

India Vs China - The IT Outsourcing War

Is it India or China?



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Executive Summary

Changes in the Chinese IT Industry have been phenomenal. The country is making remarkable improvement in increasing English-speaking software engineers to sustain IT offshoring projects. The Chinese government is making serious efforts to attract investors and widen its revenue from the IT sector. The transformation has been termed as the 'Changing face of China'.

The growth had left the leading IT outsourcing giants and the government of India, tense.

Is the growth of the Chinese Software Industry a threat to the Indian IT rule? A discussion on India and China IT Outsourcing War

Introduction

According to McKinsey studies, China will take several years to pose a threat to India in IT services, notably in its bid to grab a larger share of the global software outsourcing market.

In the past, there have been several speculations about China capturing the major share of Indian IT outsourcing market. But as leading market researchers probe further into the changing economies of both China and India, the studies reveals positive results for the Indian Software Industry. China has several critical problem areas to counter before it becomes a threat to the Indian IT supremacy. Even though the revenue from IT sector for China has increased, it still lags behind the Indian IT revenue. In fact, according to the reports, it is still half of India's share, which is \$12.7 billion a year.

One of every four global giants outsource their software requirements to India

The main reason that outsourcers in U.S. rely on Indian software providers is the maturity and stability of its outsourcing market and advanced telecom infrastructure. China also faces a shortage of technical English-speaking resources. Countries like Philippines, Singapore, Russia and Ukraine, recently surfaced to provide outsourcing alternatives but the political instability is a major drawback for them.

The birth of Indian IT Market

The IT outsourcing model was born in India. The Indian IT industry, being the first, introduced to Software Organizations, worldwide, the new and highly cost-effective mode of outsourcing. The large technical resource pool in India was the main reason for the proliferation of the outsourcing services. The cost of skilled manpower in India was lower than what other Technical giants offered. The fluency and versatility with English also proved fortifying for the emerging Indian IT region.

In the early 1990s, the Indian economy underwent a major change in terms globalization and privatization. The Telecom Industry was released from the monopoly of public sector. It changed the face of the Indian Telecom Sector with latest facilities, fast connectivity to the world and other advanced telecom technologies. The world started to see India as a strong IT and BPO service provider. Outsourcing that had started in the 1980s gained a momentum with the boost in the Telecom arena. Major IT leaders emerged in the Indian high tech cities to offer the most competitive brainpower, solutions and services with major time/cost benefits and global connectivity. The skill sets of the Indian technical professionals broadened. The wave of software education in universities and schools significantly added to the number of skilled resources produced, each year.

With India emerging as leaders in evolving cost-effective IT solutions, the quality focus was never lost. Soon Indian software providers started maintaining high quality and performance standards. Conformed to the CMM and CMMI models, Indian IT Industry proved its commitment and consciousness to provide world-class quality standards. The investment in CMM and ERP initiatives increased substantially. India soon became the ground for providing total solutions for Global clients to outsource turnkey projects. The IT skills extend expertise in a wide spectrum of services like sustenance engineering services, business process re-engineering, maintenance of legacy systems, system migration (across platforms, languages and versions), embedded systems and e-commerce applications.

The Indian IT domain strengthened with the ability to provide world-class workplace, 24X7 connectivity, high-speed Internet connectivity and the best security and networking. Thus, evolved the concept of dedicated development centers wherein virtual extensions of the clients' business was established as different units in development centers in India. The clients' development environment is replicated in the unit setup in India. An onsite team transfers knowledge to the team of offshore professionals for absolute clarity on clients' business objectives.

IT Outsourcing: India or China?

In the last decade India dominated the IT outsourcing domain. Meanwhile, China geared up aggressively to brace up its software-outsourcing Industry. The booming economy and low wages in China emerged as the strengths that could threaten the Indian IT market. The major strengths of the China IT sector have been identified as:

- Increased size of software services export
- Cost benefit
- Quality of service delivery
- Increasing talent pool

But as per reports and surveys of leading market researchers, it will take several years for China to match the quality and expertise of Indian IT services domain. The Chinese IT industry is fragmented and needs to consolidate to attract major players, worldwide. "For starters, the Chinese must consolidate their highly fragmented industry to gain the size and expertise needed to capture large international projects. Currently, there is little movement in this direction," says a McKinsey report.

The Chinese IT industry is divided into several smaller software companies. In order to draw an international clientele, the main challenge for them is to merge as single, solid and reliable partner. On the positive side, the Chinese economy is aware of the drawback and 12% of IT service providers are planning major mergers and acquisitions. In the meantime, the Indian companies are planning to takeover some of the smaller software companies in China and expand their services.

Also, if the Chinese IT market can generate better talent resources, it can bridge the major gap of language difference. With more resourceful workforce, they will be able to establish credible brands in international markets and expand domain expertise to other industry verticals. The software industry in China needs transformation in the organizational and operational structure to ensure security of the intellectual property of clients. They have to increasingly focus on building trust of clients and nurture long-term relations. Several economic hurdles also restrict the Chinese IT industry to enter into lasting partnerships with Global outsourcers. Diplomatic and legal bottlenecks

in China are also a major cause for low confidence of investors.

India still continues to evolve as the leading player in IT arena. The factors that have led to the accelerated growth are the support from Indian Government to open policies, excellent IT education system, English speaking, flexible regulations, investor friendly reforms, knowledgeable talent pool of IT professionals and managers.

By FY 2008 at current rates of growth, India is expected to be among the top 3 countries in the world in IT revenues

Source: STPI

Other than China, India also faced the challenge from East European IT companies. They have increasing number of skilled engineers but lack resources with the right managerial skills. It will require some more years for these IT companies to render quality offshore IT services.

Conclusion

After years of IT competition, India and China are expected to cooperate and complement each other in the future. Recent developments indicate that the "laboratory of the world will meet the factory of the world." The relationship between the two countries will strengthen with the combined capability of Indian software and Chinese hardware.

The leaders of the two countries shared the same view that the Indian and Chinese IT capability can combine to emerge as super IT power of the world.

India has the repository of qualified technical specialists and software professionals while China is unbeaten manufacturer of computer hardware. With India and China expanding free trade and strengthening economic and cultural ties, the India Vs China – IT war seems to be nearing an end.

About Infogain

Infogain, The Customer Knowledge Company, develops and delivers Customer Asset Strategies to increase tactical and strategic decision-making capabilities across the enterprise. As a leading provider of CRM, ERP, integration, and business intelligence services to the Global 2000, Infogain turns customer data into strategic knowledge that positively affects the entire enterprise. Established in 1990 with international offices, Infogain has a long-standing commitment to global delivery and is uniquely qualified to deliver end-to-end solutions through valuable strategy consulting services and highly skilled engineering execution. Strategic and technology partners include Amdocs/Clarify, BEA, BroadVision, IBM, Genesys Telecommunications Laboratories, Netezza, PeopleSoft, Siebel, and Tibco. For additional information on Infogain's full range of services, please visit our website at www.infogain.com or mail us info@infogain.com

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