

**On the occasion of Hon'ble Prime Minister of India CII presents Survey
Number 1 on "China's Information Technology Market"**

China has vigorously created IT clusters in terms of special economic zones that are located in 14 major coastal cities, including Shenzhen, Shanton, Zhuhai, Lيامen and Haimen. Similarly, there are many development zones and designated inland cities, along with several free ports and bonded zones, in cities such as Dalian, Tianjin, Shanghai and Guangzhou.

Foreign companies are allowed to set up independent and wholly-owned subsidiaries/operations in these specified zones, and a foreign company does not need to have a joint venture to enter China. Foreign investment policies have also significantly liberalized over the years and foreign investors are now allowed to manufacture and sell in the domestic market.

Incentives for investment include significant reduction in national and local taxes, land rentals and import and export duties. The clearance processes of government departments such as customs are streamlined and generally efficient.

In terms of business opportunities for Indian companies, China offers four major options of revenue streams to Indian software firms:

- **Outsourcing:** Offering services to Multinational Companies (MNCs) operating in China
- **Expansion:** Developing an alternate software development base in China
- **Domestic Market:** Exploiting China's domestic market
- **Enhancing Market Access:** Using China as a route to enter Japan and Korea.

China's market is becoming a strong "magnet", with investment flowing in from the world's biggest players.

- Intel proposes to spend US\$100 million on a micro-processor assembly plant in Shanghai.
- IBM is also planning to invest \$300 million in the same area. Dell has moved its PC making facility from Malaysia to China.
- Microsoft plans to invest \$750 million in China, covering areas such as software, research, training and hardware. There are obvious linkages for Indian companies to establish connections with these multinationals.

Domestic Market *The local China market itself is seen as a huge business opportunity, particularly in terms of embedded software, because of China's predominance in hardware. According to industry experts, China also provides a good market for mid-range software service providers, especially in banking, telecom and retail sectors. Computer penetration alone in China - where, it should never be forgotten, the population well exceeds 1 billion - is 13.2 per 1,000, against 6.2 for every 1,000 persons in India.*

Experts say that the China software market can be divided into two parts: One is the high-end market, which is primarily dominated by multinational consulting firms such as IBM Global Services, and the other is a low-end market of systems integration and small software applications, catered to by local Chinese companies.

- There is a huge gap between the two segments where Indian companies can position themselves. Indian companies can target mid-size companies looking for reliable enterprise-wide applications and services at a cheaper rate compared to multinational consulting firms.
- Chinese firms are mostly engaged in systems integration work for government-owned enterprises, while a few firms have developed small business applications of accounting and billing processes. The report also stresses that as the China market has been hardware driven so far, there has not been much development in the software sector.
- Further, local software companies are able to meet only 50 percent of

domestic software requirements, so there is a long way to go just to fill this gap. Most of the Chinese software companies are located in Beijing, Shanghai, Shenzhen and Shenyang.

- The standard application software market is more competitive in China. A number of new software products were launched in 2002 in the areas of management, security and education. Chinese office software packages such as Kingsoft, WPS office, Redflag 2000 and Red Office compete with Microsoft's office programs.

Chinese software majors include Kingdee Software, China Software and Services (CS&S), Legend Holdings, Yunnan Nantian Electronics Information Co Ltd, Neu-Alpine, Vanda Systems and Communications Holdings, IceChina Tech, Netec Co, Emerging IT Group, Keyou Software and NeuSoft. Dalian is fast emerging as the hub of software development, where the government is aggressively trying to attract investment for offshore development centers, especially from Japan and Korea.

Indian Information Technology Companies in China In January, during Chinese premier Zhu Rongji's visit to Bangalore, India's "Silicon Valley", he fielded an informal request from Indian software giant Infosys Technologies chairman NR Narayana Murthy on setting up shop in Shanghai, "I am giving approval right here." Such is the keenness on the part of the Chinese to expand their IT industry. And they have worked hard to reduce red tape and to make doing business in China as smooth as possible, and with maximum incentives.

Incentives for investment in IT include

- significant reductions in national and local income taxes, land rentals, and import and export duties and priority treatment in obtaining basic infrastructure facilities.
- Tax holidays can run from one to three years, with 15 percent tax for the next two to three years. The standard corporate tax is 33 percent.
- Other benefits include
 - ❖ no restriction of sales into the domestic market or for exports from

- zones;
- ❖ power subsidies;
- ❖ employee compensation and training expenses to be tax deductible;
- ❖ preferential credit rates, export credit insurance and exports rights for companies with at least \$1 million in software exports;
- ❖ autonomy for software companies to decide employee salaries and grant stock options.

Potential Market for Indian Information Technology Companies Areas that have been identified with potential for Indian software companies include education software/training, which currently accounts for 10-15 percent of total software sales and nearly half of all software sales in the major urban centers, such as Beijing and Guangzhou. Other areas:

- Integrated circuit manufacture and research in embedded software
- Enterprise resource planning (ERP) software
- Traditional industrial firms
- Financial institutions
- E-commerce application software, especially in business centers such as Shanghai
- Electronic payment, online shopping, B2B applications, security tools
- Opportunities likely to arise from Beijing's hosting of the 2008 Olympic Games.

Further, the small and medium enterprise sector has potential. SMEs account for 30 percent of the total IT market in China, with IT products and application consumption in SMEs expected to touch \$12 billion in 2003 (up 23 percent from 2001), and \$27 billion in 2006.

Indian Information Technology Companies Experiences One of India's largest software exporters, and Tata group software supplier and consultancy, Tata Consultancy Services (TCS), has made its entry into the Chinese market by setting up a subsidiary: Tata Information Technology (Shanghai) Company.

TCS's entry into China is three-pronged - headquartered in Shanghai, an office in Beijing and a development center in Hangzhou. The Shanghai office contains the development and demonstration lab and will collaborate with local universities of repute in research and development. The Beijing office will undertake marketing activities for the company's China operations and will cover areas in client relationship management, public relations and legal areas, in addition to providing support to the northeast and northwest regions. The Hangzhou center will provide end-to-end services for clients in the Asia-Pacific region, in coordination with TCS delivery centers in India.

Infosys Technologies plans to take a two-pronged approach to China, which the company views through the marketing perspective, while also having designs on setting up a development center.

Satyam and NIIT, too, are eyeing China as a hub for the Southeast Asian region. Satyam Computer has a small sales office in Shanghai, which the company plans to expand soon, while IT education major NIIT, Aptech has also set up a software training center in China.

But Indian software majors took some time to realize that they can't fight shy of China forever, they now feel the Chinese market should be invaded rather than ignored. And now that they have shed their fears and inhibitions, China has taken a prominent place in their future global plans. The opportunities are immense. But they need to be capitalized from different directions and diverse approaches. China can certainly be an ally to help India realize its dream of becoming an IT superpower."

Source: Indian IT Companies based in China and various websites