



China's IT edge

The conventional wisdom about the world's two most populous countries would hold that infrastructure-heavy China is the place to make your goods and tech- and English-savvy India is where you have your services outsourced. But that notion – at least where IT outsourcing is concerned – simply isn't true anymore, argues Cyrill Eltschinger in his new book *Source Code China: The New Global HUB of IT Outsourcing*. Eltschinger, who has worked in China's IT sector for over 10 years, argues that signs in China like soaring numbers of engineering graduates, ample broadband infrastructure and a flourishing domestic software market point to a competitive edge with its South Asian neighbour. In examining the Chinese outsourcing market the book makes extensive use

of case studies of important domestic players, such as the “soft boys” – hi-Soft, Neusoft, Worksoft, BeyondSoft – as well as large foreign operators like HP. Two passages from the book are re-printed below:

Your essential shore

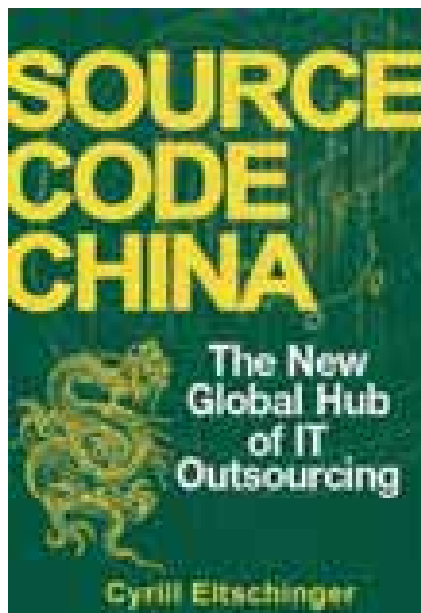
In the global economy, when a company is trying to decide where it wants to outsource, it should identify what the markets are for its core business and choose a country that is one of their core markets, to outsource there, and to use it as leverage with their core competencies. If you were already going to a company for business, why not consider it as an outsourcing destination for some of your business processes? Especially in a country like China, where linguistic differences and the need for language localisation is so criti-

cal for market success, to attempt to handle much of that work elsewhere is either impossible or foolish.

The attention that China is getting is starting to snowball. Corporations are considering China for business functions beyond their core competencies, and as a result, outsourcing is picking up. For more than 20 years, the market was labelled as the manufacturing factory floor of the global economy, and it is now taking that success into high-end engineering services.

As we saw [earlier], while India continues, for the moment, to lead the world's software outsourcing market, it is still not a compelling market for overall business. China has a singular advantage that India does not: It is without question the market that most major international corporations, and many, many smaller ones, are chasing.

“India’s outsourcers, who had little or no presence in China, had to come to China in order to support their multinational clients”



► of that FDI is concentrated in coastal provinces, with Jiangsu, Guangdong, Shandong, Fujian, and Shanghai soaking up 65 percent of total investment.

The country has maintained strong Gross Domestic Product (GDP) growth for the past two decades, hitting 10.5 percent in 2006, and with an average of eight percent growth predicted by Chinese economists until 2010.

India outsources to China

One of the most convincing pieces of evidence that the global outsourcing market is shifting to China is the expansion of India’s top outsourcers into it in order to take advantage of lower costs and a sufficient supply of available talent.

Since 2005, these companies have come to China in force. In February 2007, Tata Consultancy Services, India’s number one outsourcer, began operation of a new joint venture (JV) in Beijing’s Zhongguancun Software Park (zPark). Although the venture is aimed primarily at support for its multinational clients globally, Tata’s China JV also picked up a contract for a

Chinese government foreign currency management system.

India’s number two, Infosys Technologies, entered China in 2003 in Shanghai’s Pudong Software Park. In 2005, the company announced it intended to grow its presence in China to 6,000 employees by 2010, with centres in Shanghai and Hangzhou and a total investment of US\$65 million.

...This returns to our original concept of the Essential Shore. Outsourcing to China offers not only advantages in terms of quality, cost, and available talent, but an IT services strategy here can be incorporated into a complete China strategy, given the existing or developing presence of most major corporations. India’s outsourcers, who had little or no presence in China, had to come to China in order to support their multinational clients. By choosing country over company when selecting an outsourcing market, China’s continuing attractiveness as a global business destination makes its use as an IT outsourcing services location all the more obvious.

In July 2007, IDC research confirmed what we have known for a long time: that China would surpass India as the world’s top destination for outsourcing services. Using IDC’s Global Delivery Index (GDI), Chinese cities, namely Dalian, Shanghai, and Beijing, are poised to unseat their Indian rivals by 2011, “because of massive investments made in infrastructure, English language, Internet connections, and technical skills, which are favourable towards off-shoring.”

Source Code China: The New Global HUB of IT Outsourcing is published by John Wiley & Sons and can be pre-ordered at www.sourcecodechina.com