

**Eye on IT****China: Friend or Foe to Your Data Center?****By Karen Riccio**

As I sit down to write this column, I have mixed emotions about the subject: outsourcing those nickel-and-dime IT operations for fractions of pennies in India—and now China.

On one hand, outsourcing some of the more menial, generic tasks can help you meet budget and save your company a good chunk of money. On the other hand, employing foreign workers at the expense of Americans doesn't sit well with me either. And, for IT managers, it means relinquishing that much more control and face-to-face contact at a time when communication is more crucial than ever.

The truth is, whether you or I like it, outsourcing is a fact of IT life, and so is India and China's involvement. Made popular by none other than the very red-white-and-blue Ross Perot when he founded Electronic Data Systems (EDS) in 1962, I'm not so sure this is what the Texan and once presidential candidate had in mind.

Outsourcing to the East may be miles from your mind too, but more and more of your peers are putting it on the forefront of theirs.

India has been on the IT outsourcing map for some time, with companies all over the globe sending as much as \$5 billion in work to Indian outsourcing service providers.

But, the current new kid on the outsourcing block, China, is doing all it can to give India a run for our money. Certain new developments now make it possible for Westerners to send their IT work to China, a near impossibility before.

Microsoft helped China's case by building its Windows XP architecture around Unicode, which can easily communicate with both single and double byte systems. Western computers use a single byte language capable of 256 different combinations. However, that number is not large enough to accommodate Asian languages. So Asian computers use double byte language for the possible 65,535 combinations. The Internet has had a tremendous impact as well.

Unlike India's leading IT outsourcing firms such as Infosys and Satyam, which fundamentally grew their businesses the grassroots way and became powerhouses in the IT outsourcing world, the Chinese are willing to acquire well-known brands to grow and expand.

Despite its communist political regime, many state-owned enterprises (SOEs) operate like "super-capitalists" to encourage flexible and government-supported business (regulatory and financial). The purchase of IBM's PC division from Lenovo is a good example. Another one outside the IT world is China-based TCL, the largest TV manufacturer in the world. It obtained majority control of Thomson's television business, which also owns the RCA trademark.

It's just a matter of time before a major Chinese IT services provider conducts a joint venture or outright acquisition to become one of the well-known names in the IT outsourcing world.

China also has a fast-growing IT talent pool. There are about two million software developers in China and 5.9 million engineering graduates. On top of that, many China-born, U.S.-educated businesspeople and IT executives, known as "Sea Turtles" or "Hai-Gui," are going back to China to start their "China Dream." These savvy executives are importing

the knowledge and experiences they snatched from the best universities and companies in America and reaping the rewards in their homeland.

One of the best-known Sea Turtles is Charles Zhang, Ph.D., founder of Chinese Internet Portal Sohu.com. Zhang, a 1994 physics graduate from the Massachusetts Institute of Technology, got in on the ground floor of the Internet market in China. He started the company in 1996 as a copycat of Yahoo with personal savings and a loan of \$225,000.

Peggy Yu, another Sea Turtle, came back to China in 1998 after 11 years in the U.S. to start DangDang.com (the Amazon.com of China), and she now heads up a successful online bookstore in China.

Even as the new kid, China's growth in the IT services industry is projected to reach \$8.9 billion in 2006, growing at an annual clip of 42% since 1997.

Bottom line is that if the Chinese reel in that much money providing IT services, you could probably save a few Yuan doing business with them in some way, shape or form.

Don't misinterpret my message now. I am in no way advocating that you jump on the bandwagon, but at some point, don't be surprised to find yourself saying, "If I can't beat 'em, I might as well join 'em!"

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