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Can Xi'an Become the New Silicon Valley?

At the end of October, I was lucky enough to embark on a short, but enthralling trip to the Shaanxi Province in China, where capital City Xi'an, already famous as the home to the Terracotta Army was setting out its stall to rediscover its former glory – as China's service outsourcing capital. Sure, it was yet another bustling Chinese software and sourcing summit, but this time around, it felt somewhat different!

I have been to China a few times before, but not in the last five years. As such, I knew roughly what to expect, but was intrigued to see how much the country had moved on. The turning of an oil tanker is a phrase that springs to mind. Whether it is down to the fact that I was visiting a new and more advanced province, or whether the development is relevant to China as a whole, I don't know, but from my perspective, it seemed the giant had taken some massive strides.

All the signage wherever I went – airports, roads, hotels, shopping districts, foodhalls – was in both English and Mandarin. This certainly was not the case last visit and gave a feeling of calm and certainty this time around. The spoken English seemed significantly improved too. Previous Summits attended (including some held in the UK) had required me to sit through numerous speeches delivered in shouted Mandarin – this time most of the speakers presented in English and those that didn't were supported by an excellent bi-lingual translation infrastructure and team.

Admittedly both the roads and the drivers were chaotic, but the hotels were luxurious, the Underground easy to navigate and advanced technology and lighting was ubiquitous throughout. All this points towards a country that would be pleasurable to do business with, but what's really happening in outsourcing in China? I gleaned the following summary from various conversations and presentations.

A number of market share figures were cited, including China having a 23 percent global share of the software and service outsourcing industry, which marks a six percent growth on the previous year. This makes China's share nearly four times that of India – which has six percent global market share.

It must be noted however, that China is much more domestic market focused than India, which remains more export oriented. India has more large scale enterprises than China.

China certainly has the opportunity to be the next great global delivery destination. Its key assets include:

- Great domestic base to date and room for growth and innovation
- The Chinese Government is a significant buyer
- Great service providers with potential to acquire (VanceInfo and hiSoft merged)
- Great talent and a huge skills pool
- The Chinese Government has already helped in skills and industry growth, and will continue to. New policies are likely to enhance China's delivery capabilities, so its service industry can go global

Service outsourcing may have belonged to India historically. This is changing, but China has a lot of work to still do on overcoming its constraining factors:

- Labour arbitrage is not unique, so China needs real differentiators
- China needs to learn from India's shortcomings and develop its own eco-system – it must innovate in the domestic market and create its own version of Google or Microsoft. Being a service provider is only so good – until the next destination takes trump. When global enterprises leave a location, they tend to take everything with them.
- In its development of software and service outsourcing, China still needs to focus more on security and protection. i.e. IP

There are national policies supporting growth in this area and there is Central Government focus on expanding the service outsourcing industry, however this new generation of IT industry needs more focus on innovation

Although its skills pool is huge and talent high, there is a lack of middle management to support outsourced services. Tackling the skills requirement here is critical

If China successfully addresses these issues it will easily break India's growth rate (India went from 1-19percent of global market share in 10 years). This is a horse I'm backing – anyone know a Mandarin speaking nanny for my kids?

Our drinks in a cafe: proof indeed that China needs to work on IP!