IBM Global Business Services
Executive Report

Operations and Supply Chain

IBM Institute for Business Value

Global Location Trends

2011 annual report

IBM Institute for Business Value

IBM Global Business Services, through the IBM Institute for Business Value, develops fact-based strategic insights for senior executives around critical public and private sector issues. This executive report is based on an in-depth study by the Institute's research team. It is part of an ongoing commitment by IBM Global Business Services to provide analysis and viewpoints that help companies realize business value. You may contact the authors or send an e-mail to *iibv@us.ibm.com* for more information. Additional studies from the IBM Institute for Business Value can be found at *ibm.com/iibv*

Foreword

Two years ago, IBM sat down with more than 1,500 CEOs the world over to talk about their expectations for the years ahead. Chief among their observations was that they would need to learn to operate in an environment best characterized by accelerating complexity, and driven by the growing global connectedness of economies, enterprises, societies and governments.

Buffeted by volatility, CEOs told us their response, in part, would be a new approach to operational dexterity. This included operating models designed for extreme flexibility and enterprises capable of acting swiftly to capture the new opportunities appearing in markets far from their home bases. The opportunity was not limited to new consumer markets, but included the possibility of optimizing their global footprints by taking advantage of new talent bases, centers for shared services and production facilities.

In 2010, we see the first signs of that determination. After two years of decline, foreign direct investment began to recover. The number of projects grew by 10 percent and the number of jobs created jumped by 25 percent. Moreover, the nature of foreign direct investment in 2010 indicates that businesses deepened their commitments to creating globally optimized footprints, a practice we first detected in this study in 2009. And in 2010, for the first time, we see emerging countries widely adopting this practice, setting up global operations that span their supply chains and internal operations.

Bolstered by a growing capacity to analyze and act on proliferating information, enterprises in every region are optimizing their operating models for efficiency and opportunity. For those prepared to act, it is welcome news.

Frank Kern
Senior Vice President
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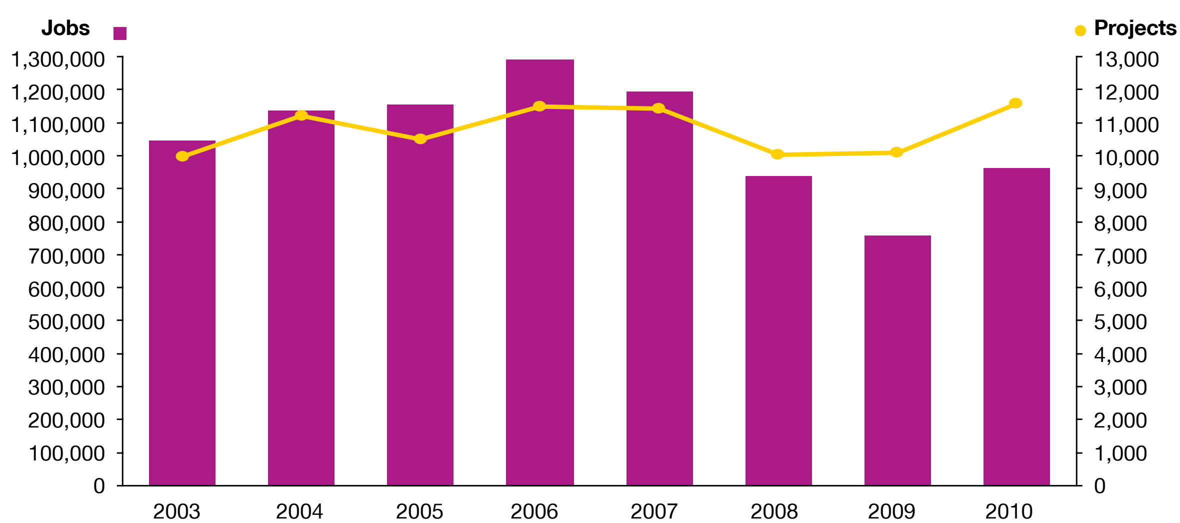
By Jacob Dencik and Roel Spee

In an increasingly integrated and volatile global economic landscape, companies are adjusting their global activities to the new economic realities. Core to these efforts is the recognition of the needs to address supply chain challenges, manage talent requirements and gain operational efficiencies through global footprint optimization. These needs have significant implications for how and where companies are deciding to operate, as they seek to adapt to changing demand patterns. 2010 thus marked companies' return to growth in foreign investment activities, with emerging countries as the main beneficiaries of this investment.

After experiencing the worst global economic contraction for more than 70 years, 2010 saw a marked recovery in global economic activity. As mentioned in last year's report, we identified the tentative signs of a recovery in the second half of 2009.[1] Buoyed by growing economic activity in many countries around the world in 2010, companies responded by increasing investment activity and job creation.

After three years of declines, 2010 thus witnessed the return to growth in foreign direct investment. The number of global jobs created from companies' foreign investment activity increased approximately 25 percent, to more than 950,000 compared to just over 750,000 in 2009 (see Figure 1). The number of projects increased approximately 10 percent, to more than 11,000 in 2010 from just over 10,000 in 2009.



Source: Global Location Trends: 2011 annual report.

Figure 1: **New foreign investment activity in 2003-2010, number of projects and job creation.**

While the return of corporate confidence resulted in a willingness to invest again, we also saw a deepening of the new pattern of global footprint optimization that was first apparent in 2009. During 2010, this process manifested itself more firmly in corporate strategic considerations and investment activity. More fundamentally, companies are investing to position themselves for the realities of the new global economy that is emerging out of the rubble of the global recession. This results in two principal corporate considerations:

1. How do we structure our global supply chain to benefit from the new economic environment?
2. How do we structure our operating model to take advantage of global talent pools and cost advantages?

Investing in supply chain agility

Companies increasingly face a challenge that has become more prominent as a result of the recent economic turmoil: How do they position themselves in a global economy characterized by marked shifts in growth prospects across and within regions? With mature economies expecting sluggish growth for some time while most emerging economies are steaming ahead, companies need to adjust their supply chains to adapt to fundamentally different and changing demand patterns.

In addition, more countries and regions are emerging as potential locations for different corporate activities, offering stable business environments and competitive cost levels, which in turn intensify the competition on cost for more mature locations. The corporate response to these developments involves a comprehensive review of the entire supply chain, encompassing planning, sourcing, making and delivery, and assessing the ability to respond to new demand patterns – notably, whether core production facilities are in place to enable the company to grow in relevant geographies.

Companies have thus been looking to adapt capacity to meet future demand, but have also been thinking more fundamentally about where they need to have such capacity. They have primarily focused on enhancing production capacity, with an increase of almost 40 percent in overseas investment in production activities in 2010 compared to 2009. 2010 signifies the return to growth in production investment, after several years of decline (see Figure 2).

In particular, we have seen a willingness to invest in large production facilities, the type of projects that had been put on hold or cancelled during the crisis. These investments are in labor-intensive activities that require access to large pools of relevant skills at competitive costs. Consequently, the main beneficiaries of these investments in 2010 were emerging economies, notably the BRIC countries (Brazil, Russia, India and China). More mature economies in Western Europe and North America, with comparatively higher labor costs, tend to profit less from such large-scale, labor-intensive investment projects.

As the global economy becomes even more integrated and complex, companies will increasingly need to develop more responsive and agile supply chains. Looking forward, this is likely to result in further attempts to restructure operations to meet fluctuating demand patterns and changing sourcing risks. The recent IBM Global Chief Supply Chain Officer (CSCO) Study described the challenge of making supply chains more agile in a more uncertain and volatile economic environment: Companies “are moving more quickly toward agile supply chains that allow rapid response to changing market conditions and variable cost structures that ramp up and down with revenues. Flexibility is their antidote to cost volatility.”[2]

Companies will increasingly need to develop more responsive and agile supply chains

Source: Global Location Trends: 2011 annual report.

Figure 2: **Job creation through foreign investment in production facilities, 2003-2010.**

The solution to this challenge involves a paradigmatic shift toward smarter supply chains that involve positioning corporate activities to enable the company to plan for contingencies and execute amid volatility. Accordingly, the CSCO Study noted that global smarter supply chains "will have the analytic capability to evaluate myriad alternatives in terms of supply, manufacturing and distribution – and the flexibility to reconfigure as conditions change."[3]

While the emphasis in 2010 has been on expanding and adapting production capacity, such efforts also involve comprehensive restructurings of distribution networks and logistics facilities, with an emphasis on integrating and optimizing the complete network of activities rather than individual facilities. This network optimization is likely to have significant implications for global distribution patterns and lead to a reconfiguration of distribution center location footprints. Many companies are already reviewing and restructuring their distribution and manufacturing footprints in an effort to minimize distribution costs and optimize time to market, resulting in fewer, but larger and more strategically positioned, distribution centers.

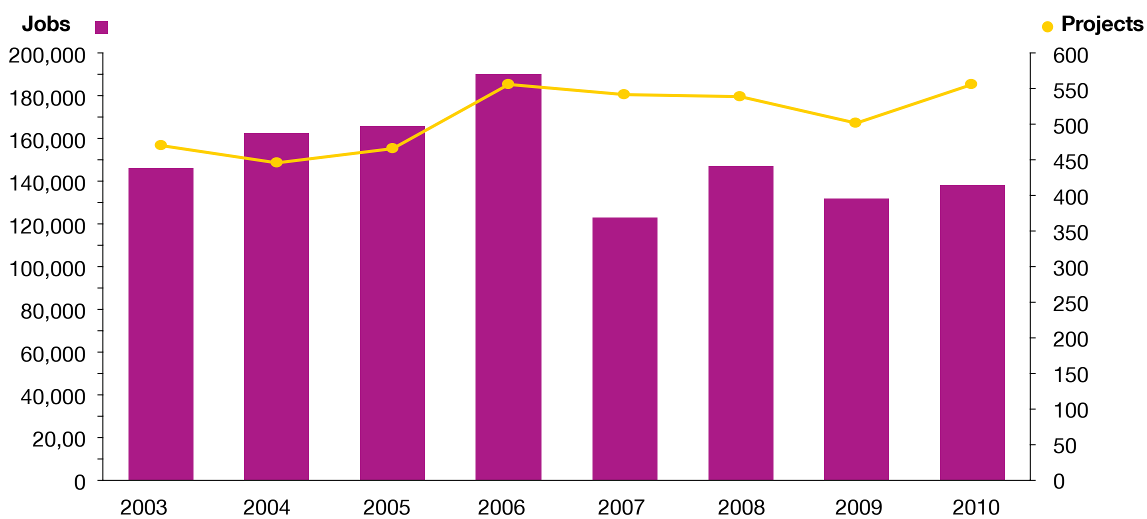
Aiming for internal optimization

The second challenge that is driving corporate investment behavior is the need to optimize organizations internally. Faced with a more competitive global economy, companies are seeking competitive advantages by restructuring their internal operations to benefit from global operational efficiencies and talent pools across the globe. In practical terms, this means reviewing activities within the organization and assessing the scope for consolidating into shared services centers or centers of excellence in order to generate synergies and more efficient operations.

The shared services center model has been used for some time, notably by companies from the U.S. and Western Europe, and involves a centralized service center undertaking a particular set of activities for the entire or a large part of the global organization, such as finance, IT or customer support. This has mostly focused on transactional processes with the aim of achieving headcount savings and labor arbitrage.

More recently, however, companies with mature shared services organizations have moved toward using such centers for higher-value-added activities like human resources and legal. In addition, various core management activities and strategic competencies are increasingly being concentrated in centers of excellence that are smaller than the typical shared services center and more focused on gaining access to the right competences for the organization rather than cost savings. These organizational transformations often involve considerations of whether to keep activities in-house or use an outsourcing option. The growth of business process outsourcing centers and knowledge process outsourcing centers around the world reflects this type of operational change.

We thus saw a further increase in the implementation of shared services organizations as companies continued their global optimization of internal business support operations (see Figure 3). In parallel, the traditional regional headquarters



Source: Global Location Trends: 2011 annual report.

Figure 3: **Job creation through foreign investment in business support centers, 2003-2010.**

Companies with mature shared services organizations have moved toward using such centers for higher-value-added activities like human resources, legal, core management activities and strategic competencies.

function is declining as internal support and management functions are becoming more segmented and split into different shared services centers and centers of excellence.

The new global economy will lead to a more fragmented internal operation that seeks to leverage talent pools and cost advantages across the globe. Focusing individual activities in locations offering the best combination of competencies and cost attractiveness will be a cornerstone of new corporate architectures, with different centers working in an integrated network that leverages resources optimally.

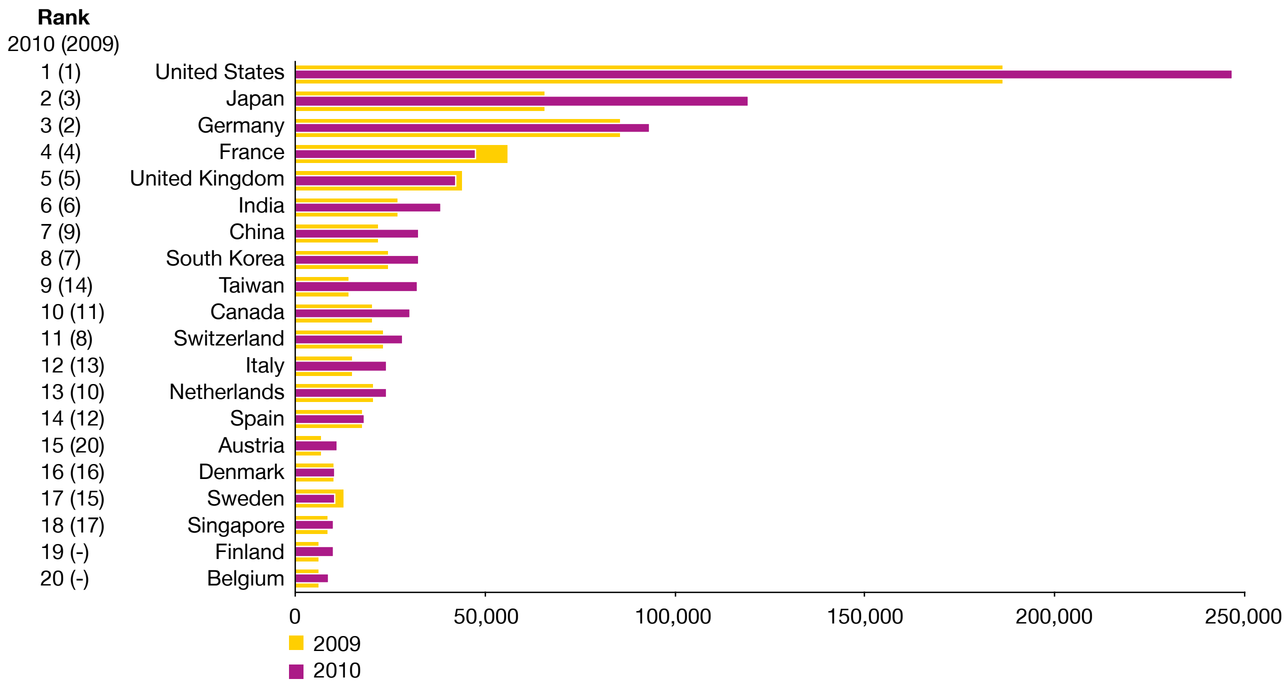
As indicated, the move to new operating models for internal functions is not merely a question of seeking to reduce costs, although this is often an important consideration. These efforts also reflect a more strategic approach to talent management, positioning the organization in labor markets that provide ample access to required skills. In response to expected future skills shortages, companies are recognizing the need for a more pro-active approach to global talent management, building up capacity in locations that offer the right combination of competencies and cost attractiveness.

The recent IBM Chief Human Resource Officer (CHRO) Study showed that companies are increasingly adapting their approaches to talent management, in order to gain access to skills wherever in the world they are available: "Companies will need to redirect their workforce investments to areas that provide the greatest opportunities, not just the lowest costs. They will have to tap into new sources of talent and expertise, as well as move closer to emerging-market customers with increasing purchasing power."[4]

Making the most of the global footprint

It is particularly noteworthy that the move toward global footprint optimization is now a global phenomenon. While various European and North American companies have engaged in this process for some time, we are seeing companies from across the world looking to set up global operations that optimize supply chains and internal operations. Companies from emerging countries that mainly focused on market entry and servicing investment in recent years are now also implementing global shared services center strategies to an extent not seen previously.

This again echoes CHRO Study findings: "34 percent of CHROs in growth markets say they anticipate increasing headcount in North America over the next three years, while 37 percent plan additional investment in Western Europe."[5] The competitive advantages available from global footprint optimization are increasingly evident and such strategies are thus being pursued by companies around the world, significantly changing the landscape of foreign investment (see Figure 4).



Source: Global Location Trends: 2011 annual report.

Figure 4: **Top ranking origin countries by estimated jobs.**

For the first time, Asia overtook North America as the second largest source region of foreign investment after Europe, with Japanese, Chinese and Indian companies also engaging actively in global investment. Indeed, five of the top 10 source countries of foreign investment are now from Asia. Interestingly, while Asian companies are engaging in global foreign investment activities in an unprecedented manner, intra-Asian investment is especially pronounced (see "The rise of intra-Asian investment").

Competitive advantages available from global footprint optimization are increasingly evident and such strategies are being pursued by companies around the world.

The rise of intra-Asian investment

Much has been made in recent years of the rise of Asian countries – notably China and India – as new sources of foreign investment. While a lot of the initial investment from these countries was focused on large markets in North America and Western Europe, it is becoming clear that Asian companies are increasingly investing more strategically for global footprint optimization with an emphasis on leveraging opportunities within the Asia-Pacific region. Accordingly, much of the growth in foreign investment from Asia in 2010 went to other Asian countries.[6]

For example, while the U.S. was the top destination for Chinese foreign investment in 2009, Bangladesh and India topped that list in 2010. Similarly, Thailand, China and India are now the top three destination countries for Japanese investment, while the Philippines is the top destination for Indian investors. Asian companies are investing in the wider Asia-Pacific region partly to take advantage of growing markets in this region and partly because other countries here offer attractive talent pools, competences and cost advantages for key activities within the global footprint of operations. As Asian companies continue their efforts toward global footprint optimization, we are likely to see this strategic investment activity extended globally to locations that offer the best solutions for different activities.

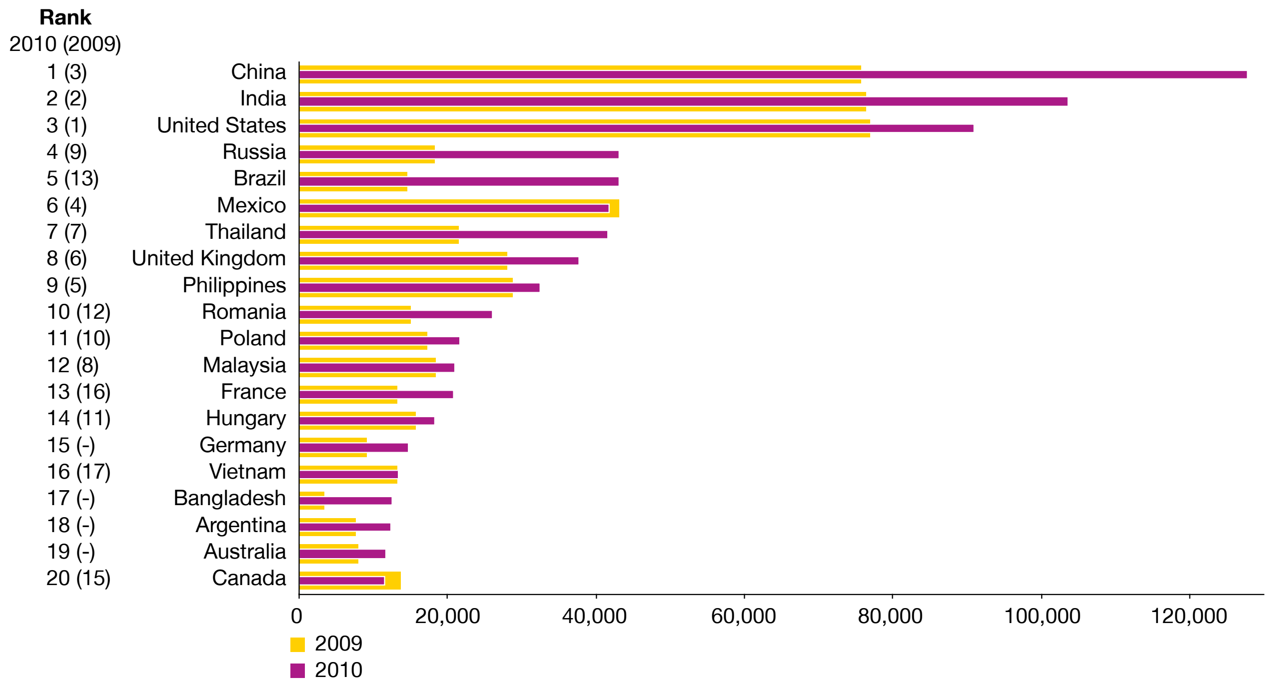
Winners in the new global economy

Clearly, global investment in 2010 was of a more strategic nature than the more tactical- and cost-reduction-focused investment activity in preceding years. While many countries have managed to benefit from the overall increase in investment, some countries are positioned to take greater advantage from foreign investment activity than others.

Hence, the primary beneficiaries of the growing foreign investment in 2010 have been the emerging economies, with the BRIC countries performing particularly well. These countries offer foreign investors an attractive combination of market growth, improved availability of skills and competitive cost levels. For the first time on record, the four BRIC countries, together with the U.S. and its largest single consumer market, comprise the top five destination countries for foreign investment.

With an increase in jobs created from inward investment of almost 70 percent, China is now the top destination country, mainly as a result of large increases in investment in the electronics, transport equipment and chemicals sectors. Furthermore, the country's improved performance was the result of increased intra-Asian investment, with Japanese and Taiwanese companies increasing their investment.

India follows China in second place, with a 35 percent increase in jobs created from inward investment compared to 2009 levels. The country's strengths in information and communications technologies (ICT) and business services are once again proving a great source of investment and job creation, with these two sectors accounting for more than 40 percent of India's inward investment. 2009's top destination country, the U.S., ranked third in 2010 with an overall increase of almost 20 percent in jobs created from foreign investment (see Figure 5).



Source: Global Location Trends: 2011 annual report.

Figure 5: **Top ranking destination countries by estimated jobs.**

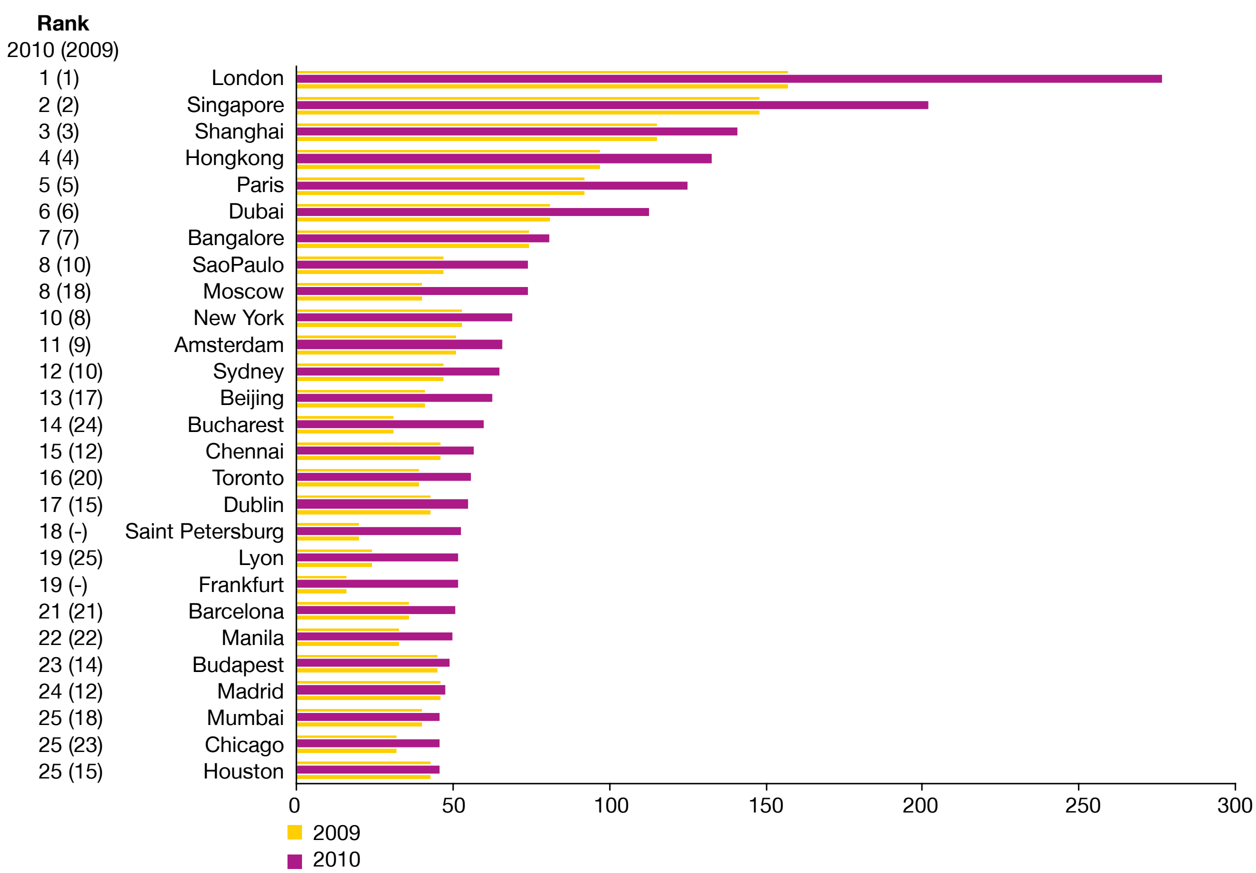
Other emerging countries, such as Thailand, Bangladesh and Romania, also experienced significant growth in inward investment in 2010. However, many of these emerging countries, including all four BRIC countries, had been particularly severely affected by the reduced inward investment activity during 2009 when larger projects which tend to go to emerging countries were cancelled or postponed. So, the very large 2010 increase is partly explained by 2009's low level of inward investment.

In contrast, many African countries have seen significant declines in investment during 2010, with the continent as a whole experiencing a reduction of 34 percent in inward investment measured by number of jobs created. This is largely explained by the strong focus on a few key sectors, such as mining, minerals and food production, which all saw global declines in investment activity in 2010. Nevertheless, it is important to stress that the performance of different countries on the continent has differed significantly. For example, South Africa had significant growth in inward investment, while many North and Sub-Saharan African countries experienced dramatic declines.

In the Americas, the geographical footprint for investment is widening, with countries such as Argentina and Nicaragua experiencing significant increases. Both of them now rank among the global top 25 destination countries, while Mexico and Canada both saw small declines in inward investment in 2010.

Furthermore, locations in mature economies that are seen as suitable for serving these still significant markets or that offer the right competencies for particular activities have also benefitted from increased investment activity. For example, the United Kingdom, Germany and France all experienced significant gains in inward investment in 2010. These countries are prime locations for serving Western Europe, represent significant markets for foreign companies in their own right, and offer a wide range of specialized skills and competencies in niche sectors and functions (see "Inward investment results for key regions").

A similar pattern is evident at the city level, with a mixture of leading cities from mature economies and a number of large urban areas in emerging countries dominating the ranking of destination cities (see Figure 6). Hence, measured by number of projects, London is once again the world's leading destination city for inward investment, followed by Singapore and Shanghai. Of the world's top 25 destination cities, seven are from Asia, 12 are from Europe, three are from North America and one each is from Latin America, the Middle East and Oceania. Measured by number of jobs, Manila is the top destination city in the world, followed by Shanghai, Bangalore and Chennai, respectively.



Note: Projects of less than 10 jobs were not included.
Source: Global Location Trends: 2011 annual report.

Figure 6: **Top ranking destination cities by projects.**

Inward investment results for key regions[7]

Russia is now the top destination country for foreign investment in Europe, followed by last year's leader, the UK. The rise of Russia as the top destination country reflects a broader trend of large investment increases in most of Eastern Europe compared to 2009 levels. This has been driven by the return of large investment projects that were cancelled or postponed during the crisis years.

While Ireland is making significant progress on inward investment as a result of the country's structural competitiveness, other countries with fiscal problems that do not have a similarly competitive business environment – Greece, Portugal, Spain and Italy – saw significant declines. This highlights the importance of structural competitiveness for inward investment and job creation and suggests that countries with current fiscal problems, while often seen as being in a similar economic predicament, are likely to face significantly different economic futures.

In North America, Canada experienced an overall decline, whereas the U.S. had an increase of almost 20 percent in jobs created from foreign investment. Within the U.S., the top recipient states for foreign investment are once again Michigan and Texas, with the former benefitting greatly from its strengths in the transport equipment and electronics sectors. Other key recipient states and provinces are Georgia, North Carolina and Ontario. At the metropolitan area level, New York is the top destination location, followed by Toronto and Chicago.

In Latin America, Mexico saw a decrease in inward investment, whereas most other Latin American countries experienced gains. Brazil is now the top destination country in the region, overtaking Mexico in the top spot. Brazil experienced particular growth in transport equipment, and is now the world's top destination country for foreign investment in that sector. The region as a whole has also seen growth in business support services investment with countries such as Costa Rica, Argentina and Nicaragua benefiting.

Unsurprisingly, inward investment to Asia-Pacific is dominated by China and India, with these two countries topping the regional ranking. Various other countries in the region have also benefitted from the significant overall increase in inward investment, and notably intra-regional investment, such as Thailand, the Philippines and Malaysia. From an inward investment perspective, Indonesia still lags the BRIC countries with whom it is regularly compared.

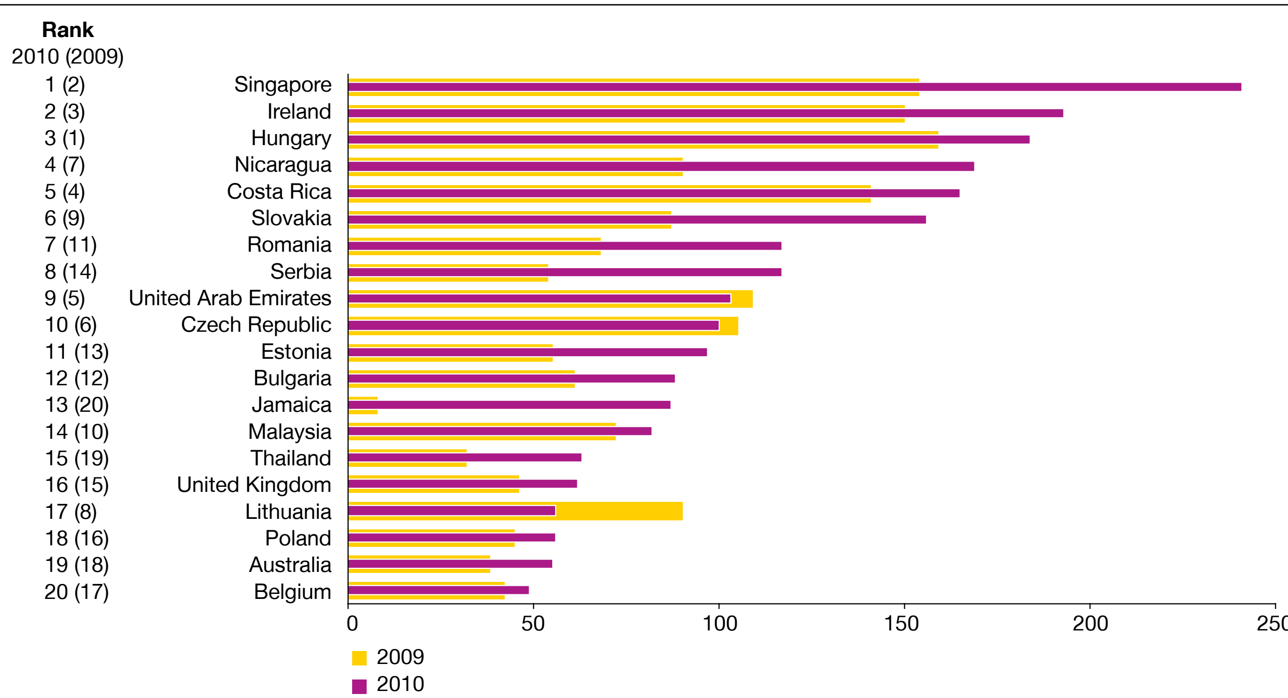
South Africa remained the leading destination in Africa. It is followed in the rankings by Morocco, Egypt, Nigeria and Tunisia which, together with South Africa, accounted for almost 70 percent of jobs created in Africa by new greenfield foreign investment in 2010. Overall, Africa experienced a decrease in job creation through new foreign investment in 2010.

When looking at jobs created per capita, rather than the overall number of jobs created, the strength of some of the more developed economies as foreign investment destinations is more evident (see Figure 7). As in previous years, the global top three destination countries by this measure is made up of Singapore, Ireland and Hungary, a sign that these countries' structural competitiveness in a selection of key sectors continues to attract investment. Other countries that perform well on this measure are emerging economies in Latin America and Europe, such as Nicaragua, Costa Rica, Slovakia, Romania and Serbia.

It is particularly noteworthy to again see Ireland in the top three despite its much-publicized economic and fiscal difficulties.

This clearly shows that companies are looking at structural factors such as a favorable business environment, skills availability and cluster/sector strengths when deciding where to invest, rather than cyclical phenomena such as short-term economic growth prospects or fiscal deficits.

This is further evident when looking at the value of the investment. For many countries, the value of the jobs created is equally as or even more important than the quantity of jobs. Comparing countries on the value of the attracted projects and jobs, rather than just the number of jobs, is therefore an increasingly important metric for gauging inward investment performance (see "Measuring inward investment performance by value of jobs").



Note: Countries with less than 1 million population were excluded from the analysis.
Source: Global Location Trends: 2011 annual report.

Figure 7: **Top ranking destination countries by estimated jobs - per 100,000 inhabitants**

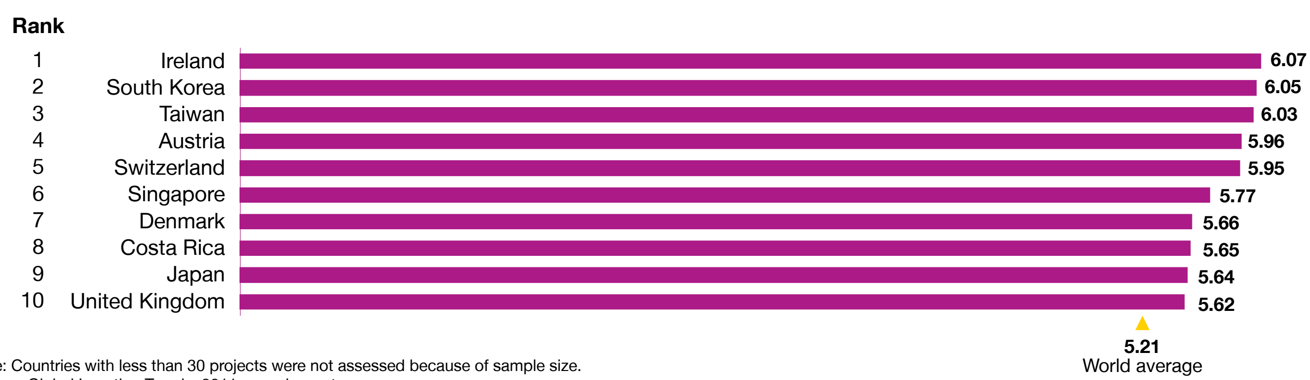
On this measure, Ireland is the country receiving the highest average value from inward investment, followed by South Korea, Taiwan, Austria and Switzerland (see Figure 8). These countries all have very strong value propositions to investors in a selection of high-value sectors and business activities, such as R&D in life sciences and high-end electronics. A sector-based perspective

The growth in foreign investment affected many sectors, with a number of them seeing significant growth in jobs created from foreign investment (see Figure 9). Sectors with the largest increases in 2010 were those that had been most severely affected by the postponement or cancellation of large projects in preceding years. As companies resumed large investment projects, these cyclical sectors saw considerable growth in the number of jobs created from foreign investment. For example, job creation in electronics grew by more than 60 percent, textiles doubled, and both the transport equipment and chemicals sectors experienced growth of almost 40 percent.

Similarly, foreign investment in large service oriented sectors, such as ICT and business services, also experienced growth, albeit somewhat more moderate than in the above, largely manufacturing-based sectors.

In contrast, some of the less cyclical sectors, such as mining, agriculture and energy, experienced declines in foreign investment in 2010 compared to the year earlier.

The explanation for the rising dominance of some emerging economies in the global market for foreign investment becomes clearer when looking at individual sectors in more detail. Accordingly, the main beneficiaries of the growth in electronics were China and Thailand, while the increase in investment in the transport equipment sector primarily went to Brazil, China, Mexico and Russia. India was the main beneficiary of the growth in foreign investment activity in business services and ICT, while various countries in Latin America, such as Nicaragua and Argentina, also received significant investment in these sectors.



Note: Countries with less than 30 projects were not assessed because of sample size.
Source: Global Location Trends: 2011 annual report.

Figure 8: **Top ranking destination countries by average value of investment projects.**

Measuring inward investment performance by value of jobs[8]

Cities, regions and countries are increasingly interested in the quality and value of the investment projects attracted, as well as the quantity of projects and jobs. In order to better gauge differences in the type of investment projects that locations receive, IBM-PLI developed a FDI project value assessment. This assessment allows assessing the potential value of an investment project for a location. The project value assessment methodology is used to supplement the "traditional" evaluation of projects that relies on job creation and/or capital investment.

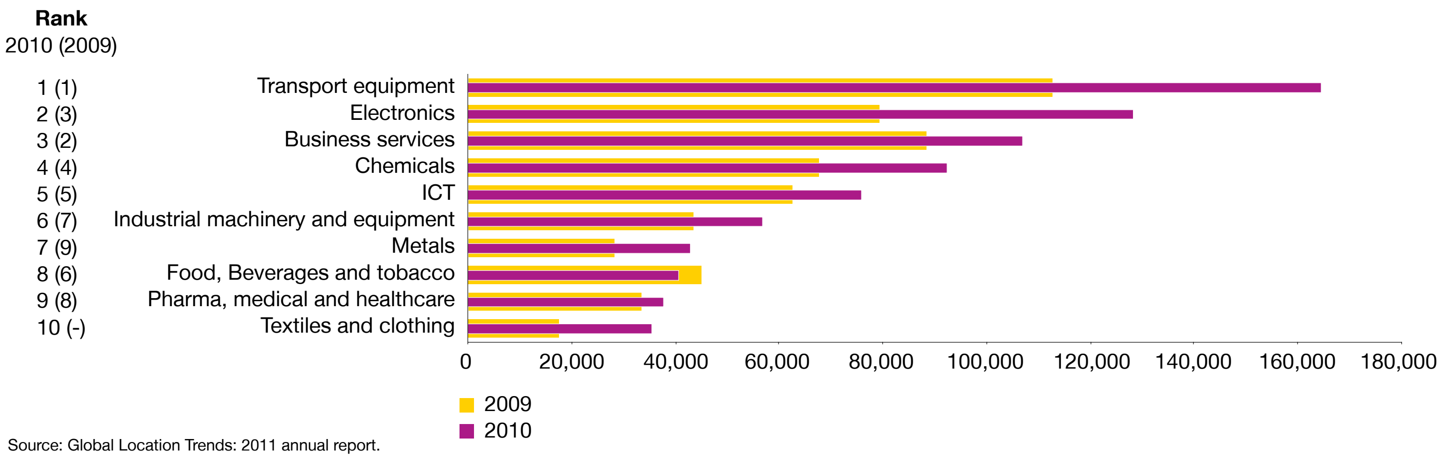
IBM-PLI's FDI project value assessment methodology is based on "best-practices" of core performance measures used by investment promotion agencies worldwide, to assess the value of mobile foreign direct investment projects. Hence, for each investment project the value assessment integrates such project specific factors as the project sector value-added and productivity, the project sector knowledge intensity, and the project's occupational profile composition represented by wages and skills. These factors provide an indication of the potential project's value for the economic development of a location.

The locations that are successful in attracting higher-value projects have typically developed strong value propositions in particular sectors and higher-value activities, based on nurturing the required competencies and cluster activity. This is further evident when looking at the performance of locations within individual geographic regions.

While the vast array of investment projects going to North America means that neither the U.S. nor Canada figure in the global top 10 ranking of average value by project, the performance of individual states and provinces within North America shows how some locations have managed to develop clusters that attract high-value investment. The top states/provinces in North America by average value of investment projects are New Jersey and California, with the former receiving significant investment in life sciences and financial services and the latter receiving significant investment in ICT, business services and financial services. Other states and provinces that perform well with respect to value are Michigan, New York and Pennsylvania, while Ontario is the top-performing province in Canada. Boston, San Francisco and Washington D.C. are the leading metropolitan areas in North America.

Ireland leads the global ranking, and thus is Europe's number one country measured by investment value. Runners up are Austria and Switzerland, followed by Denmark, the UK and Sweden. However, it is of interest to note that some countries in Eastern Europe are increasingly positioning themselves for higher-value investment projects with, for example, Hungary ranking eleventh in Europe on the average value measure. Top European cities are Dublin, Belfast and Zurich.

The Asia-Pacific region, on average, has higher investment value projects than other geographies. The more mature locations, such as South Korea, Taiwan, Singapore and Japan top the ranking on value. But, emerging economies are increasingly seen as attractive locations for higher-value investment, with India ranked fifth in the region and China seventh. Bangalore, Taipei and Shenzhen are the leading metropolitan areas, followed by Melbourne and Chengdu.



Source: Global Location Trends: 2011 annual report.

Figure 9: **Top ranking sectors by estimated jobs.**

Looking forward

These findings make evident that 2010 signified the return to growth in the global market for foreign investment. Many countries are benefitting from increasing inward investment levels, either from the sheer number of investment projects or jobs created by foreign investors. The driving force behind the growing investment has been an effort by companies to position themselves for the realities of a new global economy.

As the restructuring of global supply chains and internal operations continues, we are likely to see more pronounced differences in the inward investment performance of countries – between those that are able to compete on the right competencies, suitable business environments and attractive cost levels, and those that fail to develop attractive propositions for investors.

Looking at developments in 2011, these changes to corporate investment activity have been further complicated by a number of events with regional, and sometimes global, ramifications. Among recent events that are shaping 2011 investment activity at a regional level, the uprisings in the Arab world have been particularly significant, as they have introduced a new element of uncertainty in the region.

If changes in the region lead to improved governance and more open business environments, the uprisings may herald the beginning of a new era of growth in inward investment. However, if instability continues, or new leaders in the region struggle to introduce necessary improvements in countries' business environments and competitiveness, the recent upsurge in investment activity we saw there from 2005-2009 may hamper positive engagement by foreign investors in the region.

Other events that have affected investment activity in 2011 were the earthquake and tsunami in Japan. The immediate impact has been a disruption of supply chains in some sectors, such as automotive. As a result, companies in these sectors are reviewing their supply chains, with a strong focus on business continuity planning and reduction (spread) of risk. These efforts have already been started by various affected industries, resulting in changes to their global operational footprints.

However, the most significant factor that will shape investor confidence in 2011 is the ongoing debt crisis in many mature economies. This will likely have direct consequences for economic activity in these countries and further afield, with possible ensuing perils to consumer confidence that seemingly would affect companies' willingness to invest in new facilities across the world. We may, therefore, see stagnating or even declining foreign investment activity in the near future.

On the other hand, the uncertain economic outlook for mature economies may encourage further restructuring of supply chains and internal operations to serve a global economy increasingly shaped by growing demand from emerging economies, resulting in continued strategic investment activity. Indeed, it is important to note that companies, on the whole, find themselves in relatively strong financial positions, and are thus still able to undertake strategic investments when needed.

Nevertheless, if governments begin to renege on debt payments, and default in some way, the impact on the banking sector may be severe, resulting in future constraints on financing of investment projects. The exact impact of current fiscal uncertainty on foreign investment levels is therefore uncertain. If such corporate restructuring continues and possibly intensifies as a result of the uncertain global economic outlook, it would become even more important for mature economies to improve their competitive position and understand how they can improve their location's offer to companies.

Consequently, while much political attention in the mature economies is currently given to urgent fiscal problems, it is important to recognize that it is a country's underlying competitiveness that will drive long-term growth and job creation. For the vast majority of countries, this competitiveness is driven by competencies, skills and an attractive (and stable) business environment. Any means to address the current public deficits must therefore not jeopardize the factors underpinning a country's competitive position.

Indeed, cities, regions and countries must make concerted efforts to improve their competitive positions and attractiveness to companies. Governments and decision makers that fail to do so leave their locations in a state of continual economic uncertainty and possible eventual decline. For the citizens of these locations, an uncertain future awaits, with the global economy offering little but job and income insecurity.

As such, we are in many respects witnessing a historic moment where government leaders and other stakeholders need to shape the direction of their respective locations in the global economy. The current uncertain and volatile economic environment is thus an opportunity for locations to position themselves as future winners in the new global economy through continued improvements in their structural competitiveness for increasingly higher-value investment.

Whether a mature or emerging economy, locations that manage to create attractive and competitive business environments for key sectors and business activities stand to gain tremendously from increased economic growth, job creation and prosperity. However, the price to pay for failing to address competitive weaknesses has also increased, with companies being more discerning about their global operational footprint. The future global economy will presumably have a clearer demarcation between winners and losers, and the time to favorably position your location is now.

About the authors

Jacob Dencik is a Managing Consultant with IBM Strategy & Transformation, with extensive experience advising companies around the world on their global operations and location strategies. He has worked on a number of regional, national and international projects for government clients as an expert and economist on competitiveness, foreign direct investment, sector/cluster analysis and innovation. Jacob is a co-author and contributing author of two recent books about innovation. He can be reached at *jacob.dencik@be.ibm.com*.

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IBM Global Business Services offers one of the largest Strategy & Transformation practices in the world. Strategy & Transformation fuses business strategy with technology insight to help organizations develop and align their business vision across four strategic dimensions – business strategy, operations strategy, organization change strategy and technology strategy – to drive innovation and growth.

About Plant Location International

Plant Location International (PLI) is a global service of IBM Global Business Services Strategy & Transformation practice, specialized in corporate location and economic development strategies. Operating as a fully globally integrated service - with a global center of excellence in Brussels, Belgium, supported by dedicated Global Delivery resources, and satellite teams in key markets – IBM-PLI provides expert services to corporate clients for analyzing international business locations for expanding or consolidating companies to select the optimal location (country/city). IBM-PLI also advises economic development organizations on improving their areas' competitiveness, strategic marketing, developing value propositions, and marketing tools, etc.

IBM-PLI is a leading innovator in location strategy and economic development tools and techniques, which are constantly being improved based on latest insight in corporate location decision making. Examples are:

- *Cost-Quality location screening* methodology, assessing the trade-off between cost and quality of communities as investment options for companies
- *IBM-PLI's Location Benchmarking Tool*, based on this cost-quality methodology, allowing regions and cities to test their location's value proposition for targeted activities and successfully market their communities to investors
- *The Global Investment Locations Database (GILD)* which tracks location decisions for contestable investment projects around the world.

IBM's GILD database monitors global location trends through new foreign investment

For many years, the only available data for analyzing foreign investment trends around the world were the capital investment data as published by the United Nations. These data measure the capital flows through various forms of foreign direct investment (FDI), including mergers and acquisitions (M&A). Often these FDI flows are used to measure the success of geographical entities (countries, states and even cities) in attracting foreign investment. However, this can lead to misleading conclusions on the capacity of the locations to attract foreign companies. M&As are driven mostly by an interest from the investor in a target company with the objective to gain market share or acquire technology. The business location of the target company is typically not the main driver for the investment, and a location decision is rarely part of M&A investment decisions.

A better approach to measure the success of individual countries in attracting foreign investment is, therefore, to focus on those investment projects for which a clear decision on the investment location has been made. This is the case for vast majority of so-called "greenfield" investment projects as well as for new expansions of existing operations owned by foreign enterprises (as such expansions often can be realized in different locations owned by the company). For this reason, IBM-Plant Location International has started to develop the Global Investment Locations Database (GILD) in 2002. GILD tracks announced decisions of companies to locate new operations in regions outside of their HQ region/country on an ongoing basis.

Our analysis of volumes of foreign investment focuses on job creation. From an economic development perspective, job creation is the best indicator of the local economic impact of the investment. Job positions created through the investment are typically filled by employees in the local labor market (or staff who relocate to that market) and consequently generate income and welfare in the region around the investment location.

The investment capital, however, often ends up in other regions or countries, as a result of the acquisition of plant or machinery, contracting of construction and engineering work outside the investment location, etc. Thus the investment capital regularly is an overestimate of the economic impact of foreign investment in a specific location, particularly in the case of smaller regions or individual cities.

For further information

More comprehensive and detailed analysis of Global Location Trends is available in a separate report, "Global Location Trends: Facts & Figures." To find out about our reports, or to speak with experts of IBM-Plant Location International, please contact Roel Spee at *roel.spee@be.ibm.com*.

You may also contact the IBM Institute for Business Value at iibv@us.ibm.com and browse a full catalog of our research at:

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Notes and sources

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