Tier 2 Cities of the Future 2020/21 Winners
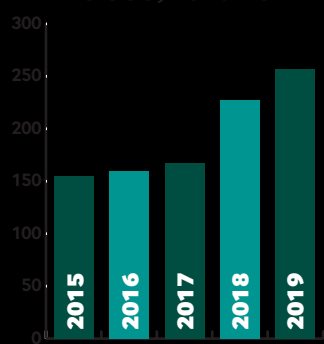
SAN FRANCISCO IS **fDi**'S INAUGURAL TIER 2 CITY OF THE FUTURE FOR 2020/21, FOLLOWED BY MONTREAL AND HOUSTON IN SECOND AND THIRD PLACE. **NAOMI DAVIE**S REPORTS

fDi
TIER 2 CITIES OF THE FUTURE 2020/21

The growing potential of secondary cities offers much food for thought for investors, with country capitals and megacities having traditionally dominated the FDI landscape. The new **fDi** Tier 2 Cities of the Future 2020/21 ranking aims to take a closer look at the non-capital cities capturing investors' attention. Since there is no standard definition, the ranking defines secondary cities as non-capitals that attract no more than 20% of their country's total FDI projects, and no less than 1%, with a total population of under eight million.

San Francisco takes the crown overall among Tier 2 cities, as well as scooping the top prize in the Economic Potential category. According to data from greenfield investment monitor **fDi** Markets, San Francisco-based companies created more than 900 FDI projects between May 2015 and April 2020, the highest number out of all

locations analysed. The city saw a 65.8% increase in outward FDI projects between 2015 and 2019, with companies such as Prologis, Uber Technologies and CloudFlare contributing to a record 257 outward FDI projects last year (see chart 1).

In addition, San Francisco boasts the highest gross domestic product (GDP) out of all locations analysed (estimated at approximately $550bn at purchase power parity based on data from the US Bureau of Economic Analysis). The city also reinforces its status as a premier hub for innovation with around 70,000 patents registered there between 2003 and 2019, according to the US Patent and Trademark Office.

Montreal comes in second in the overall ranking, as well as both the Economic Potential and Human Capital and Lifestyle categories. Research and development (R&D) is the leading business activity, representing over a third of total inward FDI projects in the five years to April 2020, when Montreal attracted 73 R&D projects and over $5.6bn in R&D capital investment, the highest out of all the cities included in the study (see chart 2).
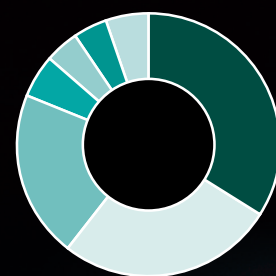
US-based Zesty.ai, which develops an artificial intelligence enabled building analytics platform for the property insurance industry, announced the opening of its lab in Montreal in February 2020. Its reason was that the city "is well positioned to attract local talent in computer vision and data science, which is both plentiful and of high quality".

Houston comes third in the over-

all ranking. The Texan city is a reputable talent hub and, according to the 2019 Academic Ranking of World Universities, is home to five of the global top 500 universities, as well as over 30 international baccalaureate schools. This contributed to its achieving third place in the Human Capital and Lifestyle category.

Houston also placed sixth in the Business Friendliness category. The city's welcoming business environment is clearly a hit with investors, as it recorded 53 expansion or co-location projects between May 2015 and April 2020, representing more than a quarter of its total inward FDI and the second highest out of all locations analysed.

1: NUMBER OF OUTWARD FDI PROJECTS OUT OF SAN FRANCISCO, 2015-2019

Source: **fDi** Markets

2: TOP FIVE INWARD FDI BUSINESS ACTIVITIES IN MONTREAL, MAY 2015 – APRIL 2020

34%	Research & development
27%	Sales, marketing & support
21%	Business services
5%	Manufacturing
4%	Headquarters
4%	Logistics & transportation
5%	Other

Source: fDi Markets

Into the valley: San Francisco is the first Tier 2 Cities winner

TOP 20 OVERALL

RANK	CITY	COUNTRY
1	San Francisco	US
2	Montreal	Canada
3	Houston	US
4	Dusseldorf	Germany
5	Hamburg	Germany
6	Boston	US
7	Wroclaw	Poland
8	Edinburgh	UK
9	Seattle	US
10	Espoo	Finland
11	Austin	US
12	Manchester	UK
13	Reading	UK
14	Basel	Switzerland
15	Belfast	UK
16	Rotterdam	Netherlands
17	Nanjing	China
18	Miami	US
19	Dallas	US
20	Atlanta	US

TOP 10 ECONOMIC POTENTIAL

RANK	CITY	COUNTRY
1	San Francisco	US
2	Montreal	Canada
3	Dusseldorf	Germany
4	Seattle	US
5	Boston	US
6	Hamburg	Germany
7	Houston	US
8	Austin	US
9	Espoo	Finland
10	Basel	Switzerland

TOP 10 HUMAN CAPITAL AND LIFESTYLE

RANK	CITY	COUNTRY
1	Adelaide	Australia
2	Montreal	Canada
3	Houston	US
4	Espoo	Finland
5	Brisbane	Australia
6	Perth	Australia
7	Boston	US
8	Dallas	US
9	St Petersburg	Russia
10	Quebec	Canada

"HOUSTON SAW 53 EXPANSION OR CO-LOCATION PROJECTS BETWEEN MAY 2015 AND APRIL 2020"

All-rounder: Montreal performed strongly in several categories

TOP 10 BUSINESS FRIENDLINESS

RANK	CITY	COUNTRY
1	Wrocław	Poland
2	Belfast	UK
3	Edinburgh	UK
4	Manchester	UK
5	Montreal	Canada
6	Houston	US
7	Glasgow	UK
8	Cork	Ireland
9	Reading	UK
10	Krakow	Poland

TOP 10 CONNECTIVITY

RANK	CITY	COUNTRY
1	Rotterdam	Netherlands
2	The Hague	Netherlands
3	Sharjah	UAE
4	Hamburg	Germany
5	Utrecht	Netherlands
6	Manchester	UK
7	San Francisco	US
8	Glasgow	UK
9	Reading	UK
10	Ghent	Belgium

TOP 10 COST-EFFECTIVENESS

RANK	CITY	COUNTRY
1	Samut Prakan	Thailand
2	Chonburi	Thailand
3	Rayong	Thailand
4	Manisa	Turkey
5	Kaunas	Lithuania
6	Tekirdag	Turkey
7	Izmir	Turkey
8	Plovdiv	Bulgaria
9	Iasi	Romania
10	Hai Phong	Vietnam

R&D IS THE KEY BUSINESS ACTIVITY IN MONTREAL, WITH OVER A THIRD OF TOTAL INWARD FDI

METHODOLOGY

To create a shortlist for **fDi's** Tier 2 Cities of the Future 2020/21, the fDi Intelligence division of the Financial Times collected data using the specialist online FDI tools – **fDi** Benchmark and **fDi** Markets as well as other sources. Data was collected for 116 locations, under five categories: Economic Potential, Human Capital and Lifestyle, Cost Effectiveness, Connectivity, and Business Friendliness. Locations scored up to a maximum of 10 points for each data point, which were weighted by importance to the FDI decision-making process in order to compile the subcategory rankings.

In addition, surveys were collected under a sixth category, FDI Strategy, for which there were 27 submissions. Locations that ranked in the top 10 in this category were given bonus points, which contributed to their overall score. Together, the data subcategory rankings and the FDI Strategy ranking make up the overall Tier 2 Cities of the Future 2020/21 ranking. ∎

DATA POINTS

ECONOMIC POTENTIAL
- Population
- Average annual population growth (% - 2015-2019)
- GDP (PPP current $) (millions)
- GDP per capita (PPP current $)
- Average annual growth in GDP 2015-2019
- Inflation rate
- Unemployment rate
- Outward FDI (May 2015-April 2020)
- Outward FDI per 100,000 people (May 2015-April 2020)
- Inward FDI (May 2015-April 2020)
- Inward FDI per 100,000 people (May 2015-April 2020)
- FDI in Research & Development (May 2015-April 2020)
- FDI in Advanced Manufacturing (May 2015-April 2020)
- Number of mega projects by capex (over $100m) inc ests (May 2015-April 2020)
- Number of mega projects by capex (over $100m) per 100000 people inc ests (May 2015-April 2020)
- Number of mega projects by jobs (over 1000 jobs) inc ests (May 2015-April 2020)
- Number of mega projects by jobs (over 1000 jobs) per 100,000 people inc ests (May 2015-April 2020)
- Capital expenditure on Research & Development Projects ($) (May 2015-April 2020)
- Number of patents 2003-2019
- Number of patents per 100,000 people 2003-2019

HUMAN CAPITAL AND LIFESTYLE
- Number of students
- Number of higher education institutions
- Number of higher education institutions per 100,000 population
- Number of top 500 universities 2019
- Number of top 500 universities per 100,000 people
- Number of business schools in Global MBA rankings 2020
- Number of IB schools
- Number of IB Schools per 100,000 people
- Labour force as % of population aged 15+
- Skillset of graduates
- Ease of finding skilled employees
- Tertiary enrollment rate (%)
- Third level students as % of population
- Number of physicians per 1000 people
- Life expectancy
- Education expenditure (% of GNI)
- Social Progress Index 2019

COST EFFECTIVENESS
- Average annual salary for an unskilled worker ($)
- Average annual salary for a semi-skilled worker ($)
- Average annual salary for a skilled worker ($)
- Annual rent for prime grade A office space ($ per m²)
- Annual rent for prime grade A industrial space ($ per m²)
- Petrol prices ($ per litre)
- Electricity (US cents per kwH)
- 4*/5* hotel in city centre ($ per night)
- Cost of registering a property (absolute value using GNI)
- Cost of construction permits (% of warehouse value)
- Cost of establishing a business (absolute value using GNI)
- Cost of establishing an electricity connection (absolute value using GNI)
- Total tax rate, % of profit
- Corporation tax rate (%)
- Common indirect tax/VAT
- Country purchasing power parity/exchange rate

CONNECTIVITY
- Percentage of people using the internet (%)
- ICT Development Index
- Number of airports within 80 kilometres of city
- Number of international destinations served
- Number of ports (medium) within 100km
- Number of ports (large) within 100km
- Number of ports (very large) within 100km
- Number of ports (medium +) within 100km
- Logistics Performance Index 2018
- Environmental Performance Index 2020
- Liner shipping connectivity index 2019
- Mobile phone subscribers (2018) per 100
- Companies in the transportation sector per 100,000 people
- Distance to nearest international airport (km)
- Quality of overall infrastructure

BUSINESS FRIENDLINESS
- Total number of companies within advanced manufacturing sector 2020
- Total number of companies within hi-tech service sector 2020
- Total number of companies within the knowledge-based sector 2020
- Proportion of companies within advanced manufacturing sector 2020
- Proportion of companies within hi-tech service sector 2020
- Proportion of companies within the knowledge based sector 2020
- Number of companies within advanced manufacturing sector 2020 (per 100,000 people)
- Number of companies within hi-tech service sector 2020 (per 100,000 people)
- Number of companies within the knowledge based sector 2020 (per 100,000 people)
- Number of jobs created by all inward FDI (May 2015-April 2020)
- Number of jobs created by all inward FDI per 100,000 people (May 2015-April 2020)
- Number of expansion/ co-location projects (May 2015-April 2020)
- Corporation tax rate (%)
- Days taken to start a business
- Ease of Doing Business 2020
- Index of Economic Freedom 2020
- Corruption Perception Index 2019
- Protecting Minority Investors Score
- Credit rating (S&P)
- Fragile States Index 2020
- Country risk score

FDI Strategy

A MORE DETAILED LOOK AT OUR JUDGES' TOP LOCATIONS
FOR FDI STRATEGY. **NAOMI DAVIES** REPORTS

Greater Montreal, which is second overall in the Tier 2 Cities of the Future 2020/21 ranking, claims first place in the FDI strategy category, and Montréal International (MI), the metropolitan area's economic promotion agency, had a record-breaking year in 2019. Not only did Quebec's largest city enjoy the strongest economic growth of all Canadian cities, but it also witnessed a marked increase in foreign investment.

MI supported 89 foreign companies to set up or expand in the region, representing record investments of C$2.64bn ($1.98bn), up 164% since 2015. Every week during 2019, at least one foreign company chose to establish operations in Greater Montreal – creating more than 7000 direct jobs and maintaining about 350.

Targeting locations

MI's strategy involves targeting priority regions across the US, Europe and Asia and strategic sectors such as video games, artificial intelligence and life sciences.

Its talent team helps bolster the Greater Montreal talent pool by facilitating international recruitment, making the immigration process easier and helping attract and retain international students.

MI has coordinated more than 50 digital marketing campaigns to promote the city, and overhauled its websites in May 2019 to ensure an immersive experience for potential investors, international organisations, entrepreneurs, talent and students across the globe. Part of the agency's strategic plan is to double FDI results in the next five years.

Sustainable operations

Lyon in France is second in the FDI strategy category. The 40-strong Invest in Lyon staff consists of an FDI team of 33 and seven in its ONLYLYON territorial marketing programme. The FDI team's annual objective is to support and assist more than 100 new companies to establish sustainable and significant operations in the local area, with the aim of creating 2000 direct jobs within three years.

As the promotion agency for a non-capital city, Invest in Lyon has had to hone its investment strategy

TOP 10 FDI STRATEGY

RANK	CITY	COUNTRY
1	**Greater Montreal**	**Canada**
2	Lyon	France
3	Perth	Australia
4	Basel Area	Switzerland
5	City of Yokohama	Japan
6	Bilbao	Spain
7	Katowice	Poland
8	Cork City	Ireland
9	Plovdiv	Bulgaria
10	Barranquilla	Colombia

in order to compete with its European peers. The agency is focused on 12 priority fields including energy, smart manufacturing and logistics, and supported by Lyon's research and development operations, industry clusters, community experts and partnerships with economic players.

Investors benefit from France's attractive tax incentive programme and further financial incentives are also available on a local level. In close collaboration with Invest in Lyon, the regional government supports investment projects with industrial facilities granting subsidies of up to 30 % of eligible expenditures, with a cap of €490,000 ($574,722).

Boosting growth

Perth ranks third, with its local government authority, the City of Perth, playing a crucial role in bolstering economic growth in the Western Australian state capital.

The City of Perth, and more specifically the Economic Development Unit, helps promote Perth's competitive advantages as well as facilitating engagement opportunities with industry-specific and government stakeholders, and attracting investment from interested parties on a local, national and international scale.

Through its network of 11 sister cities and 19 member cities of the World Energy Cities Partnership, the team is also able to leverage relationships to promote FDI opportunities to numerous international stakeholders. ■

Strong performer: Perth's Economic Development Unit impressed the judges