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New Study Shows Other Countries Are Closing In On US IT Industry

*Political candidates and Congress urged not to take
US leadership in information technology for granted*

Washington, DC, September 16, 2008 – A new study reveals a tightening international competition for providing the most competitive conditions for the information technology (IT) industry.

The United States continues to rank first in the world in the annual IT industry competitiveness index, which was written by the Economist Intelligence Unit, the business information arm of The Economist Group, and sponsored by the Business Software Alliance (BSA). But while the United States places in the top five in all six index categories, its overall score was just 74.6 out of a possible 100, down about three points from its 2007 score of 77.4. Moreover, Taiwan, Sweden and Denmark have moved into the top five and they are quickly closing in on the United States as the most competitive market. The study, now in its second year, assesses and compares the information technology (IT) industry environments of 66 economies to determine the extent to which they enable IT sector competitiveness. The top ten in the 2008 study are the US, Taiwan, United Kingdom, Sweden, Denmark, Canada, Australia, South Korea, Singapore, and the Netherlands.

Although the top 20 economies remain the same from one year ago, nine moved up and 11 moved down in the rankings. Taiwan, ranked sixth in 2007, leaped to second-place in 2008 thanks to improved performance in research and development (R&D). Other big gains were in Denmark, up from eighth to fifth place, thanks to a stronger business environment, investments in IT infrastructure, and improvements in human capital; Canada, up from ninth to sixth place; and Singapore, up from 11th to ninth place.

Robert Holleyman, president and CEO of BSA, welcomed the report and the attention to competitiveness around the world, but urged policymakers to guard against indifference and complacency.

"This year's Index shows that IT competitiveness rankings can change very quickly," Holleyman said. "The gap between the US and other nations is narrowing as many economies are becoming more competitive and nipping at our heels. Strong leadership and sound policies will be needed for the US to remain the innovation leader."

"A strong tech industry is crucial to America's ability to address almost every economic and social challenge," Holleyman added. "The tech sector remains one of the primary engines of the US and global economy. This index provides a guide to how we can keep that engine running smoothly to ensure innovation and progress in the future."

Six Key Competitiveness Enablers

According to the Economist Intelligence Unit, six factors combine to create a sound environment for the IT sector, including an ample supply of high-skilled workers; an innovation-friendly culture; world-class technology infrastructure; a robust legal regime that protects intellectual

property such as patents and copyrights; an open, competitive economy; and government leadership that strikes the right balance between promoting technology and allowing market forces to work. Those economies that perform well in these six “competitiveness enablers” generally are home to high-performance IT industries, which contribute more than 5% to the gross domestic product of many advanced nations.

According to the study, the United States combines breadth and depth in the six competitiveness categories, with special strengths in the quality of its legal regime, business environment, and university graduates. However, the report also highlights areas where US global leadership could come under threat, including:

- **Infrastructure:** Broadband penetration is well below that of many countries in Western Europe and East Asia. Large firms generally enjoy high levels of reliable, secure connectivity, but in some parts of the country, smaller IT firms and individual entrepreneurs—often the crucible of technology innovation—require better access to high-speed networks.
- **Workforce:** US technology firms, like those elsewhere in the world, are experiencing shortages of skilled talent and will be adversely affected by slower increases in the number of science and engineering graduates from domestic institutions. Easing or at least avoiding further tightening of immigration restrictions on skilled workers would help US competitiveness.
- **Openness:** With the US economy in a period of slow growth, US policymakers must resist intensified political pressure to restrict access to the domestic market and educational institutions.
- **R&D Environment:** Asia boasts the strongest R&D environments. Dynamic innovation, supported by a strong R&D environment, has contributed to that region’s IT industry competitiveness. Conversely, the US lags far behind in resources provided for R&D in IT, scoring 23.7 compared to Taiwan’s score of 74.3. The US score dropped by more than 40% from last year’s score of 39.8.

Other key findings of the research include the following:

- **Investing in people is mission-critical for domestic IT industries.** Sourcing talent will be among the toughest challenges IT producers will face in the coming years.
- **Competitive broadband markets help cultivate strong IT sectors.** Without fast, reliable and secure Internet access, technology firms cannot interact effectively with their partners and the research community, nor can they sell their services online.
- **A legal environment that protects intellectual property rights (IPR) and takes a robust approach to cyber security is essential.** The US, Australia and Western European countries have the most effective systems in place to address IPR protection and cyber security, but gradual improvements are also evident in other nations.
- **East Asia boasts the strongest R&D environments.** Dynamic innovation, supported by a strong R&D environment, is a major contributor to IT industry competitiveness.

International partnerships and the Internet will promote R&D. Global IT “ecosystems,” online or otherwise, that bring together talent, technology, venture capital, and good universities, supported by a risk-taking ethos, will be the best incubators of innovation.

Chart: Top 20 countries in IT competitiveness:

Country	Score	2008 rank	2007 rank
USA	74.6	1	1
Taiwan	69.2	2	6
UK	67.2	3	4
Sweden	66.0	4	7
Denmark	65.2	5	8
Canada	64.4	6	9
Australia	64.1	7	5
South Korea	64.1	8	3
Singapore	63.4	9	11
Netherlands	62.7	10	12

Country	Score	2008 rank	2007 rank
Switzerland	62.3	11	10
Japan	62.2	12	2
Finland	61.5	13	13
Norway	59.7	14	14
Ireland	59.4	15	15
Israel	56.7	16	20
N Zealand	56.6	17	17
Austria	56.1	18	19
Germany	55.4	19	16
France	54.3	20	18

Source: How *technology sectors grow: Benchmarking IT industry competitiveness 2008*, is available free of charge at www.eiu.com/sponsor/BSA/technologysectors or www.bsa.org/globalindex.

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About the Business Software Alliance

The Business Software Alliance (www.bsa.org) is the foremost organization dedicated to promoting a safe and legal digital world. BSA is the voice of the world's commercial software industry and its hardware partners before governments and in the international marketplace. Its members represent one of the fastest growing industries in the world. BSA programs foster technology innovation through education and policy initiatives that promote copyright protection, cyber security, trade and e-commerce.

About the Economist Intelligence Unit

The Economist Intelligence Unit is the business information arm of The Economist Group, publisher of *The Economist*. Through our global network of over 650 analysts, we continuously assess and forecast political, economic and business conditions in 200 countries. As the world's leading provider of country intelligence, we help executives make better business decisions by providing timely, reliable and impartial analysis on worldwide market trends and business strategies.

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