

## China Software Outsourcing Part I – New IT Giant

In the past five years, millions of people worked in global software outsourcing industry and the global software outsourcing revenue has reached a trillion dollars. The rate and the nature of software outsourcing industry growth has affected by the current economic crises, but has not threatened the emergence of the industry more broadly. Some software outsourcing industry analysts forecasted that the market will be weakened its revenues during 2009, but volume will be raised at the end of the year and software outsourcing demand in many non-financial sectors has been virtually unaffected.

From large enterprises to medium or small size business enterprises, these enterprises have adopted outsourcing to help deal with financial pressures and competitive challenges in their markets. According to historical data, only 10 percent of global companies outsourced software projects or other IT work, but by 2008 that figure had risen to 70 percent. By 2012, the global software outsourcing services market is expected to top 1 trillion US dollars.

Here are some records of several project outsourcing areas:

- Legal Process Outsourcing: Projected to be the second fastest-growing segment of global BPO and to increase from approximately 80 million US dollars in 2006 to 4 billion by 2010.
- Animation and Gaming: Estimated to reach 76 billion US dollars globally in 2009 and with an annual growth rate of 8 percent.
- E-Learning: Has grown ten-fold since 2000 to more than 20 billion US dollars globally and expected to grow beyond 52.6 billion US dollars by 2010. Online tutoring is a 4 billion US dollars industry increasing by 10 – 15 percent annually.
- Offshore Software Outsourcing: Expected to grow to 150 – 225 billion US dollars by 2020. High-tech and telecommunications engineering comprise a fast-growing sector, with 30 percent of the market.
- Pharmaceutical R&D: Predictions for a 41 percent growth rate in 2009 from 2008 revenues of 21 billion US dollars. One-third of spending in this sector is outsourced.

### China's Ascendancy

As a center for software outsourcing and other IT outsourcing services, China's success is a combination of government support, investment and the development of economic. China built out its credentials in the following four critical areas: Skill Availability, Investments, Intellectual Property, and Successful Stories.

## **China's Ascendancy – Government Focus**

The Chinese government has laid the foundation stones for the future of the China software outsourcing market with a series of Five Year Plans since the early 1980s. This has been done through significant investments and commitment to a long-term strategy to develop national capabilities in computing, IT and related services. By 2006, Chinese government announced the 1,000-100-10 Project with key objectives including the following:

- Develop a base of 10 internationally competitive cities provide software outsourcing services
- Encourage 100 well-known transnational corporations to transfer their outsourcing businesses to China
- Cultivate 1,000 large and medium-sized service outsourcing enterprises with international qualifications

Also, Chinese government has focused on development high quality infrastructure which includes modern ports, highways and airports, modern telecommunications, high-speed broadband, education and English language capability.

## **China's Ascendancy –Investments**

First of all, in order to develop the software outsourcing industry in China, Chinese government has invested significantly through policy, education and initiatives of developing software outsourcing industry. Secondly, some investments have taken the form of 'captives' that been set up by individual companies. A captive is an organization which is effectively part of the parent company, but established in a manner where specific processes and/ or activities have been selected to be performed at a separate location where there are cost, operational or strategic benefits. Thirdly, there are investments from key Indian players who have observed the potential of the Chinese market and have positioned themselves to join the growth software outsourcing market in China.

## **Current Progress**

The China software outsourcing market gained 15.2 billion US dollars revenue with information technology at 9.04 billion US dollars revenue and business process outsourcing (BPO) at 6.16 US dollars revenue in 2007. Offshore revenues grew more than 40 percent in 2007 to 2.28 billion US dollars or 15 percent of total volume. By 2010, China's offshore work is expected to more than double to 5.6 billion US dollars or 20 percent of total revenues.

Several research and rankings of China software outsourcing or other IT outsourcing business services:

- Beijing, Dalian and Shanghai made the top 10 the most attractive China software outsourcing cities list. According to research, these cities will challenge Bangalore for the leading software

outsourcing place.

- China ranks second in the world as a software outsourcing destination in terms of A. T. Kearney's scorecard that weights financial attractiveness, people and skills availability, and business environment.
- 400 U.S.-based companies was surveyed their software outsourcing destination countries by R&D Magazine. 18 percent of them chose China and 17 percent companies selected India as their software outsourcing country.