1 trillion**
- **Asian nation brands boom as Europe stagnates**
- **Brexit process has little impact on Brand Britain, up 6% from 2016**
- **Game of Thrones brings record growth to Iceland, up 83% year on year**
- **Singapore defends strongest nation brand title as it continues to invest in its citizens**

In recognition of the growing influence of national image on the success of corporate brands, Brand Finance has evaluated the 100 most valuable nation brands of 2017.

View the Brand Finance Nation Brands report here

Australia continues to perform consistently maintaining an AAA- nation brand strength rating and securing 11th place in the world with a nation brand value of US$1.5 trillion. The country performs very well across the key pillars of Goods & Services, Investment, and Society. However, Australia suffers from a relatively poor score in regard to taxation.

Mark Crowe, Managing Director, Brand Finance Australia, commented: *"Inertia over reform to the taxation system will continue to hurt Australia's brand image. The country risks being seen as a much less attractive location for overseas investment."*

"There is also a negative perception towards tourism in Australia in terms of value for money. If not addressed, this perception can have an adverse impact on other areas of the Australian economy."

The Trump Effect

With a value of US$21.1 trillion, the United States remains the most valuable nation brand in the world but the meagre growth of 2% year on year is putting its dominance at risk in the long run.

The United States' nation brand value's stagnation can be attributed to macroeconomic challenges, like the declining participation rate caused by the mass-retirement of baby boomers, ultimately contributing to a slow pace of GDP growth compared to previous expansions.

However, perceptions of Donald Trump's presidency are not exactly helping Brand America either. Trump's administration is seen as increasingly unpredictable and although tax relief promises can boost FDI in the short run, a failure to fulfil them, considering that many propositions of new legislation fell through in Congress, will make investors' confidence disappear.

America's image in the world is also waning. Sabre rattling in the Middle East and Asia, closing borders to migrants and refugees, and breaching global commitments in relation to climate change, have all seriously undermined the United States' global leadership. Recovering that influence in the future may be close to impossible.

The Rise of Brand China

According to the Brand Finance Nation Brands study, China is the fastest-growing nation brand of 2017 in absolute terms, with a change of over US$3.1 trillion year on year. This figure is equal to the entire nation brand value of the United Kingdom, which illustrates just by how much China is outpacing other countries.

In relative terms, China's nation brand value grew 44% year on year, or at a 20-times faster pace than the United States'. However, at US$10.2 trillion, China's nation brand value is still only half that of America's and sustaining growth will be key to narrow the gap.

The forthcoming 19th National Congress of the Communist Party of China will mark the end of the Central Committee's five-year term which has seen a revolutionary change in China's approach to brands. At the previous congress in 2012, President Xi Jinping declared that China should no longer only be a place to produce components for Western products. Instead, it should build its own world-renowned brands.

Now, Chinese companies make up 50 of the Global 500 most valuable brands, increasing from only 8 in 2008. Chinese brands lead in 4 sectors – banks (ICBC), spirits (Moutai), insurance (PingAn), real estate (Dalian Wanda) – as opposed to zero in 2008. The country also celebrates an annual Chinese Brands Day on May 10th and has a nationwide China Council for Brand Development, dedicated to research on brand building and brand evaluation.

In a virtuous circle, Chinese brands and the transformed national image of China as an emerging global power are reinforcing each other and further add to the country's attractiveness to investors and tourists.

East and West: Trading Places

The dynamic between American and Chinese nation brands is mirrored by the broader trends of Western stagnation and Asian advance. Established European nation brands, such as Germany, Netherlands, Belgium, Switzerland, Sweden, Austria, record either a decline or a negligible growth of value. At the same time, Asian nation brands grow at breakneck speed.

Vietnam, the Philippines, Thailand and South Korea have all added between 37%-43% to their nation brand value. Vietnam received approximately US$12.5 billion in foreign direct investment thus far this year, up 13.4% from the same period in 2016. The Philippines is experiencing China-like rates of economic growth at 6.7%, with trade as well as business process outsourcing as the main driving forces. In Thailand, public investment is expected to rise to 9.2% in 2018 and government spending is set to remain a key contributor to the economy. South Korea's exports are growing, driven especially by a growth in memory chip and steel product shipments. However, tensions over North Korea and Trump's threats to terminate the trade agreement with the US cloud the outlook.

Brand Britain shows resilience

The Brexit process has not yet brought the widely expected negative consequences. Brand Britain relies however on the government's ability to mitigate potential dangers in the near future. Although uncertainty has caused a slight drop in the UK's brand strength, from a score of 86 to 85, brand value is up 6% year on year to US$3.1 trillion. Britain should now engage with the world, especially booming Asian markets, to sustain growth and dispel negative perceptions.

Iceland: Money is Coming

Iceland is the fastest growing nation brand of 2017, up 83% from last year, and may only continue to enjoy unrivalled growth in the near future. The country's tourism industry is booming and expanding its share of GDP at the expense of the traditionally dominant fishing sector. Thanks to the hit television show, Game of Thrones, which films most of its winter scenes in Iceland, the country has seen a record 1.8 million foreign visitors in 2016, up 40% from 2015. The first two months of 2017 saw a 59% increase on the same period of 2016 and the figure is expected to reach 2.4 million by the end of this year. The increase in visitors brings great financial benefits to the nation. Tourists spent US$212 million in 2016, using credit and debit cards alone, and as the number of visitors is forecasted to increase, so will the injection of money.

Future Looks Bright for Singapore

Singapore has not only maintained its position as the strongest nation brand this year, but with a Brand Strength Index (BSI) of 92.9, it is also the only one to score over 90. Singapore's reputation for investing in its citizens has particularly boosted its 'People and Skills' result, factored in the BSI calculation. The SkillsFuture movement initiated by the government, which allows every Singaporean aged 25 and above to secure S$500 for professional development, helps to maximise the nation's potential. More than 400,000 people undertook training in 2016, an increase from 379,000 in 2015. The state's willingness to invest in the development of its people demonstrates a nurturing element that many other nations have yet to adopt.

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Note to Editors

2017 brand values are calculated in USD with a valuation date of 1st July 2017.

For full results, expert insights, and a detailed explanation of methodology, please consult the Brand Finance Nation Brands 2017 report.

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About Brand Finance

Brand Finance is the world's leading branded business valuation and strategy consultancy, with offices in over 20 countries. We provide clarity to marketers, brand managers and investors by quantifying the financial value of brands. Drawing on expertise in strategy, branding, market research, visual identity, finance, tax and intellectual property, Brand Finance helps clients make the right decisions to maximise brand and business value and bridges the gap between marketing and finance.

Methodology

Brand Finance measures the strength and value of the nation brands of 100 leading countries using a method based on the royalty relief mechanism employed to value the world's largest companies.

Step 1 – Nation Brand Strength

Nation Brand Strength is the part of our analysis most directly and easily influenced by those responsible for their country's nation brand campaigns. It is determined by reference to performance on dozens of data points across three key 'pillars'; Goods & Services, Investment and Society. These are divided into sub-pillars; Tourism, Market, Governance and People & Skills. These are further subdivided into individual metrics. Each metric is scored out of 100 and together contribute to an overall Brand Strength Index (BSI) score for the nation brand, also out of 100. Based on the score, each Nation Brand is assigned a rating from AAA+ to D in a format similar to a credit rating. For example, the UK's score of 85 puts it in 10th place and gives it an AAA brand rating.

Step 2 – Royalty Rate

The hypothetical royalty rate charged is determined by reference to average rates seen in agreements among companies in the industries identified within the economy and corroborated by reference to affordability.

Step 3 – Revenues

The nation brand valuation is based on five year forecasts of sales of all brands in each nation. Gross domestic product (GDP) is used as a proxy for total revenues. Forecasts are taken from the world economic outlook of the IMF in local currencies, exchange rate is then applied to individual brand values.

Step 4 – Weighted Average Cost of Capital (WACC) or Discount Rate

In order to account for the risk across each national economy a discount rate is calculated. This represents the average cost of a brand's sources of finance and the minimum return required on the brand asset. The discount rate is used to calculate the present value of future brand earnings (accounting for the time value of money and the associated risk).

Step 5 - Brand Valuation

The calculated royalty rate is applied to revenue data to derive a ‘total brand contribution’ for both the nation brand value (i.e. the nation brand plus corporate brands) and the pure nation brand effect value alone. The resulting figures are then taxed at the local corporate tax rate. The brand contribution after tax is discounted back to a ‘net present value’ using the discount rate. The original brand contribution figures are then added to their discounted values into perpetuity to derive both the nation brand value and the nation brand effect value.