

Chapter 8.1

New Trends in Global Offshore Outsourcing: A Comparative Assessment of India and China

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ABSTRACT

With the rapid rise of globalization, the challenge of global outsourcing today is not “Why and what to outsource?” but “How to outsource?” The theme today is “Let us do it right the first time.” The barriers to outsourcing are companies’ own mind-sets, local regulations, and the robustness of their internal processes. The domain knowledge in many industries has gone fully global. Likewise, new product development and R&D must be global in order to compete in emerging economies and to tap into global talent to compete globally. Software development and IT outsourcing can be done from anywhere, virtually! The availability of mobile technology and superior digital infrastructure is

giving way to “distributed IT,” making “homes” as the future nodes of outsourcing factories. China and India have emerged as the major leaders in this industry due to their capacity, talent pool, and lower cost structure. This chapter compares their strengths, challenges, and growth potential based on the authors’ own hands-on experience of doing outsourcing in these countries for the past 15 years.

INTRODUCTION

With the rise of globalization, the world has witnessed a spectacular growth in offshore outsourcing. The offshore information technology

outsourcing (ITO) market continues to grow at a remarkable rate. Worldwide offshore IT spending will reach U.S. \$29.4 billion in 2010.¹ Offshore business process outsourcing (BPO) is estimated to grow at a compound annual rate of 37%, amounting to U.S. \$55 billion by that time, according to a McKinsey study. This market is bound to increase exponentially. No industry or size of business is untouched by outsourcing anymore. The availability of low-cost communications and transportation, the commoditization of Industrial Era technologies, the availability of baseline education across emerging economies, and the easy access to global human resources have collectively enabled many businesses to successfully do the same job better somewhere else. Apart from major corporations, small and medium enterprises (SME) are realizing that the opportunities related to globalization are not limited to selling their goods in global markets, but also include tapping into global talent to enhance their competitiveness and profitability. The debate today is not about “Why and what to Outsource?” but “How and where to outsource? How to do it right the first time.” The remaining barriers to outsourcing emerge largely from companies’ own mind-sets, local regulations, and weaknesses of internal processes.

India and China are among the top players in the offshore outsourcing market. The two countries have taken very different trajectories as they evolve and mature in the offshore outsourcing arena. India took a more independent approach, encouraging local entrepreneurship and free enterprise. This constituted a bottom-up approach, a type of worker-driven revolution, in which people learned the IT skills and offered their services globally to improve their quality of life (Meredith, 2007). The development of this skill set created an opportunity that was further capitalized and accelerated by free enterprises. China, on the other hand, depended more on foreign direct investment (FDI) in economic development. Initially focusing more on export-

driven manufacturing and infrastructure, it is now moving forward to grow its services sector in a top-down driven way.

Although the theme of this chapter is new trends in global outsourcing, especially relating to India and China, this chapter does not make any predictions as to which country will overtake the other, but instead offers a high-level comparative assessment that is more focused on analyzing the on-going evolution of their offshore outsourcing services. The next section, Section 2 briefly introduces the new trends in global offshore outsourcing, followed by Section 3, which outlines the nature and competitive advantages of offshore outsourcing in India and China. Section 4 identifies the respective challenges of offshore outsourcing in India and China. In the final sections, we conclude by providing strategic and policy agenda for the governments and offshore enterprises, and offer our thoughts for future research directions.

NEW TRENDS IN GLOBAL OFFSHORE OUTSOURCING

Nearly one-fifth of all organizations are currently using offshore service providers (Computer Economics 2006). Here are some of the principal trends:

- **Growing importance of distributed IT outsourcing:** If a company knows how to manage a distributed workforce, has reliable network connectivity, and provides a good mobile phone to its people, then it should be able to do IT-based work at any place any time. In the long-term, IT outsourcing is going to go to homes. Future IT factory nodes will be the homes of the workers. Future competition is not going to come from a particular country, but from enterprises that have mastered the art of delivering through distributed IT. Efficient global project management skills among team leaders

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