OCO

New Normal:
Re-defining Economic Development 2014

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Contents

Introduction

It’s FDI, but not as we know it...

The slow return to economic growth by the leading economies of the developed world coupled with corrections in the tiger economies of Asia and Latin America, have produced a few conundrums for the economic development and investment community.

In the last decade, Greenfield FDI, commonly understood to be prized manufacturing, employment creating projects from large well known multinationals (often from US, Japan and Germany) have been eclipsed by technology upstarts and services FDI who think and act differently. They value skills, R&D rich environments, access to clients, licensing and finance and are often young and inexperienced companies who are privately held and not accountable to stock markets.

At the same time, large private and public companies from emerging markets are fast becoming an important part of the FDI landscape. They are often capital rich, but light on international skills, brands, experience and clients, so buying an established company is often the fastest way in. We have seen Brazilian Mafraq on a shopping spree of food acquisitions in Europe, Huwaei buying up swathes of UK R&D capability, and Lenovo acquiring IBM’s entry level server business and Google’s taking on Motorola’s handset business.

Finally, the other growing source of mobile investment is ‘smart money’ whether that is capital from high net worth individuals, foreign countries seeking a more stable, regulated or higher yield environment, entrepreneurs who are seeking a base to grow their ideas and commercialise them, or sovereign and private funds seeking major capital projects in which to invest.

A key stimulus for the latter, after a decade of minimal activity has been the recent upsurge of government led spending on infrastructure renewal and investment in transport, energy and education/healthcare in both the developed world and the emerging economies. Major sporting events (Sochi, Rio and Doha) and changes in demographics and wealth distribution (China second cities, Africa and Latin America) are behind several hundred global infrastructure projects worth trillions of dollars.

All these factors are changing the nature of FDI (and trade) opportunities and resetting the competitive landscape, while challenging governments and their EDOs/IPAs how to define, target and track FDI and trade from such disparate sources. And much of it served with an ample side dish of political intrigue and diplomatic uncertainty.

In the OCO thought leadership paper which follows, our experts have assembled and diagnosed range of issues and case studies which illustrate how our clients are responding to these new disruptive forces

In common with our clients, OCO is also adapting to the new landscape by expanding its presence in new markets (Germany, Brazil and Japan), increasing its capacity in ‘outsourced’ delivery of services, and innovating new tools and technologies to pick the most innovative and expansive trade and investment clients.

Mark O’Connell
Chief Executive Officer
OCO

‘Push’ or ‘Pull’ economic development

Mark O’Connell
Chief Executive Officer
OCO

One of the most common responses by national governments to the economic crisis of the last 5 years has been to stimulate growth in their domestic economies by initiating major capital expenditure projects. The related bounce in construction services and related industries can be significant, and offers domestic and international suppliers an opportunity to tender for highly lucrative and prestigious contracts. Recent examples include the billion dollar projects of the Rio Games, UK’s High Speed Rail ambitions, Singapore MTR, Australia’s broadband upgrade, and Saudi Arabian healthcare.

A recent study by PA Consulting identified more than £1.3tn of committed expenditure plans from 50 major infrastructure and capital projects around the world covering energy, transportation, healthcare and education. These major projects present a rich seam of opportunities across the private sector, but also for economic developers.

“We are looking at foreign investment in all its forms to help rebuild California’s creaky infrastructure; bring me foreign companies with PPP expertise, engineering firms, rail and infrastructure operators, institutions who want to invest in our State utilities, even rich guys who want to buy an airport or a football team, we will talk to all of them and make them welcome”

Secretary of Commerce Dale Bonner
California Department of Commerce

This government led infrastructure boom presents a key challenge to traditional FDI and trade promotion agencies (IPAs/EDOs) around how to invert their model which ‘pushes’ exporters out into the world and ‘pulls’ investors in from outside to establish in their location. This new paradigm relies on EDOs being able to engage with foreign governments and their nominated procurement organisations to prequalify for shortlists, being able to promote industry consortia, capability and competitiveness rather than individual firms, and ensuring that the firms and consortia are sufficiently prepared and motivated to bid and win the opportunities. In some cases this may involve the establishment of a subsidiary or joint venture in the target market- i.e. outward investment.

Government organisations and their EDOs can play a key role in helping companies to navigate complex procurement organisations and facilitate meetings and gather intelligence on regulation, influencers, primary contractors and financing - all of which may affect the accessibility of the opportunity.

“US States are highly sensitive to lobbying or the allegation that they favour one supplier over another and the procurement process is highly scrutinised. For us, talking to government organisations about their supply chain capability is much easier than meeting with the individual firms”

CEO Gray Swoope
Enterprise Florida

The key difference in this new approach from the traditional trade ‘push’ model which focuses on delivery of services to exporters (the client) is that in this case the client becomes the buyer and the EDO needs to pick the right projects and the right suppliers to be assured of positive commercial outcomes.

Continued...

Petrobras Brazil

Qatar Wold Cup

Singapore MTR

Saadiyat Island Abu Dhabi

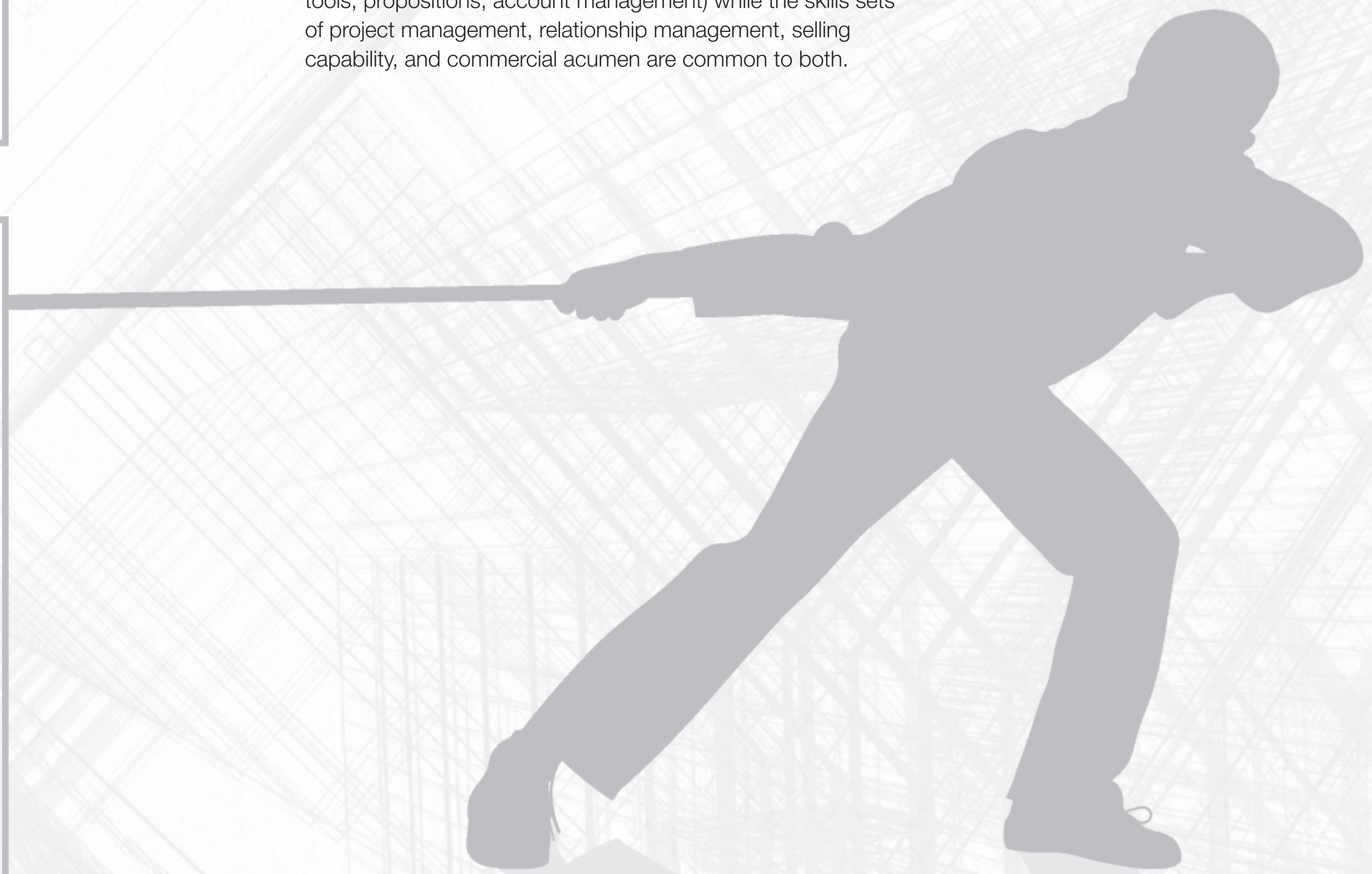
Trade PUSH

The tables (right) summarises some of the key differences that a ‘pull’ trade strategy can involve and the approach has many parallels with proactive FDI promotion

All exporters qualify for assistance
One to one support for export companies
Efforts focused on a market, sector or channel
Primary engagement with SMEs/early stage
High volume of clients/service deliveries with low average deal size and high client attrition
Need to understand and pitch company capability
Results relatively short term and measurable in calendar year
Project team is small and often one individual assigned company
Organised and delivered by generalists
End game measured in activity and in some cases revenue raised from exporters for services

Pick winners (suitable projects and suppliers)
Multiple companies recruited to one opportunity
Efforts focused on a buyer or organisation
More engagement with mid-caps and larger firms
Lower volume of high value transactions with high value deal size and long term client retention
Need to research and develop propositions on the industry capability/competitiveness
Results achieved in longer term and only possible to measure over 3-5 year cycles
Project team is broader and often reliant on external partners (e.g. trade associations, and other parts of government)
Need for regular recourse to industry specialists
End game measured in significant trade receipts, successful tenders, and repeat business

Trade PULL



The parallels between FDI attraction and strategic trade are compelling. For both activities, an in-depth understanding of the location offer and competitive positioning is essential. A pitch book or proposition to showcase the offer is required. Insights into the buyer’s business model (or investor) are core to connecting your offer. Results are not assured and may take time to achieve, with an inevitable failure rate on a proportion of the bids meaning that a pipeline is needed.

“Are you here to sell me something or buy something from me?”

Bewildered Indian IT outsourcing firm when approached by a national EDO to establish a presence in their location

From the EDO perspective, this means that there are a number of services/resources that can be shared between trade and investment teams (company research, pipeline tools, propositions, account management) while the skills sets of project management, relationship management, selling capability, and commercial acumen are common to both.

“If the government is serious about involvement in major international projects, then it must adopt/adapt the practices of major contracting firms who manage a pipeline, prioritise opportunities and drop underperforming projects early”

WS Atkins

While the debate whether to separate or integrate trade and investment promotion continues to fester in government, the real economy is making more pragmatic choices and investors and buyers are uninterested in the plumbing of economic development agencies. Ironically, major projects offer EDO organisations an opportunity to rationalise resources and services and build bridges between trade and investment with key account management for the greater good of their clients.

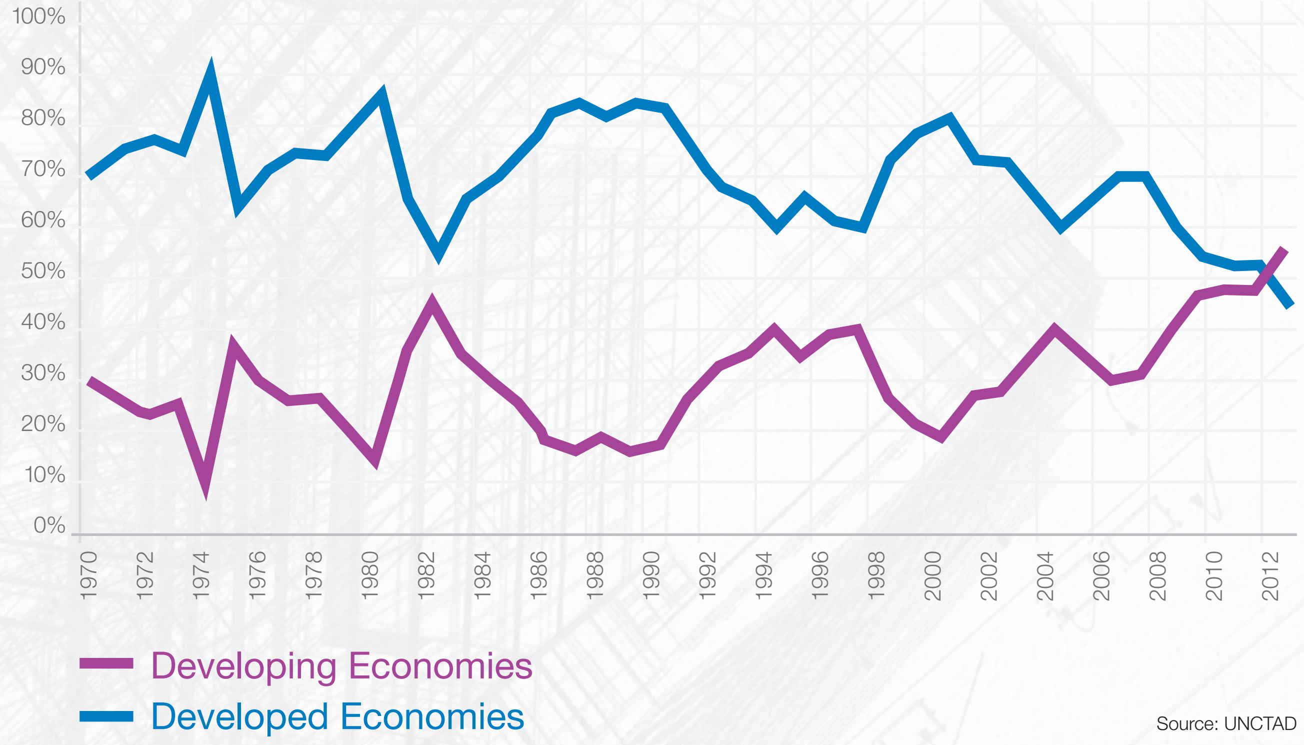
Beyond the tipping point

Joe Phillips
Managing Consultant
OCO

The latest available data from UNCTAD on capital expenditure flows (up to end of 2012) showed that for the first year since data was recorded, the volume of inward FDI in developed economies was outstripped by developing economies. While there have been some signs of convergence in previous years, the last five years has shown a continuous movement in the same direction, which suggests the last 12 months has marked a real change in the FDI landscape. For more than 15 years, developing economies have been consistently winning a critical volume of projects. However, the difference between this and the new reality includes various new dynamics:

- Emerging economies are no longer just the home of low cost, human-intensive projects
- The range of viable locations for investment continues to widen, FDI to developing economies no longer simply means India and China, but also numerous countries within all continents of the world
- The volume of Investment Promotion Agencies globally offering a credible and professional service continues to increase

> "Drug markets in emerging countries are growing far faster than those in industrial countries… we must build business bases in emerging markets"
>
> President, Takeda Pharmaceutical Co, January 2014



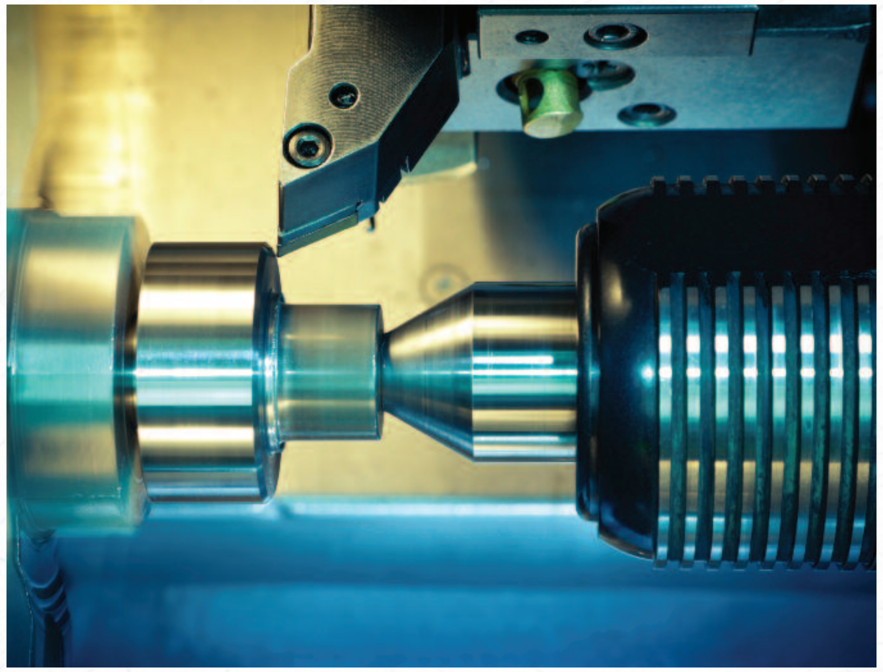
Source: UNCTAD

Leading the Charge

While still preliminary, data suggests there may be a relatively significant decrease in total project numbers worldwide for the 12 months to the end of 2013 compared to the previous year. Of the 44 countries that attracted 50 or more projects over 2013, just 8 of these demonstrate project growth. However of these, although they are at different relative stages of development, seven would be defined as developing economies.

Within sectors, there are various competing trends but again a strong demonstration of the relative successes of developing economies which albeit often from a lower base, show growth in attracting FDI that outperforms developed peers. This includes the recently coined MINT countries[2], where Mexico demonstrated continued strength in Industrial Machinery projects (73% growth), while Indonesia did the same in Software (143%). This is particularly important as it demonstrates the increasing success of developed countries to win projects in high value sectors, and not only lower cost manufacturing. Indeed, this trend was identified as far back as 2010, where companies in the Fortune 500 list had 98 R&D facilities in China and 63 in India[3].

> "Rapid urbanisation is also driving growth in the emerging markets, China, ASEAN, India, Pakistan, Sri Lanka and the Middle East"
>
> Executive Vice President, Nestlé, December 2013



> "Kellogg is strengthening its existing business in core markets, increasing growth in developing and emerging markets"
>
> Press Release, Kellogg, December 2013

Bucking the Trend

Some sectors demonstrated growth in 2013 in a range of both developed and developing economies, but this has mainly been in those that are service-based. This reflects a longer term trend where developed economies have shown limited signs of growth in attracting manufacturing activities, while service activities remain on an upward curve. For example, the United States attracted 8% growth in projects in Software & IT services, and 10% in Business Services, while predominantly manufacturing-based sectors all showed declines across the year. At the same time, developing economies did not appear to gain a greater share of projects in Industrial Machinery (predominantly manufacturing) from 2012 to 2013, as the split between developed and developing in the leading 44 countries remained approximately equal in both years.

So What Now?

For companies, the viable options for investment are increasing, but they vary depending on sector and the nature of that company's individual project. This can make the expansion decision more challenging, hence requires a deeper level of research and due diligence before that selection in made.

For Investment Promotion Agencies, the challenge of attracting investment to any individual location is becoming ever more difficult, even when there is a global upward trend in total project numbers. This means a need to better understand the true competitiveness of your location, and the ability to articulate your comparative advantage to the right companies.

[2] http://www.independent.co.uk/news/business/comment/jim-oneill-mint-or-bric-indonesias-drive-is-impressive-as-russias-future-dims-8940706.html
[3] http://www.economist.com/node/15879369

1%
Colombia
Growth
ICT & Electronics

2%
Czech Republic
Growth
Transport Equipment
(Automotive Components)

16%
Mexico
Growth
Transport Equipment
(Automotive Components)

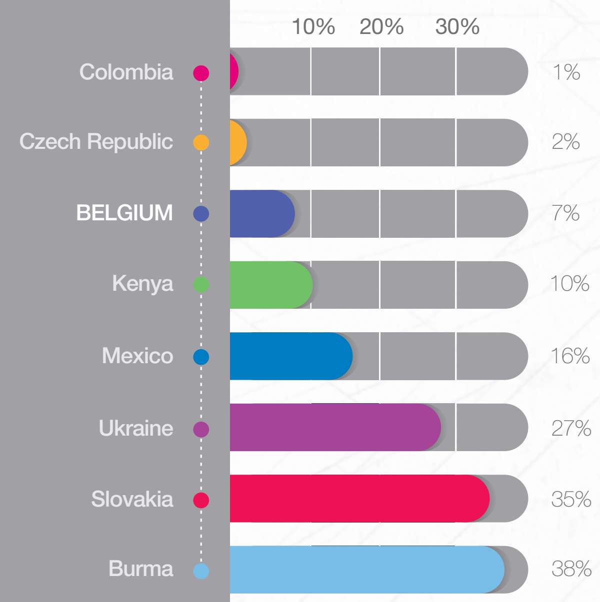
27%
Ukraine
Growth
Alternative/
Renewable Energy

7%
Belgium
Growth
Professional/
Business Services

10%
Kenya
Growth
Transport Equipment
(Heavy Duty Trucks)

35%
Slovakia
Growth
Transport Equipment
(Heavy Duty Trucks)

38%
Burma
(Myanmar)
Growth
Professional/
Business Services



Countries with Growth in Projects 2013

Of the 44 countries that attracted 50 or more projects over 2013, just 8 of these demonstrate project growth.

Source: Financial Times

Embracing the big data wave

Judith Walker
Operations Director
OCO

Most of us understand the concept of "big data." The implications however are less well recognised, and this is one of the most disruptive and creative developments across our target sectors as well as for the economic development industry itself.

Retail marketing and IT analytics were ahead of the curve in terms of capturing and exploiting data for enhanced segmentation, targeting and positioning but big data is also driving significant changes across many sectors including financial services, telecoms and healthcare, and is now a proven critical success factor.

The impact for us as economic developers is significant and there is a need to embrace big data on a number of levels. Firstly, we need to understand big data from a client side perspective, particularly as it is predicted to grow unabated in the next decade (both in terms of data and applications).

Propositions need to be developed which talk to the capability and expertise in this specific sub-sector, and IPAs/EDOs need to lobby to ensure there is a continued and adequate supply of talent in this area. According to McKinsey, by 2018 the United States alone could face a shortage of 140,000 to 190,000 people with deep analytical skills as well as 1.5 million managers and analysts with the know-how to use the analysis of big data to make effective decisions.

As you would expect, regions that have been traditionally very strong in ICT are actively pursuing the necessary data and analytics investment. One location that has already enjoyed success and is focussed on establishing itself as a European leader is Finland. Irina Blomqvist from Invest in Finland commented

"Our heritage in Communication Technologies and R&D, as well as other pre-requisites such as highly advanced infrastructure has helped put us in an early mover position and we already have a number of the leading big data players in Finland including IBM and EMC. We also have a growing number of indigenous specialist application providers in the space such as Base N, Vidamin Oy and Tieto Oyj and excellent start-ups in the analytics side. We're excited about growing this cluster and the opportunity it presents for Finland."

The big data wave is also important for the way we approach our work as economic developers. We need the right skills ourselves as Business Intelligence is no longer just the domain of the research or marketing team - it needs to be understood and directed by the leadership team.

Another important implication is accessibility, quality and organisation of data as it becomes ever more ubiquitous. It's long been understood that a databank / good knowledge management is a fundamental building block for effective investment and trade promotion. There are a number of common resources that we use and reference as part of our daily activities - company databases which provide performance data, CRM systems capturing key contacts and our relationship interactions, databases which track investment activity, digital marketing campaign results which often run on additional software, social media threads and groups, Google Alerts, the list goes on... Wouldn't it be great to access one system that combines all this to get a holistic view of companies in a trade and investment context, so we can make better assessments and improve company targeting?

The real challenge in big data adoption is about knitting all this information together and then interrogating with a different mindset. We need to rethink and promote the role of business intelligence and like other industries, interrogate and apply data in a much more meaningful way. As well as being a key area of focus for OCO, we're working with a number of other partners who can bring fresh ideas and perspectives in the business intelligence arena. NamSor has developed software that recognizes names in the Big Data (company names, product brands and personal names) with such accuracy that it can help monitor global flows of investments and talents. Elian Carsenat from Namsor highlights 'with @FDIMagnet, we help countries recognize their diaspora -who are they, where are they and what are they doing- so the IPA can originate FDI leads using diaspora Marketing'.

Delivering actionable insight - not just data - is a key challenge that OCO is determined to address and is investing in both business intelligence resource as well as product development. As part of our investment programme, OCO will launch its new OCO Velociti platform in 2014. This platform collates and provides analytics on structured and unstructured company data. The sources are a mixture of proprietary, industry data and social media. Structured data is used to provide ratings on companies for trade, innovation and investment propensity but importantly, interactions and unstructured data can also influence ratings, providing additional real time value to users. The system architecture has been developed in such a way to allow for continual additional information sources to feed in to the platform and for the algorithm to evolve accordingly.

More data in one place, with automated interpretation for economic developers, accessible through one platform, and available on a SaaS basis. Get ready to surf!

For more information on OCO Velociti, visit our website or contact Jade Hegarty on +44 28 9024 1849.

Emerging market perspectives

Dan Nicholls
Senior Consultant
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& Arnaud Delaeter
Consultant
OCO

Indonesia:
South East Asia's Emerging Behemoth

Like many large emerging market economies, Indonesia boasts an impressive array of stats and facts: a middle class of more than 130 million people; more US$ billionaires than Japan; the second-highest annual GDP growth among the G20 in 2012; a more than doubling of graduates between 2008 and 2010; the most improved G20 country in terms of overall competitiveness according the World Economic Forum; and Jakarta is the world's most active Twitter city.

Yet beyond the headline-grabbing facts and figures, there has been growing recognition within the country that major impediments and challenges exist when it comes to FDI. These challenges are reflected in the widely-consulted 'Doing Business' report from the World Bank, where Indonesia now ranks 120th globally (down from its previous ranking of 116th). Areas where the country received particularly low scores included: starting a business, enforcing contacts, resolving insolvency and paying taxes.

Coming of age

In the short time OCO has been active in the country (since spring 2013), we have seen a true 'coming of age' within South East Asia's largest economy. In just seven months, the prevailing domestic sentiment towards foreign investment has gone from one bordering on complacent optimism, spurred on by years of robust GDP and FDI growth, to one of moderate concern where slowing economic growth, a growing current account deficit, rising inflation and a plummeting national currency have prompted decision-makers to reassess the country's business climate and the Government's role in improving that climate.

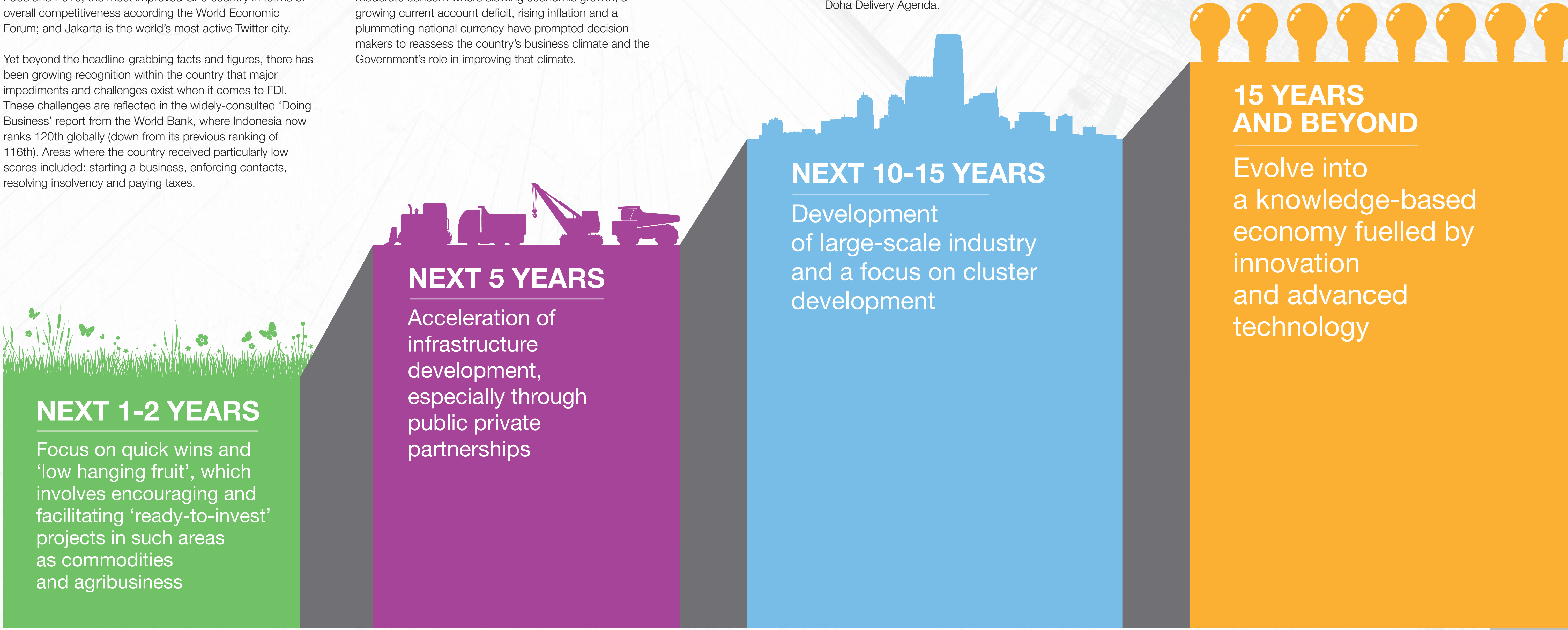
For example, Indonesia's Investment Coordinating Board, BKPM, has taken a leadership role in coordinating remedial actions and initiatives across the country's various ministries to improve Indonesia's performance in the World Bank's Doing Business ranking. BKPM's new Chairman, Mahendra Siregar, has also tasked the investment promotion and licencing authorities in Indonesia's 33 provinces with improving their investment climates and facilitation services, with various key performance indicators relating to business practices, security and industrial relations. This is an important undertaking in a diverse archipelago nation of some 17,000 islands where provinces have a significant level of autonomy.

Beyond tackling barriers to investment, BKPM has also demonstrated a long term vision for the country's FDI agenda. BKPM's latest investment roadmap adopts a four stage approach: *see below*

Finally, and most recently, Indonesia has demonstrated its developing role not only as a regional power, but also a global one through its stewardship of the WTO talks in Bali. The fact that a deal few expected to materialise was brokered on Indonesian soil is no small achievement for the country's government, and great PR for Indonesia. 'The Bali package' is now a ubiquitous term in the world of global trade and has been widely hailed as an important step in advancing the Doha Delivery Agenda.

> **"For the first time in our history, the WTO has truly delivered. I challenged you all, here in Bali, to show the political will we needed to take us across the finish line. You did that. And I thank you for it"**
>
> Roberto Azevêdo
> Director-General, WTO

Like many emerging economies, Indonesia's mid to long term prospects are extremely bright and offer great potential. Renowned economist Jim O'Neill, founder of the BRICs concept, recently predicted that by 2050, Indonesia could become world's sixth largest economy with a GDP per capita of US$21,000. Numerous obstacles and challenges will need to be addressed if both international businesses and the country are to fully benefit from the market's vast potential, but the signs are promising that Indonesia is moving in the right direction.



If you can measure it, you can manage it

Andrew Webb
Consulting Director
OCO

Competition for investment is fierce...

The competition for mobile investment between locations continues to increase, but as the chart shows, the economic uncertainty since the credit crunch five years ago continues to cast a shadow over FDI numbers. The benign recovery in project numbers witnessed during 2010/11 and 2011/12 failed to take hold, and global project numbers were close to falling below 10,000 for the first time since the middle of the last decade.

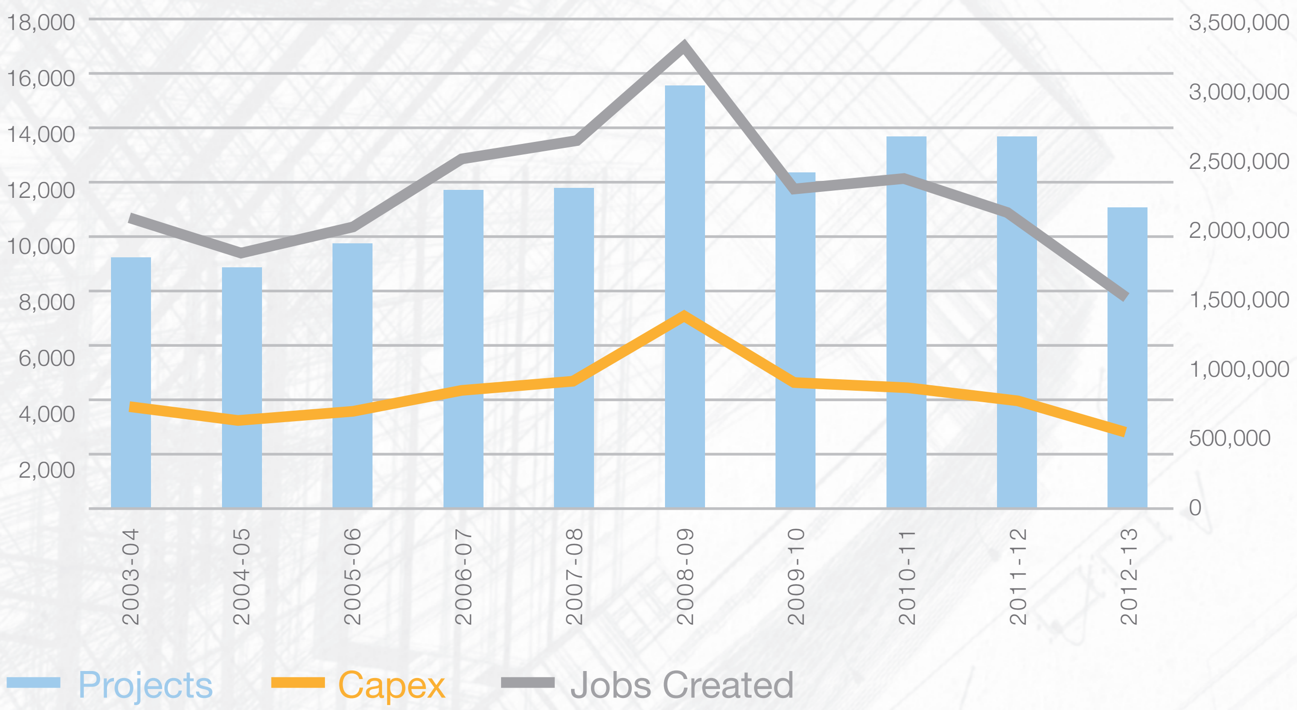
Instinctively, paying to influence potential investors to your location over another in order to tap into the perceived benefits of FDI seems like an obvious decision, but increasingly it is being asked whether the resource being spent on investment attraction is Additional or Deadweight, i.e. would the investors land in a region without being steered there? There are surprisingly few studies on this topic, but in austere times the question is increasingly relevant. It is also relevant to ask whether traditional measures of success - jobs promoted and project numbers - adequately reflect the value an IPA/EDO brings to economic development.

But the case for promotion agencies is clear (in theory)...

The traditional rationale for investment promotion is based on information asymmetries that may prevent the efficient allocation of investments across countries. Globalisation in corporate activity has led to an increasing number of geographic options for delivering cost reduction and new market opportunities. In investment location decisions, a typical long list of potential locations would be expected to include a blend of Hubs (the obvious global FDI leaders), Hotspots (some 'up and coming' locations) and Hopefuls (regions that tick the boxes but don't set the pulse racing).

From this point, staying on the list is where the IPA/EDO can bring value. Moving from a long list to a short list will not usually involve a site visit, so agencies that provide up-to-date information on their websites and those that are willing to fully engage in addressing investor inquiries can increase their location's chances of staying on the list. When down to the final few choices, the agency can further assist by supporting site visits and providing information on incentives and supporting with permit/compliance issues.

Global FDI Trends



Source: fDi Markets from the Financial Times

But evidence on real impact is less clear...

Empirical studies on the impact of EDO/IPAs include Morisset and Andrews-Johnson (2004), Bobonis and Shatz (2007), and research by Harding and Javorcik since 2010.

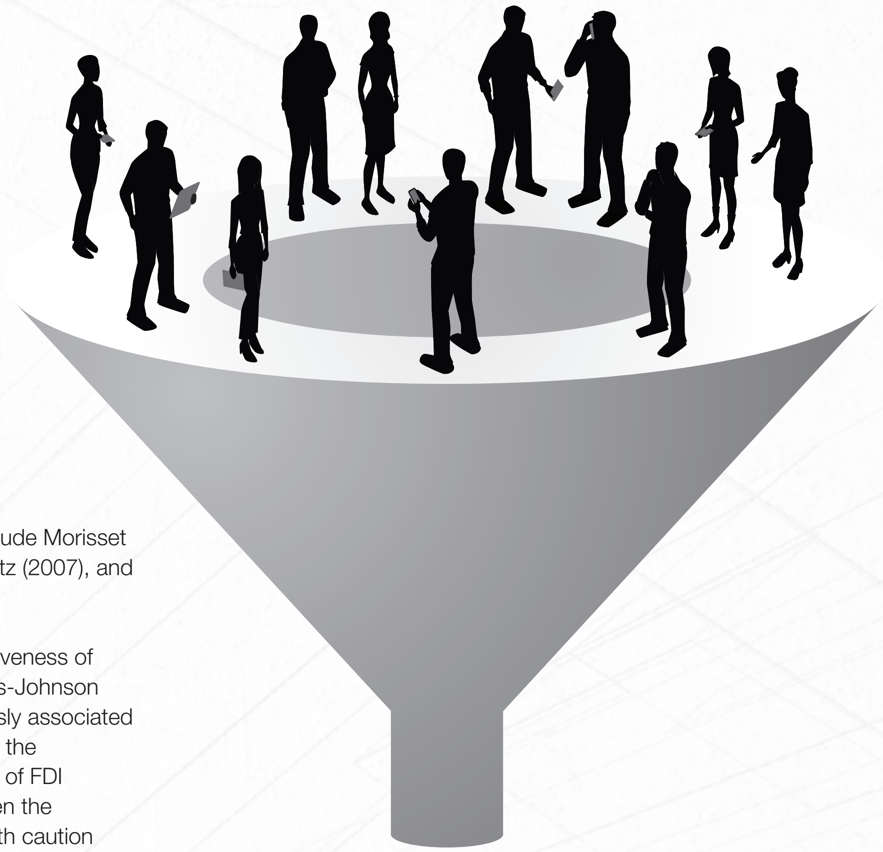
In probably the first empirical study on the effectiveness of agencies in attracting FDI, Morisset and Andrews-Johnson found that investment promotion is unambiguously associated with greater FDI flows. For each 10% increase in the promotion effort, the authors found that the level of FDI increased by 2.5%. While this correlation between the EDO/IPA budget and FDI must be interpreted with caution due to problems associated with evaluations using cross-country data and sample sizes, it is nevertheless compelling.

In the Bobonis and Shatz study, FDI stock in US States was positively correlated with the number of years that the state had a full time state trade or investment office in a foreign location. Their study found that a 1% increase in the number of years with an investment office increased the FDI stock by between 0.14% and 0.27%.

More recently, Javorcik has been achieving interesting results in aiming to determine the value of Investment promotion. In a paper with Harding in 2010, the authors found that investment promotion efforts lead to higher FDI inflows. The authors also found that investment promotion appears to be more effective in countries where English is not an official language and in countries which are more culturally distant from the USA.

Building on this work in subsequent papers, Javorcik and Harding have used the World Bank's Global Investment Promotion Best Practices results (including the 2012 results, the development of which were led by OCO) to determine a statistically significant relationship between FDI flows and the average quality of the national agency. The magnitude of the effect is impressive. A country with a score of 60% received on average 25% higher FDI flows than a country with a score of 45%. In other words, the authors find, a one unit increase in the GIPB score was associated with a 1.5% increase in FDI flows.

Continued...



- ACTIVITIES - INPUTS -

IMPACT - OUTCOMES - OUTPUTS

We need to consider wider measures of success...

The impact of EDOs/IPAs at the headline ‘x% increase in FDI flows’ (often the only reported performance metric) misses much of the more subtle value of an agency and can also drive behaviour that primarily chases the ‘low hanging fruit’ of lower value FDI and reduces focus on ‘gold standard’ innovative, high value FDI. In discussions about successful FDI attraction performance, the conversation is (rightly) moving to a new level - one that considers a broader (and harder to achieve) definition of success that encompasses measures such as:

- The proportion of new FDI jobs that pay wages above the sector average
- The uplift in productivity relative to the sector average from new FDI
- The proportion of new FDI that includes R&D and/or a university collaboration
- The proportion of new FDI that brings ‘new to sector/new to country’ products, processes or services
- Significant positive direct and indirect economic impacts

While the impact and contribution of an agency comes primarily through these statistical measures, the contribution of an IPA through their influence on partners’ and stakeholders’ behaviour is a further measure of Strategic Added Value (SAV). SAV functions include:

- Providing strategic leadership and influence
- Leveraging other ‘players’ to maximise performance
- Coordination and engagement with partners and stakeholders

In an FDI context, SAV would manifest itself in activities such as creating and improving linkages with higher education institutions on investment promotion, or promoting sub national/cross regional collaboration on sector propositions and marketing initiatives. We are increasingly seeing these types of behaviours in our client engagements.

Success can’t be guaranteed but agencies can build for it...

We recognise that adopting a one size fits all approach looses some of the subtleties of the individual location, but our experience with agencies across the globe does leads us to conclude that several operational factors tend to piece together in high performing EDOs/IPAs. Chief among these is the development of a clear structure, combined with a defined vision and committed leadership.

In times of restrained public expenditure, strong evidence to the challenge of Value for Money is vital in maintaining an agency’s presence in the market.

Operational Factors Driving Successful Location Promotion

Regions that perform best in delivering significant inward investment numbers all display a range of successful traits.

Getting back to basics

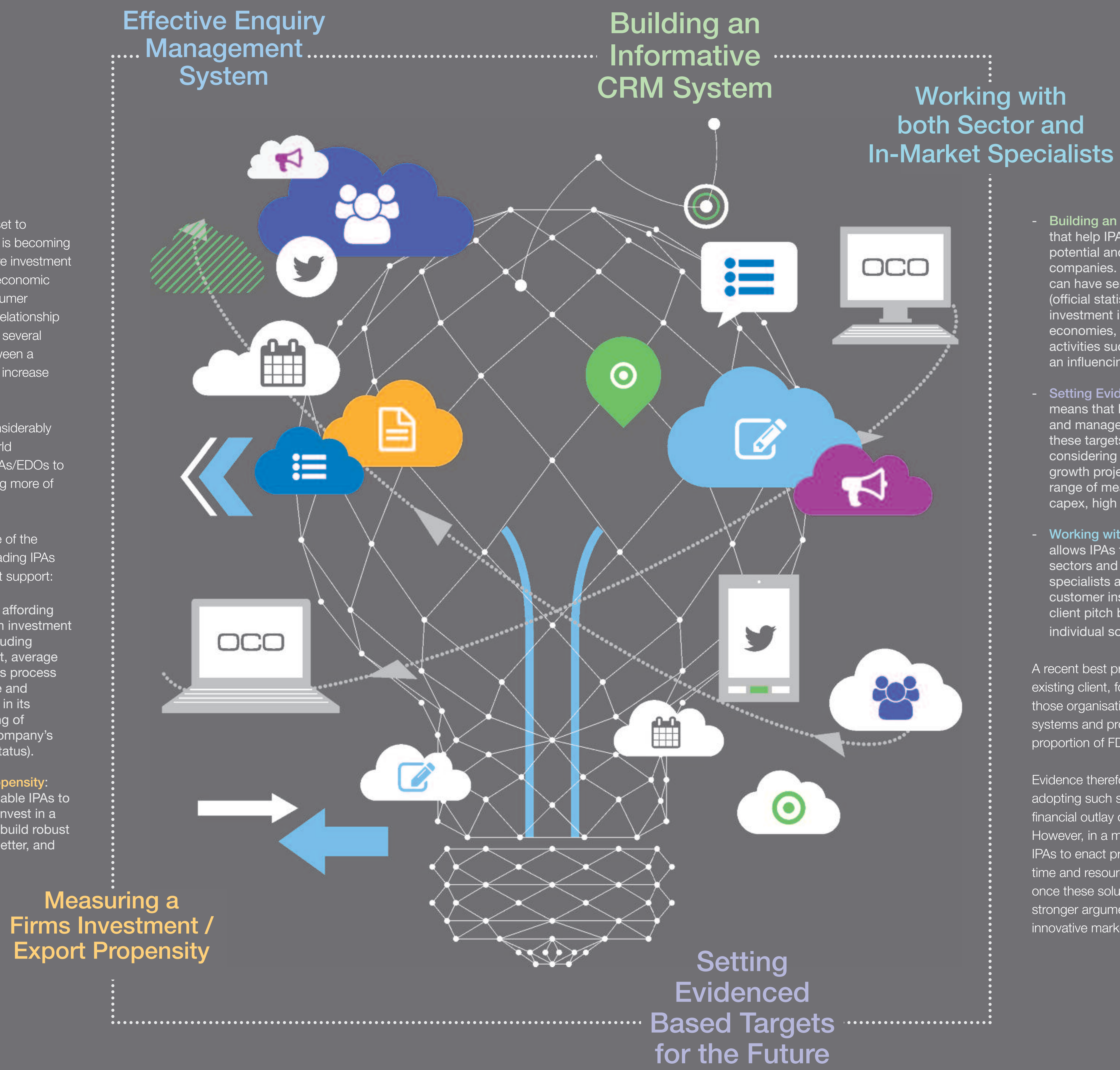
Maria Murphy
Consultant
OCO

With decreasing levels of government spending set to continue (and a fall in consumption as a result), it is becoming increasingly important for locations to attract more investment and raise exports in order to avert the effects of economic downturns (i.e. rising unemployment, falling consumer confidence and loss of business etc.). While the relationship between investment and trade is a complex one, several studies have suggested a direct relationship between a location's inward levels of FDI, and a subsequent increase in exports.

This, coupled with the fact that global FDI fell considerably last year (fall of 18% according to UNCTAD's World Investment Report, 2013) has put pressure on IPAs/EDOs to continue to redevelop their approach for attracting more of what is currently a smaller investment pie.

Recognising this challenge, we outline here some of the fundamental solutions currently being used by leading IPAs around the world, relevant to both FDI and export support:

- An Effective Enquiry Management System: affording IPAs the opportunity to adequately qualify an investment /export lead across a number of metrics including required funding, timeline, capital investment, average salary and opportunity 'drivers'. This rigorous process results in a reliable snapshot of how credible and genuine the proposed project appears to be in its current form, thereby permitting the triggering of effective resource allocation to handle the company's need (according to its potential high-value status).
- Measuring a Firms Investment / Export Propensity: techniques, including software tools, that enable IPAs to identify companies which are most likely to invest in a location or export, thereby allowing them to build robust lead generation lists, focus their resources better, and achieve higher hit rates.



- Building an Informative CRM System: software tools that help IPAs to better manage relationships with both potential and existing investors, as well as exporting companies. For example, effective use of this system can have serious benefits in terms of re-investment (official statistics show that estimates of up to 70% of investment is related to expansions in developed economies, moreover, for most high value added activities such as R&D expansion, aftercare is often an influencing factor).
- Setting Evidenced Based Targets for the Future: means that IPAs can work towards more realistic targets and manage expectations better. As well as basing these targets on past performance, more IPAs are now considering a range of other factors such as future growth projections (across sectors and countries) and a range of measures of success (i.e. project numbers, capex, high value job creation etc.).
- Working with both Sector and In-Market Specialists: allows IPAs to fully understand their offer across key sectors and priority markets. Access to on the ground specialists also helps IPAs to better understand customer insights, thereby enabling them to develop client pitch books relevant to the requirements of individual source markets.

A recent best practice report, conducted by OCO for an existing client, found that, from a varied selection of IPAs, those organisations which implemented these fundamental systems and processes generally attracted a higher proportion of FDI than those which did not.

Evidence therefore supports these perceived benefits of adopting such solutions, some of which do require an initial financial outlay or an adaption of existing working practice. However, in a market of ever greater completion, the need for IPAs to enact processes to qualify opportunities such that time and resource is utilised efficiently, is undeniable. Only once these solutions are implemented in some form is there a stronger argument for IPAs to consider other new and more innovative marketing and lead generation tools.

Pacific Alliance:
Seizing Latin America's growth opportunity

Sergio Barraza
Consultant
OCO

This year, the world's attention will be focused on Brazil, as many Brazilian cities welcome hundreds of thousands of tourists for the 2014 FIFA World Cup. Although it's just a few months away, Brazilian officials continue to address concerns about the country's readiness to host the Cup, while trying to prevent a new wave of protests triggered by the staggering cost of the event. The Brazilian government expects to use this World Cup - and the upcoming 2016 Olympic Games in Rio de Janeiro - as a platform to promote business opportunities and position the country as one of the world's new emerging powers. Brazil has definitely captured significant attention from European commentators and analysts, especially after it surpassed the UK in 2011 as the sixth world's economy. In fact, in spite of its now slower pace of growth, the South American giant is still forecasted to overshadow all European economies by 2020, when it is expected to overtake Germany.

However, regardless of the economic success of Brazil, economic development professionals cannot afford to ignore trade and investment opportunities in the other emerging markets of the region. An interesting group of nations, which could well be soon labelled as the "Andean Tigers" of Colombia, Perú and Chile, is garnering more attention from investors and economic development organisations. These three countries have now joined forces with Mexico to form the Pacific Alliance which is intended to create an alternative and liberal economic and integration mechanism for Latin America. The Pacific Alliance forms an economic bloc of more than 210 million people and a GDP of more than USD 1.99 trillion, which represents a third of Latin America's market. The bloc also accounts for exports worth USD 555.6 million (2012) and USD 71 billion (2012), a testament of the bloc's openness for business.

All member countries are recognised for their macroeconomic stability, pro-business environment and trade openness. The four countries are well-ranked in the World Economic Forum's Global Competitiveness Index and the World Bank's Doing Business report for 2013, leading the Latin American region in competitiveness, economic freedom and globalisation. Chile is, in fact, the most open economy in Latin America with more than 16 Free Trade Agreements (FTAs), granting it market access to the Americas, Europe and the Asia-Pacific region. Mexico is the second most open economy with 12 Free Trade Agreements (FTA), including its full-membership in the North American Free Trade Agreement (NAFTA). Peru and Colombia are also very open economies, with trade agreements in place with the United States, Canada, the European Union and several Asia-Pacific economies. In addition to this, Mexico and Chile are already full-members of the OECD (Organisation for Economic Cooperation and Development), and Peru and Colombia have both been invited to be members in the near future, thus committing to a broad social and economic reform agenda.

Some of the recent achievements of this short-lived Alliance lead us to believe that this is not one of the multiple integration attempts that slowly wane following the rhetoric of the region's presidential summits. In only two years, the Alliance have eliminated visas between the member countries, established student mobility programmes, initiated the operation of shared embassies in countries such as Morocco and Ghana, established joint promotion offices in various countries in Asia and the Middle-East, and organised several promotion fairs and seminars by ProMexico, PromPeru, ProExport and ProChile. Perhaps one of the best concrete examples of the Alliance's bright future is the launching of MILA, the Integrated Latin American Market, which recently unified the stock markets of Colombia, Peru and Chile, and is forecasted to rival Brazil's BOVESPA stock exchange, once Mexico joins in the coming years.

Despite the important size of Mexico in the Alliance, we expect that the "Andean Tigers" will remain as a driving force of the bloc, as the economies of Colombia, Chile and Peru grew at rates between 4% and 5% in 2013, faster than the Latin American average of 2.6%, and in fact, Mexico and Brazil. These growth figures are quite impressive if we consider the global sluggish demand and the overall deterioration of the terms of trade for these countries, with declining commodity prices in agro-industrial and metal & mineral products, which comprise the bulk of their export basket. Such good performance has been driven by a robust domestic demand, due to high consumption and investment levels. The appreciation of the regional currencies and the availability of cheaper imports increased the domestic demand in machinery and equipment, thus driving the investment rate at historic high levels. The growth in private consumption has also been also been driven up by employment growth and real increases in wages, continuing the expansion of the "middle class" and creating ripples in sectors such as commerce, construction and tourism, growing at 10% rates in some cases.

Such internal stimulus explains the resilience of the Andean economies to external shocks and fuels optimism that once the global economy fully recovers, these economies will be able to capitalise on their competitiveness and trade openness to conquer the world's export markets. This internal market also creates opportunities for economic development organisations, interested in fostering export development, as the robust domestic demand create trade opportunities in sectors such as consumer goods, automotive, machinery and equipment, food & beverages, information technologies, construction materials, etc. As many European, Asian and North American service providers and suppliers are entering the region to service a new generation of multi-latinas and to capture this emerging market, it is not surprising that ever more European and North American economic development organisations have opened trade offices across the Andean region to capitalise on this positive trend and help companies in the market-entry process. Some of them are also attracted by potential FDI opportunities due to the emergence of new Andean multinational corporations and surge in conglomerates headed by a new wave of billionaires, 37 of them now listed in Forbes among the wealthiest in the world. All these reasons should definitely place the Pacific Alliance countries, and particularly its Andean members, on the short-list of strategic markets for both trade and investment specialists.

Velociti

Jade Hegarty
Product Manager
OCO

Velociti has been in development for around 12 months, and is designed to help clients identify those companies which have a high propensity to invest and trade overseas, as well as highlight those who place a strong emphasis on innovation.

Velociti's data driven approach relies on a wide range of industry and proprietary sources and captures a basket of quantitative indicators (turnover, profit, R&D expenditure, employment), as well as qualitative factors (funding, patents, social media footprint, international profile) in order to generate scores for the company in respect of its innovation, export, and FDI propensity. The methodology is equally effective for public and private companies.

The algorithm has been tested extensively and is based on different criteria across markets and sectors, validated by OCO's decade long track record of monitoring FDI and trade flows. Velociti also displays average scores and indicates how companies perform against the average for FDI, Trade, and Innovation by sector.

Velociti covers a large range of industries, which includes IT & Software, Advanced Engineering, Pharmaceuticals & Biotechnology, Financial Services, and Aerospace.

The power of Velociti can be demonstrated in the following examples, which show the highest rated companies by FDI, export, and innovation, in current sectors and markets of interest. Companies range from very large to SMEs, as

Velociti is not a 'one size fits all' approach, but a rigorous methodology for supporting economic development activities.

Innovative companies are increasingly more interesting to look at in terms of how they are growing and their potential to invest overseas. OCO's Velociti platform provides scoring on each company based on industry and individual company R&D spend. An example of the highest companies by innovation score are shown to the right.

Despite Velociti's broad reach, it remains a simple and intuitive tool for economic developers to use, while allowing an array of filtering mechanisms, such that the user can drill down to find the specific types of companies that are relevant to them. Alongside scores, many companies also contain analyst profiles that provide greater depth as to the nature of the opportunity. For those companies without a profile, they can be developed on request. An important strength of Velociti is its dynamism - scores change continually based on the availability of new data, so the information provided is always the most up to date available.

Clients are already benefitting from Velociti: most recently the tool was used in the US on a targeting campaign focused on Fintech. The companies identified by Velociti compared to the client 'control' list were three times more interested to meet and were twice as likely to convert to investment opportunities.

Equally, in a recent review of Chinese investors in the UK (with very limited company data), Velociti helped the client to prioritise the best prospects of trade and investment from a pool of 500 investors.

Finally, Velociti is earning its reputation at the interchange between trade and investment. It has been deployed by a client to identify foreign investors who are export orientated which are likely to create the greatest economic impact.

Highly Rated Velociti Scores:

VELOCITI

Brazil exporters

Company	Sectors	Trade score
Sabo	Chemicals, Plastic, Rubber	94.4
Bravox	Electronics	94.3
EMS Sigma Pharma	Pharma & Biotech	94.3
Modulo	Business & Professional Services	94.2
Copacol	Consumer Products	93.9

Highest innovative SME companies in Japan

Company	Sectors	Innovation score
Cellseed	Pharma & Biotech	95.6
Lexues	IT & Software	94.5
R Tech Ueno	Pharma & Biotech	90.4
New Japan Chemical	Chemicals, Plastics, Rubber	74.5
Yamato Scale	Industrial Equipment	70.2

Leading global Mid-cap med-tech companies

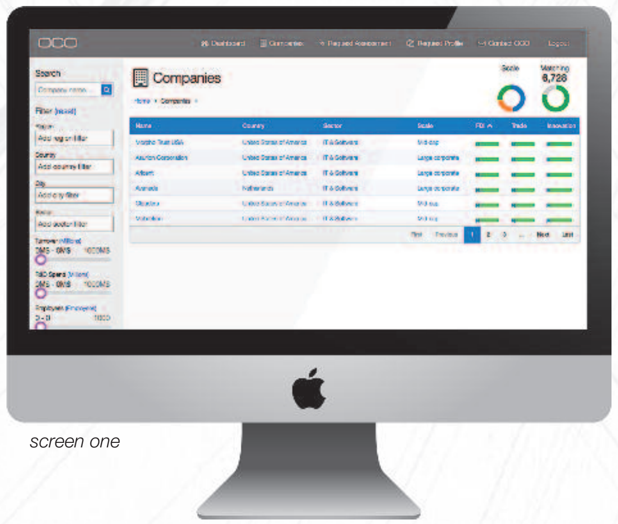
Company	Country	FDI score
Accelrys	USA	89
Intuitive Surgical	USA	90.1
Audit Diagnostics	Ireland	93.8
Poly Medicure	India	81.6
Straumann	Switzerland	82.1

Top FDI scores in Automotive Components

Company	Country	FDI score
Metaldyne	USA	95.8
Chery Automobile	China	95.6
TI Automotive	USA	95.5
Comau	Italy	95.5
Koenigsegg	Sweden	95.5

Highest innovative Financial Services Companies

Company	Country	Innovation score
RK Harrison Group	United Kingdom	78.2
SS and C Fund Services	USA	77.7
Giesecke Devrient	Germany	71.4
Bobst Group	Switzerland	61.2
Keytrade Bank	Belgium	80.3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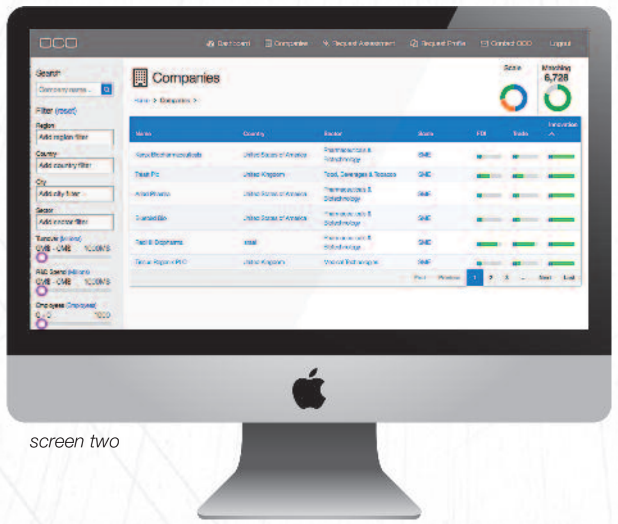
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Nearshoring in Europe: A changing landscape for German Automotive Suppliers

Andreas Paulicks
Senior Partner
PM&P

For Western European automotive suppliers, the nearshoring landscape is in a considerable transformation process. For the past 20 years, Central and Eastern Europe has been the primary and logical choice with multiple options for low-cost manufacturing in close proximity. However, the whole region has been faced with sharp rises in labour costs and this trend is likely to continue over the next decade. As a consequence, CEE countries follow different paths to maintain or increase their competitiveness and their offering to the auto industry. At the same time, other countries advance their position in competing for nearshoring projects in the vehicle industry, especially in the Balkan region and Northern Africa. There will be more diverse opportunities for nearshoring in the future and more opportunities for producing for the local markets. It makes sense to analyse these opportunities thoroughly.

Central Europe: Extending auto clusters and preparing for knowledge-driven FDI

Germany's direct neigbours, Poland and Czech Republic are no longer low-cost countries. In 2020, hourly wages will reach 18 Euros according to forecasts of IHS Automotive. Both countries, as well as Slovakia and Hungary already started to transform from "workbenches" to advanced economies by investing in education, training and a better infrastructure to stay competitive. The countries benefit from their existing automotive clusters and aim at further extending them by filling supplier gaps and encourage extensions. In fact, they succeeded. FDI from OEMs and automotive suppliers overcompensated some production shifts to their Eastern European neighbours. VW expanded their R&D-centers in the Czech Republic and Slovakia demonstrating the region's capability for attracting knowledge-driven FDI. The World Economic Forum recently awarded these two countries "innovation-driven economies".

Eastern Europe: Rising labour costs, new opportunities supplying local OEMs

Eastern Europe is still a choice for automotive suppliers under strong labour cost pressure. However, the chase for cheap labour by moving to the East comes closer to its end. The Ukraine and Moldavia will be the terminals of the "Eastward Treks" where considerable risks and logistical challenges almost outweigh cost advantages if supplying to German car assembly sites. However, there is an expanding group of OEMs producing in Eastern Europe and demanding local automotive supply. Many new factories already feed primarily the local OEM sites. Nevertheless, a part of the low-cost production will move to South Eastern Europe or to North Africa due to rising costs. As IHS predicts, by 2020, as a Romanian worker will ask for double the wage, as a Moroccan will. In addition, other regions develop interesting local automotive supply markets as well.

Turkey and the Balkans: New hotspots with a considerable market potential

In the Balkan region, Serbia and the FYRO Macedonia are currently the frontrunners for attracting automotive suppliers. While Croatia has to cope with its considerably higher labour costs, Serbia and Macedonia provide similar wages as Romania. In addition, the two countries created attractive free zones for automotive suppliers and can build on their role as a bridgehead to Turkey. Macedonia is also known as a model for facilitating doing business. In FDI-jobs relative to its GDP, Serbia and the FYRO Macedonia were the most successful countries in 2013 in entire Europe (!). The key projects in the last years were automotive suppliers, like Kromberg & Schubert, Amphenol, Johnson Matthey (Macedonia) and Continental, Leoni, Bosch, Draxlmaier (Serbia).

Turkey, with its large automotive market (850k cars) and local production (1.5m cars), is definitely on its way to become an integrated automotive cluster of global importance. Toyota and Hyundai successfully developed their plants and are currently extending their capacities. Turkey has clearly set its focus on 2023 - the 100th anniversary of the country - in wich they want to join the world's top ten economies. The automobile industry plays a key role in these aspirations, and is to be ramped up to an output of four million passenger cars and commercial vehicles, representing a four-fold increase in comparison to 2012. Bosch invested in a fuel injection production and Siemens set up an R&D centre. As part of the so-called "emerging mid-east" together with Iran and Saudia Arabia, Turkey is a key target for German automotive suppliers - despite current political turbulences.

North Africa: The long-term perspectives favour Morocco, Tunisia and Egypt

Northern Africa, in particular Morocco and Tunisia, are attractive nearshoring options, especially for automotive suppliers delivering to Spain and France. Labour costs are as low as in Moldavia and the Ukraine and experts predict only slow rises next ten years in view of the very young and fast growing population. Logistics to Germany take 3-4 days by truck and are quite safe. Political stability is certainly a risk, currently rather in Tunisia than in Morocco. Renault has invested some 1.2 billion dollars in his new cutting-edge factory in Tangier/Morocco with an annual production capacity of 400,000 vehicles. Besides some CKD-production of other OEMs in Algeria and Egypt, this is currently the core of automotive manufacturing in Northern Africa. However, there are chances that Nissan might join Renault in Morocco and there are rumours about Renault, VW and Daimler intending to extend their activities in Algeria. Morocco is currently the most attractive automotive supplier location, in view of its opportunities for supplying Renault, OEMs in Spain, France and Germany, as well as for exporting to other markets, facilitated by its new Tanger Med seaport - the largest in the Mediterranean and Africa.

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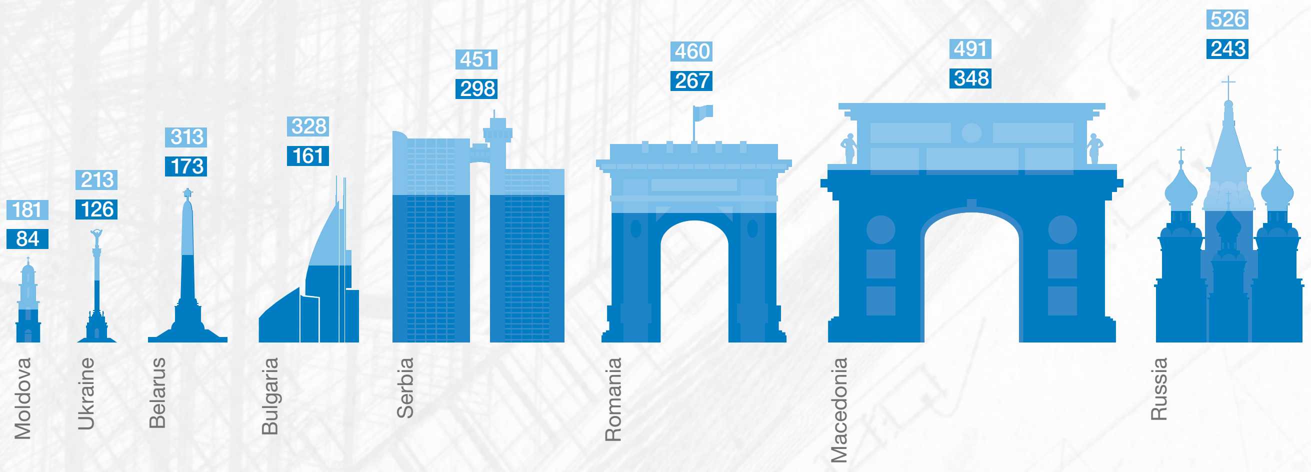
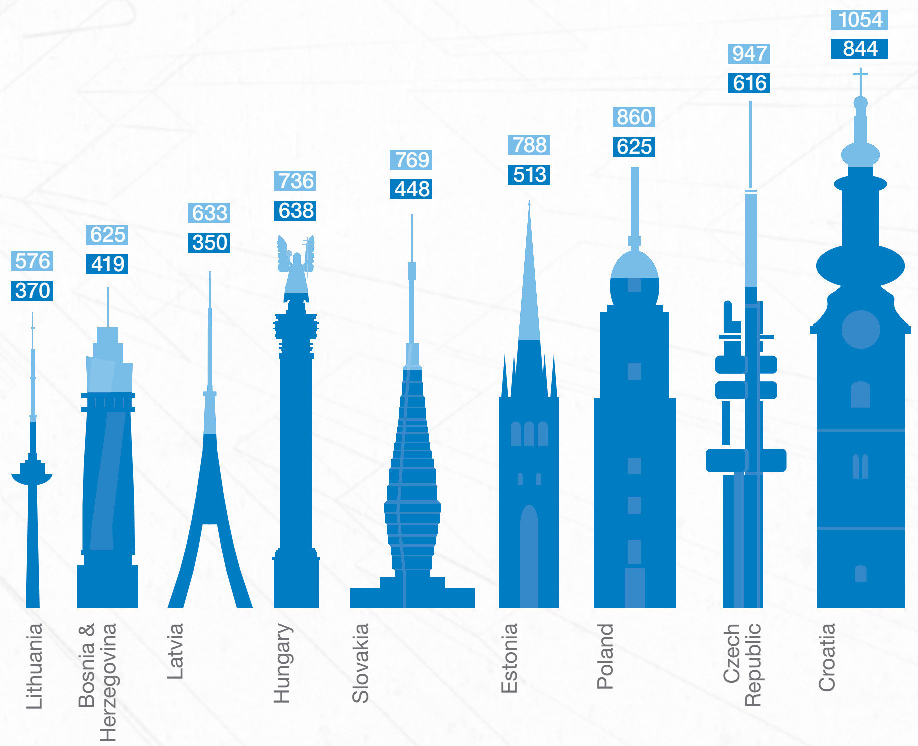
OCO are pleased to announce our partnership with leading European investment advisory firm PM&P Consulting. This partnership reinforces OCO's position as a leading investment authority in European markets.

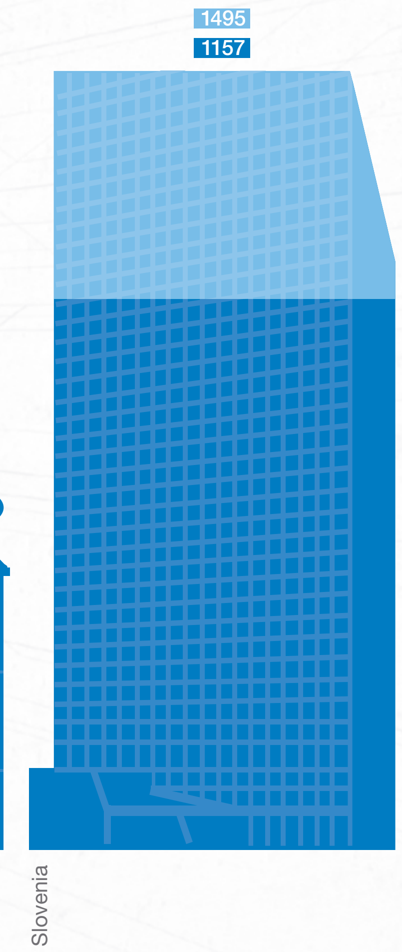
Average Monthly Salaries in Industrial Sectors

in Central and Eastern Europe (2005, 2010 in Euro)

KEY:
Increase up to 2010, level 2010
Average Monthly Salary 2005







The poorest views from Sydney Bridge

Colm Reilly
Partner
PA Consulting

PA Consulting Group

February 2014 in Sydney, the G20 (the 19 countries plus the European Union) will once again try to co-ordinate global economic policy and "fix" the world's problems. With cyber security, terrorism and climate change now being added to global economic integration, the need for international co-operation has never been greater. So far, the G20 has failed.

This failure was also manifest in Davos in January of this year when the USA showed that the wealthiest one per cent had received 95% of the proceeded of post-recession growth. Oxfam showed that the worlds 85 richest individuals were worth as much as the 3.5 billion people at the bottom half of the global population. Obama declared "the basic bargain at the heart of our economy has frayed" - the bargain being that if you worked hard, you have a chance to get ahead. This was not an appeal to egalitarianism - but one of reality. Societies that grow more unequal are societies where fewer citizens can meaningful participate, stifling innovation, productivity and growth. It ultimately leaves everyone poorer and collapse inevitable.

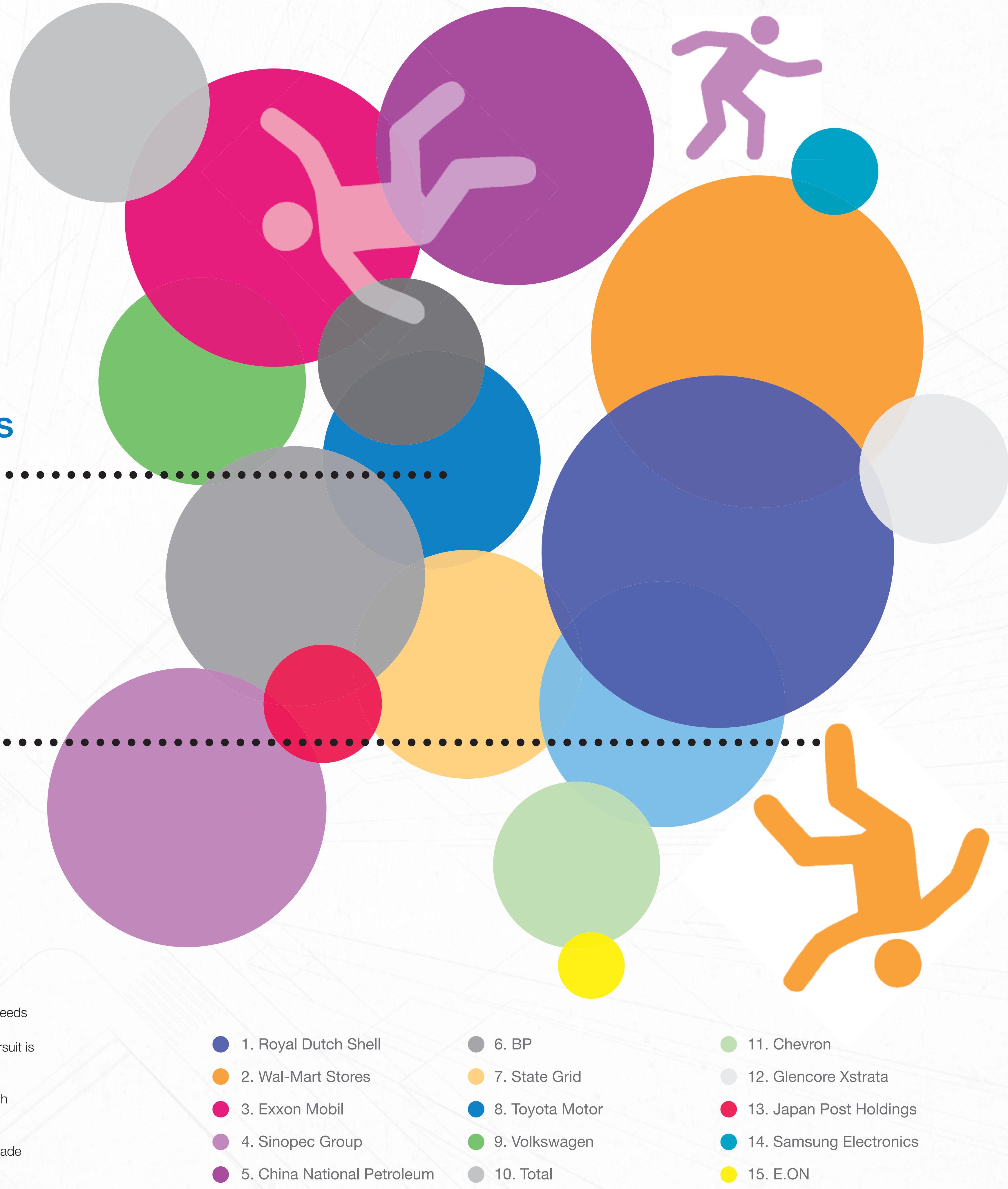
Global Trade and Investment - the true means of ensuring participation in economic growth is drifting in the doldrums. FDI is being increasingly moved to developing countries and the developed countries are struggling to build new trade and investment platforms to increase GDP and thereby economic growth. Now that over 70% of global trade is managed by the top 500 companies in the world and with global FDI consistently falling since 2008 it is clear that due to worldwide economic fragility and political uncertainty, the recovery will also take longer than originally expected. Multinational companies in developed countries are either maintaining a 'wait and see' approach towards new investments or are getting rid of their foreign assets.

This needs to be changed now. Governments will need to find new platforms for Trade and Investment and these platforms must start to reach into the medium size companies in all countries so that economic growth can be shared and distributed. This is not straightforward as the long term trends of globalisation and increased automation mean that all countries are running hard simply to stand still. Developed economies are being hollowed out as the middle class jobs disappear and traditional mechanisms of wealth distribution become unaffordable. It is also becoming clear that countries which have adopted protectionist stances to ward off FDI advances on 'strategic sectors and companies' only serves to entrench the gap between the top 1% and the rest of the economy, while more adaptive and open economies thrive. It is time to move the conversation on. There is a need to raise the ambitions of Governments and position them in the global context. The failure of leadership internationally has to conclude and the real purpose of global co-ordination needs to be addressed. If any country breaks ranks and puts national self-interest first, it should be punished. The pursuit is economic co-operation and a new form of global order allowing companies trade and invest internationally and competitively without the burdens of protectionism which serve no one.

2014 needs to see the shackles removed from global Trade and Investment. It is the only straight path to distributed economic growth.

Over 70% of global trade is managed by the top 500 companies in the world

FDI fell by 20%
2008-2014



Source: Fortune Global 500

Conclusions

Stop cutting bait, it's time to go fishing

Mark O'Connell
Chief Executive Officer
OCO

The luxury of strategic planning and policy think tanks need to give way to execution and client engagement. We all had a long deep recession with plenty of time to strategise, process re-engineer and tune up our investment offers. Now that the investment tide is rising again we need to mobilise.

Too many IPAs and EDOs are stuck in a government orbit where the client becomes the politician or other government departments and have totally lost sight of the real customer.

"I wonder what the investors will make of our new 5 year industrial policy" remarked one senior government official recently who had clearly not ventured beyond the Government ramparts for years. As the expression goes "you need to get out more".

Business people do not talk in economic development code about FDI, Trade, GVA, clusters, sector strategies etc. They talk about growing their business, acquiring new customers, improving margins, lowering costs. Until we talk their language or translate our initiatives into things that matter to businesses we risk marginalisation.

The key to successful economic development in today's environment is agility and responsiveness to the different needs of a diverse client base. Obviously no location can offer all things to all clients, so we need to be ruthless and realistic about our sweet spots and pursue a tight shortlist of clients where we know these attributes will resonate. This is not a broad sector or market strategy but good old fashioned relationship building with the buyer/prospect. This is especially true in emerging markets and with private businesses where who you know often counts for more than what you know.

And investment is increasingly promiscuous. The emerging market and technology investor typically does not follow traditional rules in respect of systematic shortlisting and location screening or indeed structured engagement with external advisors, a model that many EDOs and IPAs have designed their services around. These younger non corporate investors are much more nimble and opportunistic and unless you are out amongst them, FDI opportunities will not hit your radar through conventional channels.

EDOs must strive to extend their networks, not by opening more offices and hiring more staff, but by partnering with intermediaries and private sector providers who can extend their reach, credibility and customer interface. This means working out reciprocal arrangements that benefit both parties and ultimately make the investor journey a smooth and seamless one.

At the same time social media has unlocked enormous potential for locations seeking to reach investors and influencers with their messages but like other marketing channels it needs a well thought out strategy with clear objectives and measures. It also offers an amazing research and intelligence platform if mined in the right way. Establishing the Twitter account and Facebook page is not the end game, it's what you do with the channel afterwards and how it is controlled.

The disruptive forces shaping FDI today are far from settled. In the short term we can look forward to tectonic plate shifts as quantitative easing dials down in western economies, shale gas expansion resetting the energy dependencies and price controls, Russian and Middle Eastern rehabilitation into global trade alliances, and corrections in the tiger Asian and Latin American economies slowing growth and inflation to more sustainable levels. So pay close attention or you may find yourself playing on the wrong football pitch.

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