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China Business

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China, India vie for outsourcing market

By Daniel Allen

BEIJING - Asian heavyweights China and India continue to battle it out for major slices of the increasingly lucrative outsourcing pie. While China has long been considered a hub for manufacturing and research and development (R&D), India has traditionally attracted the lion's share of the services and information-technology (IT) projects.

However, as China leverages its superior infrastructure and cheaper labor, and expands its pool of highly qualified, English-

speaking personnel, the dynamics are set to change.

According to a recent report by the market-intelligence firm IDC, total revenue from China's offshore software outsourcing market will grow fivefold over the next five years, and the compound annual growth rate of the market will reach nearly 38%. China's offshore software outsourcing market continued to grow rapidly in 2006, with reported total revenue reaching nearly US\$1.4 billion, up more than 48% year on year.

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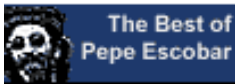
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In addition to cheap labor, other drivers for the expansion of the Chinese IT outsourcing market include market deregulation, large-scale investment in technical education, better intellectual-property protection, IT core standards and infrastructure development, and the flourishing Chinese economy. Despite promising growth, however, China still needs to consolidate its workforce capabilities in terms of English-language proficiency, project-management skills, and experience to step up its challenge to India in the global market.

Kenneth Wong, a managing partner at SmithWong Associates, a China-focused US consulting firm, commented: "Language issues are no longer the major handicap to China-based outsourcing that they were before. In the past, the big advantage of the Indian market was that a lot of Indians spoke English. However, many IT personnel in China today are US-educated with undergraduate and graduate degrees.

"Soon there will be more people speaking English in China than in the US. The Chinese government knows it has a way to go in this area, but the signs are encouraging."

Tao Ye, president of Objectiva Software, a leading provider of software outsourcing services to China with offices in the US and Beijing, commented: "More and more customers are confident of doing business in China.

"Two years ago potential clients would say to us, 'Why China?' Now they say to us, 'Why you?' Since I founded this company in 1999, we have employed two full-time English teachers - language skills are very important in China's outsourcing sector. To say Chinese employees have no English is a myth."

While Chinese IT companies are increasingly bidding for international outsourcing projects, they are also leveraging their proximity to markets such as Japan and South Korea, where they have an advantage in both geography and language. Last year the Korean electronics firm Samsung outsourced about US\$18.5 billion of business to China in an attempt to lower production costs.

To take advantage of China's low wages and Asian-language skills, a growing number of Indian outsourcing service providers

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are hedging their bets by directly investing in China. In a trend officially supported by the Chinese and Indian governments, many Indian firms - including Infosys, Satyam Computer Services and Wipro Technologies - have already established operations in China.

Learning from Indian companies, the best Chinese outsourcers are gradually incorporating more advanced applications, integration and infrastructure services into their offerings. Some are developing strong embedded software capabilities to work with makers of mobile phones and other hardware devices.

Edwin Ye is engagements manager at Beijing-headquartered MDCL-Frontline, the China-based subsidiary of pan-Asian IT company Frontline. He commented: "Compared to India, the Chinese IT outsourcing market is still very young. I believe the future is promising if we keep refining our products and services, investing in personnel and infrastructure, and exploring new markets and opportunities."

MDCL Frontline has recently registered strong license sales of its China-developed software products, and won strategic multimillion-dollar deals with Dalian Techport Systems and Dalian Port Group for software application development and management.

IDC analysis also showed that in contrast to India, the Chinese market features considerable domestic demand. In 2006, more than 40% of offshore software outsourcing revenue came from multinational companies that were actually located in China. It is predicted that this demand will continue to grow rapidly over the next three to five years, providing an excellent opportunity for service providers by allowing them to expand while avoiding direct competition with Indian companies in European and North American markets.

Shenyang-based Neusoft Group is China's largest IT outsourcer, employing more than 10,000 staff, and providing software and IT services, as well as medical technologies. Most of Neusoft's revenue is derived from domestic software and service sales.

"One of the top reasons for outsourcing to China these days is that companies in the US or Japan are trying to align their target overseas markets with their outsourcing destination," said

Neusoft chief technology officer Walter Fang.

This means such companies as Microsoft, Motorola and Nokia, eager to tap China's enormous consumer market, need outsourced services to support their China-based expansion strategies. Only last month Microsoft announced outsourcing service orders worth \$100 million to Chinese companies.

Though Beijing, Shanghai, Guangzhou and a handful of other seaboard hubs remain the destinations of choice for most foreign companies, they may not be the best locales for businesses on a

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