LONDON 2020

COMPETING IN A NEW FDI ERA

THINK LONDON

CONNECTING BUSINESS TO LONDON

LONDON FOCUS

About us

Think London is the official foreign direct investment agency for London.

We connect international businesses to London, helping them set up, succeed and grow.

Think London's experts work with the business community and government to help overseas companies access the best people, places and opportunities in London.

We provide intelligence, connections and opportunities for new and existing investors. Our service is comprehensive, confidential, and funded.

We work closely with the Mayor of London and UK Trade & Investment.

Foreword

As the 'new normal' emerges for the global economy, how can London remain the investment location of choice for overseas companies?

Competition is getting fiercer. Access to energy, capital and talent is less certain. Value chains are becoming more globalised. Fast-growing developing countries such as India and China will soon dominate both as sources and recipients of foreign direct investment (FDI). And, adding to the pressure, recession-hit economies will find public and private coffers constrained for years to come.

So in this changing business environment, how can London retain its FDI crown?

This research unearths the first rumblings of what we believe could be a seismic shift in the principle driver of FDI flows. Whereas the glory years of trade and investment growth were principally based on market-seeking globalisation activity, there is evidence to suggest that **globalisation in the 2010s will be driven more by a need to find operational efficiencies.** In turn, this theme will be underpinned and driven by new innovation models and the search for ever more mobile talent. Collectively these factors will define a new landscape in which London and other FDI locations must compete.

London enters the 2010s in a strong position. We are a true 'world city'. As the gateway to Europe for the Americas and Asia, we are well placed to benefit from the predicted influx of FDI from developing countries. In volatile times, London provides a stable and secure environment relative to many emerging locations. Our deep talent pool and strong standing in financial services, information & communication technologies (ICT) and flexible business services are coveted the world over. We should continue to capitalise on these strengths.

But none of this will happen by chance. Only a dedicated and concerted effort will ensure that conditions continue to be right for overseas investors. We must communicate our qualities and achievements throughout the world with confidence. Only then will London remain the obvious choice for the smart foreign investor throughout the 2010s and for decades to come.

Michael Charlton,
Chief Executive, Think London

IBM CHATHAM HOUSE

About this report

What will the world's foreign direct investment map look like in 2020?

Historically the principal driver for foreign direct investment has been access to markets, one of London's primary advantages over other global destinations.

But times are changing.

What key trends will shape global FDI over the next decade? And how will these trends affect London's prospects as an FDI destination?

At the threshold of the 2010s, Think London has sought to answer these questions. Armed with this information, we aimed to find out how London could evolve – in the face of emerging threats and opportunities – to maintain and improve its attractiveness as an FDI destination.

Think London commissioned two influential voices in global economics to understand this new FDI era.

The bedrock of this report comes from research conducted on Think London's behalf by IBM's Plant Location International (PLI) team, who:

- identified key new trends in global business and their impact on FDI flow over the next decade.
- analysed the impact of these trends on London FDI, taking into account the city's competitive position using 'cost-quality' analysis.
- explored various scenarios, measuring the hypothetical impact on London's competitive FDI position of investment in areas such as 'talent' and 'transport'.
- conducted qualitative interviews with major global companies operating in London to check how findings resonated with investors.

Think London then commissioned Chatham House to review IBM's data and combine it with their and Think London's FDI insights to devise a series of recommendations: steps that we believe are necessary to retain London's premier position in the global FDI league.

[1] IBM PLI data spans: Institute of Business Value (IBV) industry perspective reports. IBM's Global Investment Locations Database (GILD), which tracks announced decisions of companies to locate new operations in regions outside of their HQ region/country. (More than 80,000 projects tracked since 2003).

This report distils the highlights and recommendations of the research in three sections:

Section 1

FDI: Setting the scene

- Emerging global business trends
- Sector perspectives
- London's current FDI landscape
- The impact of global trends on FDI into London

Section 2

FDI themes: what are the key global FDI drivers and how will they affect London?

- Efficiency
- Talent
- Innovation
- Globalisation

Section 3

Think London recommends:

Measures we believe London needs to take in order to retain its position as the World Capital of Business.

Section 1

FDI: Setting the scene

Emerging global business trends

- **There will be continuing pressure on businesses to consolidate and reduce costs.** There is a greater need than ever to manage international business as efficiently as possible, focusing on core value creating activities, reducing fixed costs, increasing flexibility and generally controlling risks within a less stable global economic environment. Rationalisation and restructuring will continue, with a focus on location specialisation, for example around production, trade, distribution or R&D. In this context international companies will increasingly tend to focus operations more sharply on the prime regional centre as the safe choice.

- **The ongoing battle for talent is compounded by global mobility of labour.** Although the recession and raised unemployment levels have temporarily eased the situation, there will remain a worldwide shortage of high-skilled professionals. Greater international mobility of labour compounds the impact of this.

- **Necessity of constant innovation.** As both a response to and facilitator of globalisation, innovation is shifting to new levels of importance. Increasingly sophisticated and demanding customers are making this more complex as companies seek to become more pro-active in an attempt to capture capricious customer audiences. Partnerships and networks will become increasingly critical in supporting this drive to innovate, as constrained resources and risk containment limit the ability of all but global giants to go it alone.

- **Companies constrained by limited access to finance.** The turbulence in the global financial system has resulted in reduced availability of financing opportunities for companies. More cautious risk management strategies, greater capital adequacy requirements and limited market appetite for IPOs all serve to constrain liquidity and reduce external financing options.

- **Acceleration in the significance of emerging markets.** Emerging economies represent key growth markets, sources of cost-competitive talent, and resources for globalising companies. However, companies from emerging economies are also increasingly entering the more mature markets, capturing market share and increasing competition for existing companies. With emerging economies expected to continue as the key growth engines of the global economy, the associated opportunities and challenges for companies in mature economies will become more pronounced in the future.

London’s current FDI landscape

- **London has maintained its position as the leading destination for FDI**, despite a global decline of 37% in jobs created by overseas investors in 2008 compared to 2007.[2] Early indications of 2009 performance data suggests an increased level of activity over 2008.

- **US companies are the main investors in London**, creating 44% of FDI jobs between 2003-8, followed by India (15% of FDI jobs). France, Japan, Canada and Australia accounted for 4% each, while China represented 3%. The latter is expected to show notable growth when subsequent data becomes available.

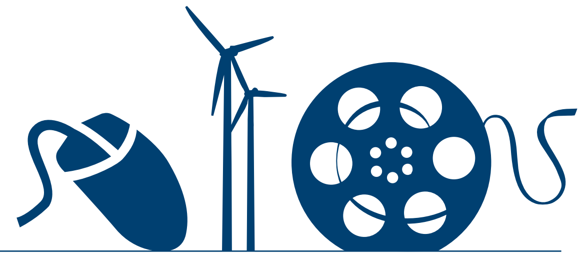
- **In London, ICT, business services and financial services are the dominant FDI sectors**, contributing 32%, 22% and 15% respectively of FDI jobs between 2003-8.[3]

- **Headquarters and sales/service centres** are the main business functions in London.[2]

> “London is well placed, offering a combination of easy access to markets, the English language, a stable and flexible business environment, and a time zone advantage.”
>
> IBM

[2] IBM investment trend analysis
[3] IBM-PLI Global Investment Locations Database (GILD)

Sector perspectives



London's historically strong performance in FDI has been driven by three key sectors: financial services, business services and ICT. Our research identified a number of key considerations for FDI in each of these, as well as the increasingly important creative industries and the emerging environmental technologies sector.

Financial Services

As this sector becomes more cost-sensitive in mature economies, companies will seek locations that offer a combination of skills and cost attractiveness.

- Growth areas will continue to be expanding markets in emerging countries.
- New players from emerging economies are beginning to internationalise their activities.
- This sector is likely to be subject to scrutiny and possibly further international regulation.
- Main investor countries worldwide: US, UK, Germany, China, India.

Business services

Emerging locations will improve their business environments to become viable alternatives to established locations.

- Limited growth in the short term and picking up as the economy recovers.
- Focus is on optimising operations (mainly cost) and on skills, knowledge & partnering (skills and cost).
- The drive towards greater internal specialisation within companies is likely to lead to greater use of Anglo Saxon style shared service centre (SSC) models globally.
- Main investor countries worldwide in medium-long term: US, UK, Germany, India, Japan, France.

ICT

Key drivers are the optimisation of operations globally, improving the mix of capabilities, knowledge, assets, and partnering.

- Emerging markets will grow in importance as investment locations, as companies search for knowledge and assets globally.
- Barrier for growth in some locations is the insufficient availability of skills.
- There will be a shift from manufacturing to services with a focus on automating and standardizing service creation and delivery.
- More integrated solutions covering software and services will help clients cope with increased pressure on costs.
- Main investor countries in medium-long term worldwide: US, UK, India, China, Ireland, South Korea.

Creative Industries

An emerging growth sector for overseas investment activity, although overall global volume of investment remains low measured by jobs created.

- Investment characterised by many smaller projects.
- Very sensitive to technological developments, shifting the way value is created.
- Business model uncertainty, with companies readily modifying operations to exploit new technologies.
- Main investor countries worldwide in medium-long term: US, France, China, Japan, India.

Environmental Technologies

A key growth sector for overseas investment, with approximately 30,000 jobs created globally in 2008.

- Strong long-term growth prospects due to the drive to reduce the dependency on carbon-based energy sources.
- Most job creation from overseas investment has been in production projects for renewable energy, with R&D investment remaining a low job creator.
- As the sector matures, non-production activities (notably R&D) are likely to become more prominent.
- Main investor countries worldwide in medium-long term: US, Germany, India, China.

"The focus should be on sectoral strengths in financial services, business services, ICT, creative industries and environmental technology-related services as these will provide the best opportunities for FDI inflows."

Vanessa Rossi, Senior Research Fellow, Chatham House

[4] IBM's investment trend analysis

The impact of global trends on FDI into London

“The city clearly enjoys many advantages, including an historic and well developed ability to adapt to change, reinvent itself and survive shocks.”

Vanessa Rossi, Senior Research Fellow, Chatham House

- As companies focused on cost reduction and consolidation in response to a more uncertain global economic environment, many new foreign investment **projects were put on hold** in late 2008, with total flows into London declining in a broadly similar way to that seen in the 2001 recession.

- The impact on global FDI from the new generation of international companies now emerging from fast growing developing countries such as China and India, which have withstood the global crisis, will be of great importance. Investors from **India already represent at least 15%** of inflows into London, and their role and that of **Chinese investors will increase significantly** in the short to medium term.

- London is facing **competition for western FDI from Asian financial centres** but will continue to be a magnet for emerging economy FDI. As Europe’s primary financial centre, with a time zone advantage and an established cluster, London will **continue to be a ‘must have’ address**.

- London’s relatively under-developed shared services offering, a perceived high cost base and the impact of technology’s affect on working patterns, could mean that some of London’s **advantages in business services are threatened**.

- Within the ICT sector in particular, London is cost competitive when compared with other western European locations. **Cross-fertilization** and **convergence** between ICT and sectors such as creative industries and financial services will create attractive opportunities.

- London, with its strong creative industries cluster, is well positioned to exploit this sector, particularly through **strong relationships with the US, China and India**. However, the city is facing a challenge in differentiating its offer in an increasingly crowded marketplace.

- The Mayor of London’s focus on sustainability makes the city an attractive market for investors. In order to encourage the current influx of green FDI, London needs to **upgrade its skill base to become a sector leader**. The environmental technologies and energy sector, which is expected to continue its pre-recession growth path as economies, societies, companies and individuals adapt to the need for greener and more efficient energy consumption patterns. This could create **positive spin-offs for services in London** in areas such as carbon trading.

- The structural changes reshaping economies, societies and companies are expected to **stimulate incremental FDI activity in the future**, as value chains become more global and companies seek to exploit the opportunities offered by markets and talent pools around the world.

Section 2

FDI Themes

London for Efficiency

How will London fare in the race for optimisation?

Key facts

- New FDI activity in the next few years is mostly focused on consolidation of existing operations rather than expansion.
- Companies are striving to cut fixed costs, conserve working capital and move to cost-efficient locations.
- Companies are cutting operational costs by making redundancies, reducing pay and working hours.
- The UK offers one of the most flexible labour markets in Europe. Hiring and firing practices mean businesses can scale up and down quickly as required.

"Successful business centres will attract FDI by helping international companies to achieve their targets of maximising growth opportunities while containing costs and managing risk in an uncertain global environment."

Vanessa Rossi, Senior Research Fellow, Chatham House

At the beginning of the 2010s, companies are struggling to conserve cash and working capital. They are reducing costs and consolidating activities, attempting to optimise operations through tighter business management and efficiencies.

Some companies are going one step further, entirely reconfiguring their businesses to reduce dependence on high-cost resources such as transport, property and workers, and exploiting the advantages of low-cost communications.

Increased cost sensitivity will continue well into this decade.

Location decisions have always been dependent on a trade-off between costs and quality, so can companies get 'more for their money' in London than in competing cities over the next decade? Importantly, can they instigate greater efficiencies across their entire organisation by having a London base?

"London has a compelling value proposition to investors, offering a high quality business environment and, contrary to popular belief, competitive cost levels compared to many other major European cities."

Vanessa Rossi, Senior Research Fellow, Chatham House

Our research predicts...

- Companies will re-configure their global footprint to take advantage of lower operating costs.
- Companies will focus operations on either a prime regional centre, as the safe choice, or the best of the low-cost alternatives.
- Rationalisation and restructuring will speed up globalisation and specialisation in production, trade, distribution and R&D.
- Increasing scarcity of energy, and the drive to curb greenhouse gas emissions, will force companies to look for less energy intensive ways of operating.

What does this mean for London?

In the short-term, the fall in the value of the British pound and lower property prices have made it cheaper for overseas investors to set up in London. This has given companies access to one of the world's best business environments at highly competitive rates.

However, new, lower-cost competitors are emerging fast. While unlikely to challenge London's position as a base for European Headquarters, for functions such as service centres, Asian cities, Lisbon, Manchester and Eastern European hubs such as Prague, Budapest, Bratislava and Krakow are all strengthening their offer.

The recession has seen companies stepping up their hunt for more cost-attractive business services and staff. In response, emerging locations are offering services such as business process outsourcing, contact centres, market research and consultancy at highly competitive rates.

Adding to this, countries such as Ireland and Switzerland are sharpening their offer through attractive tax regimes. These locations may not be able to rival the depth and range of London-based services, or London's overall business offer, but they are becoming serious contenders in cost-conscious times.

So what should London do?

Emphasise London's position as a prime regional hub

London should capitalise on the growing trend for companies to rationalise bases and consolidate activities in prime regional centres. A targeted, global marketing campaign should emphasise **how London's concentration of specialist business clusters**, skilled workforce and new technology can help international firms reduce the costs of doing business abroad in multiple countries.

"It's a must for us to be here. You get proximity to other companies that you just don't have in other European capitals."

Spanish Business Services Firm

Cap business costs

Impacts on business costs must be kept low, which means minimising costly and burdensome regulation and taxation.

Become an efficiency showcase

Smart use of new technology in infrastructure and buildings could improve efficiency and flexibility, with advantages for increasingly mobile companies and professional staff alike.

London for Globalisation

Ensuring London is the key springboard to global expansion

Key facts

- Global sourcing of products and services is increasing rapidly, resulting in an increasing share of internationally traded components in the value chain process.
- In 2009, the Headquarters segment accounted for almost 40% of the jobs directly created by FDI in London.
- The global stock of outward FDI flow increased from 8.3% of global GDP in the 1990s (annual average 1990-2000) to 14.6% in 2008.
- London is the best city from which to globalise (PriceWaterhouseCoopers, London Focus report, 2008).
- Companies are increasingly developing new business designs that facilitate faster and more effective collaboration worldwide.
- London is a strategic global partnership hub: more than a third of the world's largest companies are headquartered in the city.

"The next surge in FDI could offer even more opportunities to London as the global capital for emerging market countries."

Vanessa Rossi, Senior Research Fellow, Chatham House

"Expanding into London was a strategic imperative for us, as the natural gateway to the rest of Europe."

Asia Pacific Business Services Firm

Globalisation – where companies source and sell around the world – will increase sharply over the next decade.

Developing countries will be the main driver for growth, spawning a new generation of multinational companies looking to set up bases abroad. In turn, firms operating in mature economies will try to break into these potentially lucrative, emerging markets.

Also, the financial crisis and global recession has accelerated adoption of global outsourcing and offshoring. In an uncertain and volatile market, companies are reaching out across the world to manage risk, focus on core value-creating activities, reduce fixed costs, increase flexibility and optimise their position within global value chains.

So instead of traditional, rigid value chains, organisations will re-cast themselves as part of a flexible 'value network' as specialists, collaborating with numerous companies to develop and deliver targeted value propositions to consumers.

These developments will only intensify in the future. So how can London position itself in this changing world?

"Over the coming decade, the emphasis will be on access to, rather than ownership of, resources, talent, components, products and services."

Vanessa Rossi, Senior Research Fellow, Chatham House

Our research predicts...

- Major growth in the globalisation of value chains. Value chains will become more complex and global as companies seek to exploit opportunities offered by markets and talent pools around the world.
- Rationalisation and restructuring will speed up globalisation of production, trade, distribution and R&D.
- Companies will try harder to move up in the value chain by buying inputs from around the globe and supplementing this with value-adding elements.
- There will be raised awareness of the threat from global business cycles and increased uncertainty. This will promote tighter business management and risk control.

What does this mean for London?

An increase in global sourcing and globalisation of value chains will have a major impact on London's ability to attract FDI.

London should remain the natural step for US companies expanding internationally but the BRIC countries will offer the greatest potential for increased FDI flows into the city. London's strong ties with Asia will go part of the way to exploiting this opportunity.

Overseas investors are focusing on service functions including sales promotion and networking for entry into European and global markets – areas in which London excels.

While organisations are stepping up international operations, they are seeking to consolidate business functions to create efficiencies. Again, London scores highly. Its strengths include a large business services cluster and an abundance of capital, knowledge and essential services.

However, London will face increasing competition from emerging locations improving their business environments to become viable alternatives to established locations.

> "Further improvement of the capital's transport system, with initiatives such as Crossrail will play a major part in driving our company's efficiency."
>
> North American ICT Firm

So what should London do?

Think London recommends we...

Increase focus on China and India

At the beginning of the 2010s, the penetration of Chinese companies globally and in Europe was low. We must raise London's profile through incremental 'on the ground' campaigns in China and India, publicising the advantages of setting up in London.

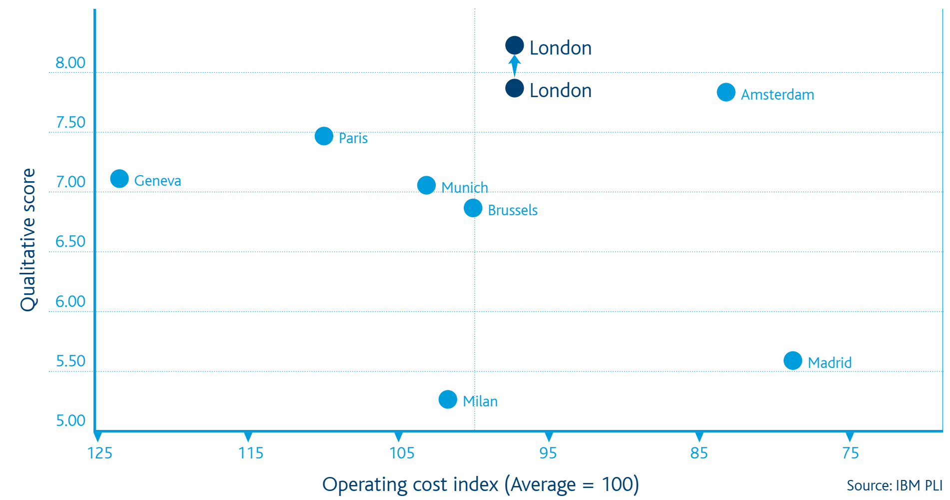


FIGURE 1 - This sensitivity analysis chart is illustrative of the impact on London's cost-quality position for European Headquarters if both the availability of experienced talent, post-graduate students, public transport within the city and international air accessibility were improved by 20%.

Improve infrastructure and image of London transport

The impact of transport issues is greatest on the HQ segment because of their need for both international connectivity and the demands of metropolitan commuting. According to London First research, 47% of commuters travel in crowded conditions in the morning rush hour. We should address complaints and misconceptions about London's transport system, which tend to focus on Heathrow's perceived distance from Canary Wharf and east London, continuing to invest in the underground system in particular. Crossrail will speed intra-city travel from east to west (see illustrative impact on London's improved transport on figure 1). The low profiles of Gatwick, City, Luton and Stansted airports should be raised to create the perception of a single, integrated air transportation hub.

Develop the global reach of key professional organisations

To foster international relationships, London should develop the global reach of key professional organisations such as London's insurance and accountancy institutions, the City of London, Guilds and educational establishments.

Ensure talent is retained and attracted

The availability of a skilled and talented workforce is critical for any pan-European Headquarters to successfully set-up and operate. These professionals are becoming increasingly mobile and difficult to attract and retain. To win this ongoing international battle for talent, London must recreate and promote a favourable environment for high-skilled professionals by combining a good quality of life, with a moderate cost of living and a competitive personal taxation framework.

London for Innovation

How should London adapt to become an even more attractive hothouse for new thinking?

Key facts

- The UK has the fewest barriers to entrepreneurship in the world (OECD, 2009) and ranks number 1 in Europe for 'ease of doing business' (World Bank, 2009).
- In 2007/8 UK universities were granted nearly 600 patents and created more than 200 companies from their intellectual property.
- London is home to a number of government-funded Knowledge Transfer Networks for sectors such as creative industries, financial services, electronics, communications and environmental technologies, providing secure platforms for innovation by signposting access to funding and other resources.
- Two of London's universities – UCL and Imperial College – rank in the overall top six globally. Imperial College is also in the top ranking for engineering and technology (topuniversities.com).

> "Companies must continuously innovate to capture capricious customer audiences, rather than merely react to changing market circumstances."

Vanessa Rossi, Senior Research Fellow, Chatham House

The 2010s will be a decade of innovation.

As new markets open up, international competition grows and customers become more sophisticated and demanding, companies will seek to develop new and more effective products and services faster.

However, the way companies innovate is changing.

Instead of outsourcing research and development, organisations will create flexible 'innovation webs', tapping into disparate pockets of talent, suppliers, customers, and academic institutions around the world. Joint ventures, acquisitions and venture capital will also be increasingly important for innovation purposes.

As a result, new relationships between companies and customers, suppliers and government, universities and public research centres will become critical to the way companies re-invent and evolve products and services.

> "Access to specialist business clusters, a skilled workforce and new technology will attract innovative international companies to London."

Vanessa Rossi, Senior Research Fellow, Chatham House

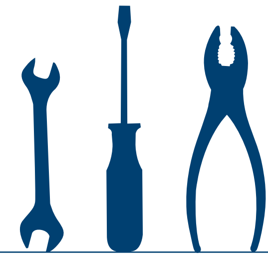
Our research predicts…

- Companies will pursue a more open and global innovation process. International alliances will increase.
- Corporate innovation strategies will increasingly depend on global sourcing to sense new market and technology trends worldwide.
- Companies will look to urban hubs for partnership and rapid innovation.
- Multinational firms will increasingly establish R&D labs outside their home countries to serve and support overseas production units and marketing activities.

> "The building blocks of an economy are talent, creativity, innovation and competition. Being in London is definitely a plus because you can access these fundamentals here."

North American ICT Firm

What does this mean for London?



If we take R&D as an indicator of innovation, London is falling short at the beginning of the 2010s. In terms of R&D expenditure, both per capita and in total, London is considerably behind rival cities.[5]

However, the emerging **'innovation web'** model, with its emphasis on contact with suppliers and customers, puts London in a stronger position. The existence of strong customer and competitor clusters will provide fertile ground for the necessary partnering to take place.

London provides one of the richest supplier and customer bases in the world. The city is the world in microcosm: a third of the world's largest companies are headquartered here and more than **300 languages are spoken.**

As for taking an innovative idea to market, the city provides a 'test-bed' population of eight million consumers, while there are over 60 million in the UK and 500 million in Europe. There are also fewer restrictions concerning international ownership and doing business in the UK than in any other major European country.

London also provides reliable, and fruitful partnerships. Firms keen to exploit new opportunities will find a ready culture of re-invention and collaboration thanks to schemes such as Knowledge Connect that are designed to help small and medium-sized enterprises by injecting ideas, knowledge and skills to stimulate innovation through grant-funded collaborative projects.

The question is, can London be a leading relationship broker of the 2010s? Could competing cities, thanks to the presence of organisations such as management consultancies, boutique investment banks and private equity groups, beat London in the 'rapid partnership' stakes?

[5] UK Business Enterprise Research and Development 2009, The Capitals Office for National Statistics (ONS).

So what should London do?

Think London recommends we...

Become a living showcase of new thinking

London should live and breathe innovation, using technology to enhance efficiency and mobility. Smarter buildings, low-carbon transport, greener energy, electric vehicles, and improved pedestrian thoroughfares should prove our forward-thinking culture.

FIGURE 2 – This sensitivity analysis chart is illustrative of the impact on London's cost-quality position for the ICT sector if the availability of skilled staff and students were improved by 20%. In this example we use R&D as a proxy for innovation.

Strengthen skills & talent base

London needs to support research establishments and educational institutions capable of attracting skilled staff as well as growing the next generation of talent. Excellent training and educational opportunities will assist in growing the talent pool and maintaining R&D activity. (see illustrative impact on London's improved innovation offering in figure 2)

Establish specialist innovation 'hothouses'

London should set up 'ideas eco-systems' that pull in small and medium-size businesses, the local community, schools and colleges and world-class academics. An example is Dagenham Docks' Sustainable Industry Park, a 133 hectare regeneration site in east London dedicated to green manufacturing, energy efficiency and recycling.

London for Talent

How can London attract and retain its ‘human capital’?

Key facts

- There is a world-wide shortage of highly-skilled professionals. (Manpower’s Talent Shortage Survey, 2009 – 30% employers struggling to find qualified candidates).
- In 2009, London was voted Europe’s top city for qualified staff (Cushman & Wakefield, European Cities Monitor, 2009).
- The London talent pool has widened and deepened since the economic downturn, resulting in a significant increase in the available skills base.
- London is home to 41 universities, three ranking among the world’s top 25 educational institutions, as well having the world’s number one business school, London Business School (FT 2010 Rankings).

“We always hire locally and we’ve acquired some amazing people. It’s been wonderful to recruit from such a deep talent pool.”

North American Business Services Firm

The labour market has gone global.

Technology, international trade and worldwide sourcing of services are re-defining the workforces of the future. Companies are re-shaping their global footprint to access talent. The availability of skills is critical in location decisions.

Added to the mix is a world-wide shortage of skilled labour, which is expected to intensify. Workforces in developed countries are ageing and declining, while the appetite among developing economies for skilled workers – both home-grown and international – is increasing.

“By improving its availability of skilled staff and student pool, London would improve its already high quality offering, further separating it from competitor cities.”

IBM

Our research predicts...

- Workforces will be become more fragmented, with workers located flexibly located across the globe.
- Businesses will increasingly look to emerging markets for product design and R&D skills.
- Companies will consolidate activities in locations with large pools of the necessary skills for a particular activity.

What does this mean for London?

London's skills base is one of the biggest factors determining the volume, type and source of foreign direct investment flowing into the city.

Companies will widen the geographic scope of their hunt for talent, which means London will face stiffer competition.

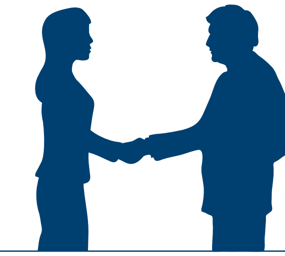
At the same time, there will be greater consolidation of activities in locations with the right skills for activities such as shared service centres (SSC).

Fortunately, London provides high quality human resources, a huge talent pool and a proven ability to attract world-class expertise. Also, the appointment and dismissal of skilled personnel is easier here than in many other European countries.

However, our research shows that threats are emerging. In the short-term, the weak pound and more favourable personal tax regimes in competing cities could make London less attractive to mobile workers.

> "Retaining talent and attracting newcomers in the face of global competition will be critical for London's status as a business capital."
>
> Vanessa Rossi, Senior Research Fellow, Chatham House

So what should London do?



Think London recommends we...

Attract more 'employment tourists'

Welcoming talent from all over the world should be a priority. What are the factors that help globally mobile workers decide where to live? Research into re-location decisions will help us make London more attractive. We should look beyond business and promote and improve factors such as lifestyle, culture, transport, schooling and the overall urban environment.

Offer a business friendly immigration system

Immigration controls should not impede the growth of overseas businesses. A straightforward immigration and visa application process should enable overseas companies to transfer essential staff speedily.

Boost home-grown talent

Professional associations and excellent training and education should grow the indigenous talent pool. Vocational training in service industries, hospitality and language skills should enhance the quality and international status of London's largely service-oriented workforce.

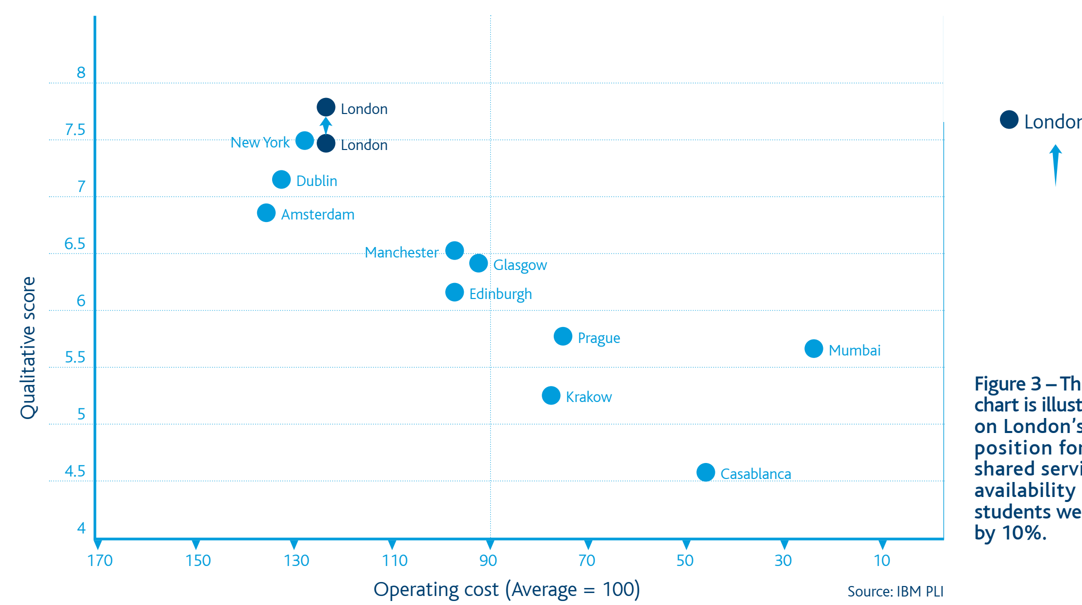


Figure 3 – This sensitivity analysis chart is illustrative of the impact on London's cost-quality position for Financial Sector shared services centres if the availability of skilled staff and students were improved by 10%.

Focus on strengths

Cities will become more specialised in their 'trophy' sectors. London excels in financial services, (see illustrative impact on London's improved skilled staff and students' availability on figure 3) ICT, business services, and creative industries and we should focus on fostering and attracting talent in these areas.

Ensure favourable taxation and affordable living

The tax regime must ensure that London is attractive to international workers. High living costs and a tax system that is perceived as harsh or unpredictable could present a barrier to mobile talent.

Section 3

Key recommendations:

How to maintain London's position in a new FDI era

Think London recommends the following actions in order to progressively shape London's FDI landscape.

- **Maintain London's position as the world's leading financial centre.** If this sector declines significantly the businesses that serve or depend on financial institutions will follow.
- **Offer favourable taxation, affordable living and a quality lifestyle** making London attractive to international, mobile workers.
- **Target investment from emerging economies:** focus primarily on India and China, the markets with the greatest growth potential for London FDI.
- **Build on the strength of London's key sectors for attracting FDI:** financial services, business services and ICT. Explore opportunities in the FDI growth sectors of environmental technologies and creative industries.
- **Become a post-recession 'recovery' hub** by capitalising on the trend for companies to rationalise bases and consolidate activities in prime regional centres. Emphasise the benefits of access to a deep talent pool and first class public services.
- **Foster the international relationships of professional organisations and educational institutions.** These will underpin economic and business partnerships.
- **Improve transport:** back initiatives such as Crossrail and proposed upgrades to the Underground rail network. Improve routes to, from and within the city. Build attractive cycle and pedestrian thoroughfares.
- **Boost the quality of the workforce** through education and training, including basic skills and vocational training.
- **Become a green showcase** through technologies such as renewable energy, fuel cell vehicles and smart buildings. Encouraging demand will attract investment.

Conclusion

This report demonstrates that London continues to have the potential to top Europe's foreign direct investment league in 2020, despite fierce global competition.

At Think London, we recommend a two-stage programme to maximise the city's chances of success in a new FDI era.

We see the years running up to the 2012 Olympic and Paralympic Games as a post-recession phase, where London becomes a 'recovery hub' ideally suited to expanding companies from overseas. During this period, London should emphasise its reliability as a business centre and ensure legislation, economic policy and taxation enhance confidence and help organisations drive efficiencies.

Short-term, London should also strengthen its engagement with emerging markets such as India and China as well as building on our reputation in financial and business services, ICT, creative industries and environmental technologies.

Post the 2012 Games, we believe that retaining and attracting talent – one of the biggest factors influencing investment decisions – should be given an even greater priority. London should also prove its mettle in innovation by supporting partnerships, research centres and educational institutions. In addition, by 2020 the city should be a fully-fledged 'green showcase', brimming with smart buildings, electric vehicles and dedicated cycle lanes, as well as being a world leader in turning waste into energy on a metropolitan scale.

This plan is a natural extension of Think London's promotion and delivery programmes, which continue to focus on positioning London as the best city in which to innovate, expand globally, become more efficient and find talent.

Successful business centres in 2020 will be those that have attracted FDI by helping international companies achieve their targets of maximising growth opportunities, while containing costs and managing risk in an uncertain global environment. London has worked hard to become a pre-eminent FDI metropolis. Collectively the city will do everything within its power to ensure that it retains its envied position as the world capital of business.

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