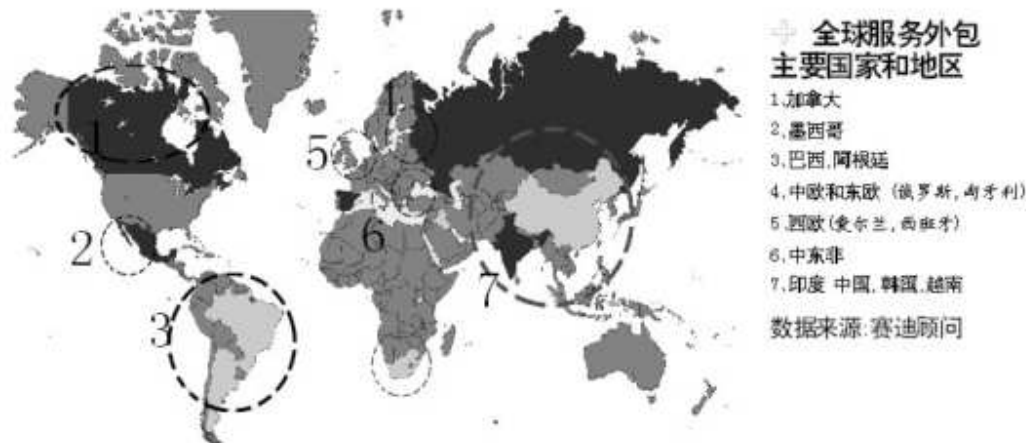


## The Chinese Outsourcing Market

The Chinese government launched a 2.5 billion RMB project; however China software outsourcing industry still lacks powerful enterprises

Category:	Financial News	Author:	Gao Lingyun	Published Date:	2009-06-24
Revision:	GC15	Version:	3C Magazine Comprehensive	Source:	Southern Metropolis Daily



### The Trends of Outsourcing

With the financial crisis triggered by the slowdown of foreign trade, the software outsourcing industry has unexpectedly grown against the market trend according to a statement from Mr. Chao Wang, Assistant Minister of the Commerce Department at the Beijing Software Fair.

**Ministry of Industry and Information Technology of PRC: The software industry is growing at a rapid rate.**

Mr. Li Yizhong, The administrator of Ministry of Industry and Information Technology of PRC, shared a statistic reflecting the scope of China's software services in 2008 was RMB 757.3 billion, a 12.7 times increase compared to 2000. The software export is USD14.2 Billion and that figure has increased 35 times compared with 2000. The industry presently has 1,800,000 people and 984 companies with collective revenue of more than a billion dollars.

During the completion of Software Industry Special Planning, the software services industry of Ministry of Industry and Information Technology of PRC set a goal for revenue of RMB, 1,000,000,000,000 for the Year 2010that. Mr. Zhao Xiaofan, the administrator of Ministry of

Industry and Information Technology of PRC, said that this objective should be completed and achieved before next year.

After the financial objectives and goals are reached, China's software industry proportion of GDP will reach 2% in the year of 2010. According to Mr. Zhao Xiaofan's prediction, China's software service industry will be one of the fastest growing industries, and it most likely will become the top 1 or 2 in Year 2020 as the country's major industry.

### **The new "18<sup>th</sup> Text" provides strong support**

At the end of May, Mr. Zeng Xiaohua, the administrator of IT Dept of Ministry of Industry and Information Technology of PRC, spoke publicly about the new "18<sup>th</sup> Text" - a collective policy to encourage among others, the software industry. A draft of the policy is to be published very soon.

The original wording of 18<sup>th</sup> Text was launched in Year 2000 and cites "the tax increment, for those organizations that manufacture and sell their own developed software products. According to the tax rates before Year 2010, there was a 17% statutory tax imposed that was a value-added tax.

### **"Core Electronic Device, General Chips and Basic Software Product" project will drive 2.5 billion in domestic market**

The Division of Ministry of Industry and Information Technology of PRC announced yesterday, Development Report on China's Software & Information Services Outsourcing Enterprises in 2009 that in 2008, China's software and information services outsourcing industry scale achieved revenue of RMB156.77 billion, with 41.2% increased rates; and the related number of enterprises rose to 3,600, with about 20.0% increased rates; the number of employees was 410,000, with about 36.7% increase rates.

The reason of for the increase has to do with the "huge domestic market." The report said that the total domestic business is 77.1%. This comes from three main economic circles: 31.6% from eastern China; 27.1% from southern China and 18.4% from northern China. In addition, Japan maintained the share of 32.3%; United States had a 24.6% share while the European region came in at 7.8%.

Among the companies in the "Core Electronic Device, General Chips and Basic Software Products" there will be many projects will bring outsourcing business to the market. Mr. Chen Chong, Chairman of China Software Industry Association expected that the major special funds of "Core Electronic Device, General Chips and Basic Software Product" will be used for purchasing RMB2.5 Billion software.

Chong believes that information technology, industrialization integration means an increase in the insourcing market. "More than 90% of the Chinese software business is in the domestic market while 10% is for foreign markets. The software industry is growing which means that this is a pull up for other industries."

### **The bottlenecks of scale obstructed the long-term development to the industry**

Although the majority of outsourcing industry is expanding, Mr. Zhao Xiaofan, the administrator of Ministry of Industry and Information Technology of PRC, said that the scale of outsourcing enterprises was still an obstacle for the industry development in the future.

According to conservative estimates, the scale of the global offshore outsourcing will exceed USD160 Billion in 2012. McKinsey believes that if China wishes to become the second-largest outsourcing service destination in the world, it has to obtain about 20% business in the market, which equals to more than USD30 Billion. "But the China outsourcing industry is still very scattered."

So acquisition will be a hot topic in the future. Meanwhile, Freeborders, Inc., the largest provider of software outsourcing in Shenzhen, recently acquired the Stack Venture Group (SVG), a privately held company based in Chicago, IL. The acquisition of SVG expands the breadth of Freeborders' offerings within the Financial Services Industry, adding world class expertise and experience.

"Due to the lack of direct clients, the China software enterprises lacks ability to control the market." Mr. Liu Jiren, Chairman of Neusoft Group, the largest software outsourcing enterprises in China, thought that the China offshore outsourcing businesses comes mainly from second and third-tier companies. When the crisis comes, those local enterprises that originally created the product(s) will protect themselves first. If these top-tier outsourcing companies do not have enough projects, they will not outsource to secondary outsourcing companies.

#### **The 4 big challenges in China's Software Outsourcing Industry**

A

The global need for resources is shrinking. IDC and other international advisory firms expect the global IT expenditures in 2009 to decrease from 5%-6% to 3%. They also expect that the global software outsourcing market will have a negative growth.

B

Development of joint ventures is difficult, especially for those small and medium-sized export enterprises which lack funds. Some software companies are facing problems such as a shortage of funds, burnout, transition and lack of new business development.

C

An increased risk of software export contracts and actual implementation. For some developed countries and regions like United States, Japan and other European nations, an economic recession in many software importers and distributors appeared and they are now saddled with financial difficulties, joint venture difficulties and increasing financial pressure. As a result, the software export enterprises have to extend the funds and credit and also collection period for payment. This can have an impact with the fluctuation of various currencies.

D

The enterprises raise the recruitment threshold. Due to global financial uncertainty, enterprises have raised the standard of recruitment threshold, with an increased demand for the experienced and high-end professionals. Meanwhile there is a decline in the demand for hiring fresh graduates. This leads to the prominent contradiction between supply and demand of software professionals.