



FOR IMMEDIATE RELEASE: Thursday, September 17, 2009

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US Leadership in IT Industry is Growing, Even in Tough Economic Environment

US facing intense competition from several foreign markets

WASHINGTON, DC – The Economist Intelligence Unit’s annual study, sponsored by the Business Software Alliance (BSA), reveals that countries in Asia, Latin America and Europe are taking deliberate steps to improve their technology environments, although the US remains the leader in providing the most competitive conditions for the information technology (IT) industry.

The United States still ranks first in the world in the annual IT Industry Competitiveness Index, which was conducted by the Economist Intelligence Unit, the business information arm of The Economist Group. The United States scored a 78.9 out a possible 100 in the index. However, the US lost ground to competitors in a number of areas, while Finland jumped from 13 in the 2008 rankings to number two in 2009 and surpassed the United States in the quality of its business environment.

The study, now in its third year, assesses and compares the IT industry environments of 66 economies to determine the extent to which they enable IT sector competitiveness. The ten highest-ranked countries in the 2009 study are the US, Finland, Sweden, Canada, Netherlands, United Kingdom, Australia, Denmark, Singapore, and Norway.

Two countries in the top 20 on the 2009 index showed significant advances: Finland and the Netherlands. Finland, ranked 13th in 2008, moved into second place based on its strong performance in the research and development category, particularly patents. The Netherlands, ranked 10th in 2008, moved to fifth place based on its strong infrastructure, primarily resulting from pervasive broadband deployment.

Robert Holleyman, president and CEO of the BSA, notes that even amidst the current economic turmoil the strength of the IT industry in the US and abroad remains strong. “Even in today’s uncertain economic climate, the long term prospects of the IT industry remain competitive,” Holleyman said. “The fact that the US tech sector is helping to lead the way to recovery is a testament to the importance of technology to both industry and consumers and a telling indication of what will drive our economic growth in the long term, making it even more important for our policymakers to create the right environment for competition and innovation.

“The report also identified some of the key challenges that the US faces in its efforts to retain its leadership position,” continued Holleyman. “In particular, we need to improve our IT infrastructure by invigorating broadband deployment, develop technology-neutral IT policies, avoid the siren call of protectionist market practices, and expand access to highly qualified, technically proficient employees to invent, design, and produce complex and innovative products.”

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 that supports R&D; world-class technology infrastructure; a robust legal environment that protects intellectual property (IP) such as patents and copyrights; an open, competitive business environment; and government leadership that strikes the right balance between promoting technology and allowing market forces to work.

"Globally, the IT sector has ridden out the crisis reasonably well, despite reduced technology spending," says Denis McCauley, director of global technology research with the Economist Intelligence Unit. "Rather than pushing short-term measures designed to boost sector output or support ailing IT producers, policymakers need to remain focused on strengthening the fundamental enablers of long-term sector competitiveness."

According to the study, the United States combines breadth and depth in the six competitiveness categories, with special strengths in the quality of its IP protection laws, business environment, and its highly-educated workforce. However, the report also highlights areas where US global leadership is challenged, including:

- **Infrastructure:** The US was ranked 7th in the world this year, down from 2nd last year. Despite having strong PC penetration – the US has an estimated 86 desktop and laptop computers for every 100 people - broadband connectivity is moderate. Some parts of the country need better access to high-speed networks — an issue that is being addressed by the economic stimulus bill approved earlier this year.
- **Workforce:** Technology firms in the United States have a strong demand for highly skilled talent. Immigration policies in the US have tightened due to security concerns, which constrain the flow of talent. Immigration restrictions on skilled workers should be eased or the US could lose its attractiveness as a destination for talent from abroad.
- **Openness:** The US economy is in the midst of a recession and must avoid embracing “America first” policies that limit global access to the market and invite reciprocal limitations by our trading partners. US policymakers should strive to open markets and protect intellectual property at home and abroad.

Other key findings of the research include:

- **Despite economic turmoil, the IT industry in the US remains strong, even in the midst of an economic recession.** Many governments around the world view the IT sectors as an important engine of economic growth, and many are taking measures to stimulate sector output as a means of accelerating economic recovery.
- **Robust intellectual property protection remains essential to IT sector competitiveness.** The top ten countries in this year’s index all have strong intellectual property protection that enable their IT industries to flourish.
- **A strong approach to cyber security is essential for economic and technological advancement.** Cyber criminals are international threats that are becoming more advanced. A public – private partnership is essential to thwart cyber crime. Governments should ensure that steps to secure cyberspace are taken without placing mandates on technology.
- **Protectionism will hinder economic recovery efforts worldwide.** The IT industry is a global industry and “buy local” provisions are slowing the global marketplace. Governments

must avoid the siren call of protectionist market practices that will only hinder recovery and harm long-term sector competitiveness.

- **Broadband networks are becoming essential to nations' competitiveness.** The importance of broadband continues to grow as more IT services and applications are delivered over the Internet. Broadband-rich countries in Western Europe, North American, and developed Asia are at an advantage. Conversely, the slow march of broadband in emerging markets, including those with large IT sectors such as India, Brazil, and Russia, could impede their IT industry growth.

Top 20 countries in IT competitiveness			
Country	Score	2009 Rank	2008 Rank
United States	78.9	1	1
Finland	73.6	2	13
Sweden	71.5	4	6
Canada	71.3	4	6
Netherlands	70.7	5	10
United Kingdom	70.2	6	3
Australia	68.7	7	7
Denmark	68.6	8	5
Singapore	68.2	9	9
Norway	67.1	10	14
Ireland	66.9	11	15
Japan	65.1	12	12
Israel	64.3	13	16
Switzerland	63.5	14	11
Taiwan	63.4	15	2
South Korea	62.7	16	8
France	59.2	17	20
Belgium	59.2	18	22
New Zealand	58.8	19	17
Germany	58.1	20	19

Source: *Resilience amid turmoil: Benchmarking IT industry competitiveness 2009*, is available free of charge at www.bsa.org/globalindex

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About the Business Software Alliance

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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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