

THOUGHT  
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## EUPHORIC POTENTIAL OR COLD REALITY IN 2008

In today's world there are a plethora of analyses conducted on attractiveness of global sourcing destinations – both emerging and current - from perspective of their ability to attract foreign direct investments [within the sector] or increase revenues from export of technology and technology-enabled services. These reports can be mind-boggling as readers are put through comparative statistics that aren't always consistent with each other across reports. Given the extensive research effort and the brands that present these reports it becomes inherently difficult to either ignore them or the comparative inconsistencies. The ability to make a choice with one location against another is further complicated by the individual experiences of corporations and their leaders with certain locations. This short write-up aims to address key concerns surrounding two such studies – the paper titled *2007/2008 Asian Cities of the Future* by fDi Magazine and the analysis titled *Top 50 Emerging Outsourcing Cities* conducted by Global Services-Tholons – and establish potential of locations in reality.

Author: **Bobby Varanasi, COP**  
Chairman and CEO  
**MATRYZEL CONSULTING**



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## Introduction

Before I begin dissecting the two reports, one key question you would have is on the logic surrounding comparing two studies that don't seem – on the face of it – to represent focus in similar directions. Let me assuage this concern by pointing that both studies, while aiming at addressing two different end-goals, have deployed their focus around analyzing similar factors, namely economic and business potential [read business environment], cost effectiveness, and availability of educated human capital. Further both studies have adopted a bottom-up approach, i.e. a micro-level evaluation and not a macro-economic top-down approach.

Both reports have focused on evaluating cities across Asia, with the fDi issue focusing purely on Asia-Pacific-Oceania while the GS-Tholons study included non-Asian cities as well. Both studies took into account specific indices within the cities, encompassed within the three broad categories as stated above. Further, various statistical and quantitative measures were taken into account and compared. One interesting aspect has been that both reports have focused on economic potential of the cities independent of the overall economic potential of the countries they are a part of. This is interesting because it brings into sharp focus the inclination of these cities toward foreign direct investments – general or sectoral specificity notwithstanding – versus latent availability of industry capabilities that could be leveraged by corporations seeking to go global with their businesses. In addition, other factors like promotion strategies employed, infrastructure available to cater to demand, and quality of life have been evaluated by both the studies. This reflects some important shifts in trends from the criteria employed a decade earlier. Today's evaluations have become quite intrinsic at a business level, as opposed to the more macro-economic factors that contributed to analyzes of the yesteryears. They are mature, more results-driven rather than purely feasibility-oriented, causing not only for some consternation but also presenting a less grainy picture of reality on the ground.

## The Euphoria Within

I must start with the excitement these reports cause, because Asia is positioned as a dominating part of the world where every organization seemingly wants to have a presence. Whether this shift is driven by demographics [ageing population & negative population growth] or economics [increased consumerism and costs of goods] of developed nations, the developing Asian world is today viewed consistently, and I must say respectfully, as a region with emerging economies. Stable economic growth, continued focal investment in infrastructure, moderate and attractive business cultures, increasing consumerism [result of the reducing culture of thrift], growing cosmopolitanism and cultural openness, increasing quality of life, increasing literacy levels, reducing poverty and a host of factors are surely contributing to the attractiveness that Asia presents to the world. Of course there is always a flip-side to this positive note, which surely plays into the facts presented in these two reports that we must now call our attention to.

One caveat that needs mention is the hitherto inability of the developed world to view Asia as a heterogeneous region with a multitude of cultures, practices and norms that can inherently impact upon a variety of factors making them more or less attractive. However over the past few decades most Asian nations have embarked on adopting principles of democracy and governance [extent and applicability notwithstanding – which calls for a separate debate though] creating the divots on which today's attractiveness lies. Sustained growth [with a few minor glitches like the Asian Financial Crisis] where a steady approach towards reducing entry barriers [thanks to ASEAN and WTO] has been adopted is beginning to bear fruit. One last, but perhaps a critical factor that has played into the attractiveness of the region in general has been the skills and capabilities of people, nurtured through focused investment in education [although one argues that this investment has been more of a social imperative driven by the culture of Asians where education is highly respected, and not necessarily a result of economic policy driven by governments]. Regardless of the argument, highly skilled and educated Asians have become today's most wanted in the global corporate environment. All of this has translated into a transformation in the view of Asia. Today's lens reflects heterogeneity in Asia more than ever, and which is beginning to garner significant respect.

In this context therefore, it is no surprise to note that some of the most attractive cities aren't national capital cities or financial centers but smaller ones where focused local governance and corporate wisdom has begun to bring in the accolades. For e.g., it was heart-warming to note that Alor Star [the capital city in the state of Kedah, Malaysia] figures as the best among the "Top 6 small Asian cities", alongside cities like Jeju City [South Korea], Taoyuan City [Taiwan], and Gifu [Japan] among others. In fact, further credit goes to Alor Star for being the city that has seen the largest fall in unemployment in the past two years, and is ranked 2<sup>nd</sup>, only after the city of Newcastle [Australia]. Cities like Hong Kong, Melbourne, Macau, Dalian and Tokyo trail Alor Star, giving us a huge reason to celebrate the success of Alor Star, where I think the credit should go to the honorable Chief Minister of Kedah Dato' Seri Mahdzir Khalid and his entire team.

Both reports have reflected Asia very favorably. The fDi evaluation of 38 cities reflects very encouraging results: 8 of 10 cities with biggest fall in employment are Asian; 8 of 10 cities with biggest growth in revenue earnings are Asian; 9 of 10 cities with percentage of population under 25 years are Asian. The GS-Tholons evaluation of 50 cities worldwide has 18 cities from Asia-Pacific-Oceania region. Further, the top 10 cities are all Asian [spread across India, Philippines, Vietnam, Sri Lanka and China]. Surely there is reason to celebrate Asia and perhaps I could – cheekily - venture coining the term "Asia Shining".

## The Cold Reality

Not everything can be as rosy, as it doesn't appeal to our sense of justice. Delving further I found some disappointing bits of information. While the category "overall top 10 Asian cities" in the fDi report comprised 9 cities from Asia-Pacific, I found Malaysian cities didn't figure in the list. Interestingly however, three cities from Philippines – Quezon City, Cebu City and Davao City – made it to this top 10 list. Further, Kuala Lumpur, Johor Bahru or Penang didn't even get evaluated. Perhaps they didn't respond to the study. On the other hand, in the GS-Tholons study, among the top 10 cities attractive as global sourcing destinations, 5 Indian cities occupied ranks 1, 2, 3, 5 and 9. Kuala Lumpur is ranked as the 32<sup>nd</sup> most attractive city. This ranking of Kuala Lumpur [which figures as the lone representative of Malaysia] isn't that bad, given that there are cities listed from across 28 countries [across the five continents]. However Kuala Lumpur's position behind cities like Pasig City [Philippines], Cairo [Egypt] and San Jose [Costa Rica] is something to be worried about, and deserves a closer look.

Interestingly enough, there are certain cities that are ranked higher [like Cairo – 11<sup>th</sup>; Colombo – 7<sup>th</sup>] where eyebrows get raised. The questions and inquisitiveness surely is genuine as our economic perspective of Cairo is that there's still a lot Egypt has to do in terms of establishing stability with its immediate neighbors [read Israel] while promoting democracy [which seems to be woefully inadequate currently]. However, from a commercial perspective one cannot argue that Egypt has maintained stability with its economic environment in a manner that today it stands capable of providing services by nurturing the industry very much like any other emerging nation seems to be doing [read incentives, grants, investments in infrastructure etc]. I recently had a discussion where the argument that Cairo shouldn't be up there was presented, to which my response was that when one looks at infrastructural capabilities, Egypt and India aren't very much different, while Malaysia is way ahead of both nations. A similar argument can be made of Colombo [Sri Lanka] given the ethnic strife going on for over 20 years. However from a corporate standpoint, given a base amount of political stability [Sri Lanka has been, and continues to be a stable democracy since its independence] businesses do look at more corporate-level factors where Sri Lanka scores very well [it has the largest pool of certified accountants in the world after the UK].

One other very interesting evaluation criterion [first popularized by Mercer] is that of evaluating "quality of life" and its impacts on the general populace. Quite consistently [and as one would be wont to expect], higher the quality of life within a given city, lower seems to be the capability of the labor pool. This is consistent as well with the situation in today's developed nations where access to skilled labor pool is getting increasingly difficult by the day. Is this perhaps re-affirmation that as one attains a quality of life one strives for, one's interest in self-development and that "competitive spirit" goes on a reducing trend? Perhaps it is, given the similar conclusive discussions one encounters - locations where quality of life is higher invariably reflects lesser passionate a talent pool.

## In Conclusion

The intricacies amongst various contributing factors have to be viewed microscopically which both these studies seem to have done. A ground-up perspective that these reports bring to the table are far more realistic than the top-down evaluations we have been accustomed to seeing for quite a few years now. While I have refrained from delving into particulars with respect to any city, I think it is time government and industry take note of the factors leading to such results and address key concerns that are restricting abilities of cities to get ranked higher. While Malaysia figures as one of the most attractive "future" destinations for global sourcing [referring to the most prolifically used report of AT Kearney], it is important to distinguish that location evaluations conducted using top-down approaches seldom go beyond assessing economic potential. The AT Kearney report is one such a report. Studies like the fDi or the GS-Tholons ones are bottom-up analyzes that have more information and data which if understood well, can lead to incorporating real changes within the contributing factors. Perhaps there will come a day when we could take a top-down report and a bottom-up report and proudly identify consistencies with positioning of a particular city or country.

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For further details please write to

[ceo@matryzel.com](mailto:ceo@matryzel.com)

Or visit our website

[www.matryzel.com](http://www.matryzel.com)

## Author

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### **Bobby Varanasi, COP**

Chairman & Chief Executive Officer  
**Matryzel Consulting**



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