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Offshore software outsourcing. why China and why now?

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Paul Irwin Crookes, 9th September 2008.

Recessions may not be bad news for everyone. Whilst many of Britain's software organisations may now be grappling with concerns over a cooling economic climate, rising operational costs and ongoing skills resourcing pinch-points, the moment may present a great opportunity for China's emerging software development outsourcing industry to make its presence felt, challenging the Indian value proposition that has been the dominant port of call for those considering an offshore strategy. All of which could give software development firms and IT management departments pause for thought.

To China watchers, this is not a surprise. The country's return to the front of the world's stage by successfully hosting the 29th Olympiad was actually just the most visible public face of what has, behind the scenes, been a major outward facing strategy for the nation's domestic industries. Enjoying full support from national and provincial governments determined to move up the products and services value chain, China's commercial and technology growth objectives for the next decade or more are anchored on accelerating beyond being the world's manufacturing assembly hub, to becoming instead a key player in the 21st century's knowledge economy. In this overall picture, the software product and services sector can be seen as a linchpin in helping to achieve these goals, through the development of high technology services, product oriented research and export driven international reach.

According to a recent review of China's technology and innovation policy by the OECD, the country's investment on high-tech research and development ranked sixth in the world for total spend at the end of 2006, at US\$38 billion, representing 1.43% of GDP, although the report emphasises that there are still a number of hurdles for China to overcome before it can reach its full potential. Particularly important in the construction of a national innovation system is the encouragement of enterprise-led ICT sectors, such as software development, along with biotechnology and energy research.

Government policy and business strategy may now be converging. For example, the Chinese Ministry of Information Industry has created a Software and Integrated Circuit Promotion Centre (CSIP) which specifically looks to encourage the development of new export markets and actively works to bring together prospects, suppliers and partners in roundtable meetings. Europe, and the UK in particular, now beckon, with market engagement likely to be at the forefront of executive thinking in the science parks and business clusters across China, whilst a number of Chinese provinces report plans to host ITO Expos over the coming months.

And the benefits of all this investment and activity can be two-way. There are some genuinely compelling messages for prospective customers reviewing the offshore IT services option to consider China in the equation: a deep human resources pool of software skilled resources, supplemented by a steady stream of enthusiastic graduates; hourly and monthly cost advantages even over Indian levels, let alone western market price points; and all of this coupled to experience in hosting overseas development centres through a credible track record in providing offshore software services over many years to both East Asian and American IT markets.

But there are still many issues to evaluate and genuine concerns to overcome, and a structured approach is required to achieve desired results.

There are quite literally thousands of software and service firms across the country, offering to supply a myriad of different options, each with their own strengths and weaknesses. Furthermore, unlike India, which is very well served by a national industry organisation for its software firms (NASSCOM), offering both suppliers and customers a sophisticated information portal and international visibility, no such equivalent yet exists in China, which means that creating your vendor shortlist can be rather more time-consuming. Whilst the Chinese remain determined to emulate India's organisational success, right now, it means either individual legwork or use of intermediary specialists to get key questions answered on vital assessment criteria, such as management team background, IP protection policies, ICT and language skills mixes, pricing structures and ODC support arrangements, to list but a few.

And it could be worth making the effort, as Chinese firms are serious about their intentions, are committed to making successful long-term relationships, and are enthusiastic about the opportunities they see before them. It may be time to change the mindset about China as an offshore software development destination, and instead of asking "Why?", this might just be the moment for British software businesses to ask themselves: "Why not?".

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