

## China Catches Up with India in Outsourcing

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NEW YORK (Reuters) - John Cester thought he had found a big opportunity four years ago when he opened a business in China and hired local programmers to write software for Western companies.

But the initial response was less than enthusiastic, said the Harvard Business School graduate whose company, Freeborders, is in China's southern city of Shenzhen. Western companies seeking to outsource work were focused on India at that time, he said.

"The rest of the world was very skeptical," said Cester. "India was very successful, and people were satisfied that India was perfect, and there was no need to go anywhere else."

But as the number of U.S. companies with operations in India increased, so did India's wages, personnel turnover and delivery problems, prompting clients to seek alternatives.

China, the Philippines, Russia, Poland, and Israel now are seen as growing alternatives for outsourcing.

In 2004, not a single buyer surveyed by Chicago-based management consulting company DiamondCluster International Inc. said they were actively outsourcing technology functions to China. This year, 6 percent of the buyers said that they are already in China.

Interest in moving some operations to China in the next three to five years has quintupled. The percentage of companies who expected to establish outsourcing operations in China in the next three to five years has surged to 40 percent from 8 percent just a year ago, according to DiamondCluster's survey.

By comparison, outsourcing to India is not expected to increase much in the next three to five years, it said.

"China is starting to look like India did 10 years ago," Tom Weakland, who leads the outsourcing practice at DiamondCluster said. "Manufacturing firms have been in China for a long time and IT services have just started to ramp up in China right now."

China attracts Western companies with its reliable infrastructure, skilled workers and domestic market. Wage rates in coastal cities such as Shanghai have gone up, but overall remain lower than those in India.

Analysts say China, already a \$30 billion software market, has the potential to become the world's next software outsourcing center.

But the country must first overcome several obstacles such as deficiencies in English fluency and intellectual property protection.

Because China does not have as many fluent English speakers as India does, it has focused on other prospects of business process outsourcing rather than call-center work, or taking customer service calls.

"India may have a little big edge because of the language," said Trip Chowdhry, analyst with FTN Midwest Research. "But I have also seen a lot of cooperation as many Indian software companies have opened offices in China."

Freeborders' Cester said better infrastructure is China's biggest draw.

"We ask our clients to go to India first and then fly to Shenzhen, we couldn't have better sales materials than that," Cester said. "Because the minute you land in Shenzhen you can see the environment is much better."

U.S. companies, as well as India's emerging software giants, are busy building operations in China.

Infosys, India's second-largest software exporter, has plans to build a campus close to Shanghai.

Accenture Ltd. started offshoring in India but is now beefing up its center, which employs Japanese speakers to serve clients in Japan, in China's coastal city, Dalian.

U.S. consulting firm BearingPoint started building its outsourcing base first in India but is now pushing aggressively in China. It employs about 1,000 engineers in the world's seventh-largest economy, and the number could rise to 10,000.

"China is coming to the forefront in terms of the demand," Manuel Barbero, vice president with BearingPoint said, adding that quarterly growth rate averages 25 percent there.

Costs of its China centers are about a quarter less than that of India, Barbero said.

China has developed strong expertise in transforming, integrating and implementing enterprise resources planning systems, Barbero said.

It also has more engineers who are familiar with the open source software, which is a free operating system favored in developing countries, he said.

India, instead, tends to focus on call centers and software coding. It moves upstream by handling more consulting work, analysts said.