- China Update -

&

Technology Outsourcing

By
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C.E.O. - I.T. UNITED

Boston November 10, 2004
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Q&A
1. Global Trends
Outsourcing Takes Off in U.S. & EU

• More than 90% of all US-based organizations outsource 1 or more activities

• US+EU-based companies to dramatically increase offshore outsourcing spending

• Appearance of offshore purchasing requirements in corporate bidding process

Source: various
Who Outsources?

• Historically MNCs have been the primary users of outsourcing strategies

• Recently heavily used by SMEs, discovering competitive value of outsourcing, across industry sectors
Off-shoring is evolving through waves of value creation

- **Cost Wave**
  - "cheap labor" (low cost without quality)

- **Quality Wave**
  - "quality process" (quality process at low cost)

- **Efficiency Wave**
  - "standardized infrastructure" (world class capability at least cost)

Source: Bain & Company, 2004
Where to Outsource?
“… Country Before Company is our motto.”

Source: Gartner Research
The Offshore Outsourcing Model

Constraints on Growth

• Nearly 1/3 of Fortune 500 already use India-based outsourcing tech firms

• India: estimated 110k computer science graduates per year
  » Many leave to work / study abroad
  » Rising concerns over increasing India-based high turnover issues

• Outsourcing costs poised to rise by up to 25%, worldwide due to short supply and increased demand for skilled IS prof.
  » [...by end of 2004...]
2.
China Focus
If you’re not in China… you’re really not in the game™.
Tomorrow’s Powerhouse

• China’s domestic market .. presents splendid opportunities and risks for enterprises bold enough to tackle this complex and difficult to understand emerging powerhouse.

• Many enterprises will be entering China for the first time, in an attempt to open-up new markets for their products, and will require significant resources for software development projects.
## FDI Flows, China Focus

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<tr>
<td><strong>China</strong></td>
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<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Inward</td>
<td>11,690</td>
<td>43,751</td>
<td>40,319</td>
<td>40,772</td>
<td>46,846</td>
<td>52,700</td>
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<td>Outward</td>
<td>1,591</td>
<td>2,634</td>
<td>1,775</td>
<td>916</td>
<td>6,884</td>
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<td>Singapore</td>
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<td>Inward</td>
<td>4,504</td>
<td>7,594</td>
<td>13,245</td>
<td>12,464</td>
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<td>Outward</td>
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<td>380</td>
<td>5,397</td>
<td>6,061</td>
<td>9,548</td>
<td>4,082</td>
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<td>Inward</td>
<td>44,434</td>
<td>174,434</td>
<td>283,376</td>
<td>314,007</td>
<td>143,978</td>
<td>30,030</td>
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<td>Outward</td>
<td>42,571</td>
<td>131,004</td>
<td>209,391</td>
<td>142,626</td>
<td>103,764</td>
<td>119,741</td>
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<td>South, East and South-East Asia</td>
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<td>Inward</td>
<td>30,108</td>
<td>90,093</td>
<td>105,313</td>
<td>138,698</td>
<td>97,604</td>
<td>88,613</td>
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<td>Outward</td>
<td>16,501</td>
<td>29,852</td>
<td>37,087</td>
<td>80,614</td>
<td>36,907</td>
<td>34,225</td>
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<td>Developing countries</td>
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<td>Inward</td>
<td>50,052</td>
<td>191,284</td>
<td>229,295</td>
<td>246,057</td>
<td>209,431</td>
<td>162,145</td>
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<td>Outward</td>
<td>21,517</td>
<td>49,837</td>
<td>72,786</td>
<td>99,052</td>
<td>47,382</td>
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<td>World</td>
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<tr>
<td>Inward</td>
<td>180,901</td>
<td>686,028</td>
<td>1,079,083</td>
<td>1,392,957</td>
<td>823,825</td>
<td>651,188</td>
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<tr>
<td>Outward</td>
<td>203,414</td>
<td>683,211</td>
<td>1,096,554</td>
<td>1,200,783</td>
<td>711,445</td>
<td>647,363</td>
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Source: UNCTAD, World Investment Report 2003
China Basics

- Slightly larger than the USA
  - Total area: 9,596,960
- Market of 1.3 Billion people
- 80+% literacy
- Government focus on widespread English language development
2003 Economic Performance

- Despite SARS, GDP grew by 9.1%
- Fixed asset investment up by 23%
- Private investment up by 18%
- FDI down by 6% reaching $50 billion
- Retail sales grew by 8%
## London-based Forecasts

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<th></th>
<th>2004</th>
<th>2005</th>
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<th>2009-2013</th>
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<td><strong>C H I N A</strong></td>
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<tr>
<td>GDP (%)</td>
<td>8.1</td>
<td>7.6</td>
<td>7.6</td>
<td>8.0</td>
<td>8.0</td>
<td>7.6</td>
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<tr>
<td>CPI (%)</td>
<td>1.9</td>
<td>1.7</td>
<td>2.1</td>
<td>2.7</td>
<td>2.7</td>
<td>2.3</td>
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<td>Current</td>
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<td>Account</td>
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<tr>
<td>Balance ($b)</td>
<td>15.6</td>
<td>9.9</td>
<td>14.5</td>
<td>10.0</td>
<td>7.5</td>
<td>16.0</td>
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</table>
2020 Economic Targets

• GDP quadruples reaching $4 trillion

• $3,000 per capita GDP, up from $1,000

• 7.2% annual GDP growth
Survey: Reasons to be in China

• Potential market (33%)
• Company's global strategy (27%)
• Dominant market position (18%)
• Service multinational clients (11%)
• Low cost of operations (8%)
China: Maturing Marketplace

From Manufacturing
- Cheap labor
- Low skill sets
- Factory workers

To Services
- High value
- High-end skill sets
- Engineer & services

Keep in House

Outsource Gradually

Business Knowledge

Technical Knowledge
China Internet Snapshot, June-04

• June-2004: 87mil Internet users
  – (31mil broad-band users)

• Only 6.7% of China’s total population

• 11% of the world total Internet users

• Currently 2\textsuperscript{nd} largest user group in the World after the US
Decade of unprecedented growth in telecom infrastructure

Source: MII, Aug 2004

Forecasts – MII  * Fixed includes PHS/Xiaolingtong subscribers.
China’s Telecom Regulation Evolution

... 1993 ... 1994 ... 1998 ... 2000 ... 2001 ... WTO ... 2002...

High regulated stage

Introducing domestic Competition

Reform and Restructuring

Deregulated and open Competition

Phase I
Phase II
Phase III
Phase IV

“Phase 4” - upcoming opening for Foreign operators

Source: France Telecom, R&D, 01-2004
3. China Outsourcing Status
China.
Your Essential Shore™
The Offshore Outsourcing Model

China Rising

• Annual software graduates output:
  – About 40k to 50k per year until 2001; 70k in 2002
  – **140k in 2003** (Source: China Ministry of Science & Technology, 06-2004)

• Exploding English language command

• Rapidly growing “world-class” infrastructure & telecommunications

• Recognition of qualified providers (WTO)

• Highest acceptance rate of the Internet
The Offshore Outsourcing Model

China Rising

- By 2007, Chinese to be #1 Internet language
- 2010 projections: China to have largest...
  - Cell phone market
  - Internet user base
  - Beer market
  - Worldwide I.T. market
  - Advertisement
  - Automotive car park
  - Commercial Aviation
  - Chemicals, ..., ...
Outsourcing Increasing Rapidly

India
Offshore software dev. exports
CAGR (01-06E)
$28B
2001
$6B
2006E
$30B

China
Offshore software dev. exports
CAGR (01-06E)
$28B
2001
$1B
2006E
$30B

Russia
Offshore software dev. exports
CAGR (01-06E)
$2B
2001
$0.2B
2006E
$1.5B

Software Development

India: 35%
China: 100%
Russia: 50%

Source: Gartner
## Battle of the Titans: CHINA vs. INDIA

<table>
<thead>
<tr>
<th>Category</th>
<th>CHINA</th>
<th>INDIA</th>
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</thead>
<tbody>
<tr>
<td>Population</td>
<td>1.3bil</td>
<td>1.07bil</td>
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<tr>
<td>Literacy rate</td>
<td>81.5%</td>
<td>52%</td>
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<tr>
<td>Foreign exchange reserves</td>
<td>$412bil</td>
<td>$102bil</td>
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<tr>
<td>GDP</td>
<td>$1,412bil</td>
<td>$552bil</td>
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<tr>
<td>I.T. spending as % of GDP (2001)</td>
<td>1.1%</td>
<td>1.68%</td>
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<tr>
<td>Software exports</td>
<td>$2bil</td>
<td>$9.7bil</td>
</tr>
<tr>
<td>Internet bandwidth</td>
<td>54Gbps</td>
<td>3Gbps</td>
</tr>
<tr>
<td>Installed PC base</td>
<td>40mil</td>
<td>8mil</td>
</tr>
<tr>
<td>Fixed phone lines</td>
<td>299mil</td>
<td>43.45mil</td>
</tr>
<tr>
<td>Mobile connections</td>
<td>310mil</td>
<td>39.45mil</td>
</tr>
<tr>
<td>Number of software companies</td>
<td>9,000+</td>
<td>3,000+</td>
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<tr>
<td>Domestic software sales</td>
<td>$17.3bil</td>
<td>$3bil</td>
</tr>
<tr>
<td>Hourly rate for developer (2yrs)</td>
<td>$12-25</td>
<td>$24</td>
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</table>

The Key to Succeeding in China?

• Develop a vision of the future, beyond the next shareholder meeting… !!

• Establish the right partnerships from the beginning

• Commit for the long haul

• Have patience, with focus
I.T. UNITED Overview

- Western managed, China-based (WOFE)
- In China since 1998
- Partner to key players, Intn’l & Chinese
- Solid technical & creative competencies
- Provides total solutions to business needs
- Forefront of China-based tech outsourcing business model

www.ituc.com
Products & Services Channels

- Business applications
- Interactive marketing
- Corporate communications
- Systems infrastructure
- Business process services
Beijing Headquarters Location
Clients References Snapshot
In Short

• Proven track record in delivering highest quality products & services to MNCs & SMEs

• Positioned as trusted outsourcing partner to international enterprises

• Business model geared to add value and leverage the Global marketplace

• Offers solutions with rapid deployment and cost-effective turnaround
I.T. UNITED

- Q & A -

I.T. UNITED®
Success through Partnership...
If you’re not in China…
you’re really
not in the game™