

Comparative Study of the Differences on Service Outsourcing Industry between China and India

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Abstract

With the rapid development of global economy, the development level of the service outsourcing industry is becoming increasingly important in the world trade competition. This paper will compare the trade situation of China and India. Learning from India can improve the international competitiveness of China and achieve the economic transition and structural adjustment of China.

Keywords: Service Outsourcing, Comparative Study, Reference Significance

1.the comparative analysis between China and India service outsourcing industry development

The development of global service outsourcing industry is rapidly in recent years. Seen from the United States, Europe, Japan and other developed countries, the trend that companies will take the large scale of service outsourcing is irreversible, and developed countries will transfer more business to lower-cost and higher-competitiveness countries. A new round of world industrial structure adjustment characterized by the transformation of services trade, service outsourcing and high-end manufacturing is on the rise, and a good development

situation will bring new opportunities for our service outsourcing which faced with international market. As a sign of global service outsourcing industry, India has leading the trend of global industry since the nineties of last century, especially its software outsourcing industry, which increased from less than \$10 million in 1981 to \$73.9 billion in 2010. And India is known as the “world office”. At present, our development of service outsourcing has many advantages and important opportunities. As long as we make full use of these advantages and seize these opportunities in international market to develop our service outsourcing industry, it will be much possible for us to become the center of global service outsourcing.

1.1the overall development quality level of service outsourcing industry of China and India

Table 1-1 overall development of service outsourcing in India

	2004	2005	2006	2007
IT services	13.8	13.7	25.0	34
The domestic market	10.4	14.6	19.6	26.4
Foreign markets	3.4	4.1	5.4	7.6
Engineering services	2.9	3.8	5.3	6.5
The domestic market	2.5	3.1	4.0	4.9
Foreign markets	0.4	0.7	1.3	1.6
Software and services output	16.7	22.5	30.3	40.5
Export output value	12.9	17.7	23.6	31.3

(sources: IDC)

From table 1-1,the software and services industry of India increased by 136%,and the average annual growth rate of IT service,ITES-BPO and the three types of engineering services, R&D, software products business is 31.23%,42.12% and 30.15%.And the ITES-BPO grows fastest.According to the statistics of Anyong,the scale of business process outsourcing in India will reach more than \$600 billion in 2012,and the compound average growth rate will reach 38%.

India has an early beginning in taking global service outsourcing,and with the efforts of the government,India has a leader position in the world.For example, In India,the major service outsourcing industry companies is in the first class in aspects like application management and support , quality assurance , packaged software implementation , voice and non-voice business process outsourcing,and the development is improved as well as the IT consulting and knowledge process outsourcing .But in China,except for the quality assurance,every aspect is far behind India.India's capacity of service outsourcing industry is accounted for about half of its GDP under its service-

oriented industrial development model,while China takes manufacturing as the main body in our country, the proportion of service industry is low, and failed to promote the development of service outsourcing industry development process.This shows that China did not take full advantage of the development of manufacturing services to drive synchronous or faster growth , failed to play a greater endogenous growth potential.

1.2 policy changes of service outsourcing industry in China and India

India formulated the " computer software exports , software development and training policy" when the Gandhi governed,and since the government published it in 1986 and vigorously promote the development of software industry policy,many measures had been taken such as relax license,tax-free.By 1990,the Singh government allowed the export enterprises to keep 50% of export earnings,and 100% export of software products is exempt from sales tax,which eliminated the double taxation of software export.In 1991,India take further steps to reduce the tax.The pointed software companies shall be exempted from income tax before 2010, the imported software which are used for research are zero-tax,and the imported equipment's tax was reduced at the same time. Also in 1991 , the Indian government put forward the " Software Technology Parks (STP) scheme " and set up 13 national software parks in Bangalore , New Delhi and other places,which promoted the development of software industry.In 2000,India built the software park in the U.S. Silicon Valley for the convenience of the export in minor enterprises.

But the related policy was relatively late in China. In June 2000, the State Council issued "to encourage the development of the software industry and integrated circuit industries a number of policy" (Document No. 18). In this paper, the Chinese government would provide related supporting policy in aspects such as taxation, investment and financing, technology, and so on. Because of the good environment provided for the software industry, our capacity would reach the international advanced level. In September 2002, the State Council forwarded the "revitalization of the software industry, the Platform for Action (2002-2005)" (Document No. 47), which used to promote security policies in the 18th file. It should be said that in recent years, our policies improved a lot, which greatly improved the development of Chinese service outsourcing. However, our policies were published behind India for 10 years, which caused the situation that we cannot keep up with India in service outsourcing. In recent years, our country has been published a lot of policies to encourage service outsourcing industry, and in the national "eleventh five-year plan outline" clearly put forward that the construction of a number of service outsourcing base, in order to undertake international services transfer. "The several opinions on accelerating the development of service industry under the state council" (guo fa [2007] no. 7) put forward that we should concentrate on developing the service outsourcing, take advantage of our human resources, and actively undertake international service outsourcing business in data processing, information management, technology research and development, financial accounting, industrial design, etc.

1.3 the offshore outsourcing customers of China and India

For Indian companies, one of the fastest growing new areas is the engineering services outsourcing. According to the survey taken by the credit rating agency Standard & Poor's Indian subsidiary branch Crisil Research, by March 2013, the total sales of engineering services outsourcing will increase from \$2008 in 2.4 billion to \$7.5 billion, representing a CAGR of 26%, which shows that India's share of the business will increase from the current 19% to 25%. Report said: "India's engineering services outsourcing industry will develop based on the current product portfolio, but it will eventually become the global center of design services." Satyam's automotive and aerospace center may be one of the most ambitious attempts India made to occupy the engineering services outsourcing market. Therefore, according to the industry distribution, service outsourcing is mainly concentrated in the service sector, especially the productive service industry, the proportion of manufacturing industry is relatively small.

In China, outsourcing providers will mainly locate in China, Japan, South Korea and the United States. Chinese service outsourcing uses its geographic advantage and the rich resources in East China and North China, training a large number of outsourcing talents, which cause a large part in service outsourcing of Japan and Korea. While China is undertaking a major information technology outsourcing, and software outsourcing is the most important, accounting for more than 50% in the Chinese service outsourcing market. Financial industry IT consulting market size increased remarkably, reached \$ 5.747 billion in 2011. At present, information technology, finance, telecommunications, and discrete

manufacturing software and information service outsourcing has the most acceptance. In 2008, the outsourcing which came from the financial and manufacturing has declined, but the telecommunications industry raised fast. Government and public utilities started to become a new growth point. Domestic banking, finance, telecommunications, energy, enterprise IT services market is gradually improving, and logistics, government, finance, education, human resources and other markets have not really formed.

From table 1-2, India's main target is the United States, followed by the UK, Germany, Japan and other countries. Because of its high degree of penetration in English and historical colonial reasons, the owners want to focus on outsourcing among English-speaking countries, as the main software outsourcing industry chain.

In summary, India's economic growth pattern is very different from China, and is actually unique in many ways, for its based on service industry. And Savings and investment in infrastructure are much lower than China, as well as

Table1-2 offshore service outsourcing market

year	2003	2004	2005	2006
Offshore outsourcing (Billions of dollars)	--	12.9	17.7	23.6
The proportion (%)	69.1	69.4	68.3	67.2
The European proportion (%)	22.2	22.6	23.1	25.1
Other countries share (%)	8.7	8.0	8.6	7.7

in India

Source: collating the data from the ASSCOM

industrialization has hardly begun. Therefore, in the highly competitive international market, India's outsourcing services is ahead of China in the whole level and development speed, which owed by its whole development in service trade, early beginning, government policies, language environment and accumulated custom resources. Therefore, as the major developing countries in Asia, China will learn from India. The development of service outsourcing will continue to draw valuable lessons from India, and the development speed if outsourcing would be more quick to improve the trade and give more power to Chinese economy.

2.the referential significance to China

2.1large tax preferential policies

In a certain time, we should implement a special preferential tax policies to our international service outsourcing enterprises, including tax exemption on new enterprises which undertake international service outsourcing business, reduce sales tax on international service outsourcing enterprises, and deduction of research pay. And we should reduce competitive pressure for a broader development to enterprises.

2.2Promotion of service trade and related industries

We should pay more attention to service industry, promote the development of producer services, and use technological advances to promote the transformation of consumer services to productive service industry. The existing enterprise services should continue to internalize external, and we should increase production service needs to improve the

competitiveness of China's service trade. Producer services development can not only promote the production of deep processing and technological progress , but also led industry interaction ,and it is conducive to the further development of China's service trade .

We should make plans to protect new services such as finance , insurance , telecommunications, in order to protect their healthy development. Relation to the national economy on the part of the implementation of new services, we should protect them. Because these will be good to Chinese development.

2.3 Undertake international service outsourcing business

China should take advantage of the timing of the international services sector to develop international service outsourcing , and improve the technological level, to enhance the international competitiveness of China's service industry and promote service trade development. With the development of information technology and the increasing number of information-related tradable services, service outsourcing has become the core of world trade in services industry. However, compared with the manufacturing , service industries can not be achieved when outsourcing product technology , information management completely confidential and, therefore, compared to outsource manufacturing , services outsourcing technology diffusion effect greater outsourcing outsourcing undertaking party which is also easier to improve their skills , improve enterprise management. In recent years , India's outsourcing service outsourcing enterprises to learn from the developed countries , and constantly improve their technology and management , and further enhance international competitiveness.

Therefore, in the service outsourcing business, China should learn from the experience of India that through the vigorous international service outsourcing to improve the overall technological level of China's service trade ,and management ability . Compared with India, China has no advantage in undertaking international service outsourcing of English-speaking countries. Therefore, when choosing the party, the Chinese can be more with Japan and South Korea and other countries, relying on geographical advantages in northeast and east, language advantages and local resources, and through the establishment of service outsourcing industry park , vigorously undertake Japan, Korea and other countries outsourcing to accelerate the development of China's service outsourcing. So we can promote the overall development of China's service industry.

3. Conclusion

From the comparison of the development of service outsourcing in India and China, we found that the development of service outsourcing in China has its own advantages , but there are also shortcomings. Consolidated our strengths and weaknesses , along with the experience we learned from India, we should pay attention to the following points: First, focus on training integrated talent ; second , create a favorable policy environment , the Chinese government can learn from some of the successful practices of the Government of India , promoting the development of service outsourcing , protecting intellectual property , and establishing high-tech parks and other aspects of the introduction of preferential policies and improve relevant laws and regulations ; third is to encourage business research and development and innovation, especially to improve the quality of

China's software products to attract more many foreign outsourcers ; Fourth, to actively explore the international market , in the development of domestic outsourcing market and the outsourcing market , we should develop Japan and South Korea market, but also actively developing markets in Europe at the same time to achieve market diversification.

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