Introduction and Development Strength of
Shenzhen Service Outsourcing Industry

I. Profile of Shenzhen

Shenzhen, strategically located on the south-central coast of Guangdong Province, is China’s first Special Economic Zone. Separated from Hong Kong by a narrow river, the city is referred to as “the Back Garden of Hong Kong”. It covers 1,953 sq/km and boasts a population of more than 8.6 million. Shenzhen is accessible by the largest number of international ports in China, and is also the only city with land, sea and air links all backed by a soundly advancing economy and modern urban infrastructure. In 2008, the city won first place in the Overall Competitiveness rankings of all cities the Chinese Mainland and came fourth in economic aggregate among the countries’ large- and medium-sized cities, considered one of several Mainland cities with the best economic benefits. Moreover, Shenzhen was also recognized as “the Best City for MNC Investment” by the first International CEO Roundtable Conference.

II. Status Quo of service outsourcing in Shenzhen

By the end of 2008, Shenzhen was host to 180 offshore service outsourcing enterprises whose services involved 15 countries and regions, primarily North America, Europe, Hong Kong and Japan. In 2008, the outsourcing contract value in Shenzhen topped US $480 million and outsourcing exports amounted to US $310 million. It is estimated that in the next five years Shenzhen’s service outsourcing sector will grow by more than 35% annually.

Shenzhen’s service outsourcing business includes many industries, such as software and IT services, finance, telecommunications, logistics, industrial design, IC design and animation design. Among all the outsourcing enterprises in Shenzhen, a third have agencies overseas, mainly in Japan, North America, Europe, India, Hong Kong, Taiwan and Southeast Asia (Singapore, Indonesia, etc).

III. Shenzhen’s Advantages for service outsourcing development

1) Neighboring Hong Kong and Macao – unique location

Shenzhen and Hong Kong have been working closely to explore outsourcing markets and are eying a prosperous future. Taking software outsourcing as an example, enterprises in Shenzhen enjoy extensive cooperation with counterparts in Hong Kong. More than 200 of roughly 700 Hong Kong software enterprises have branches in Shenzhen, forming a unique mode of “store in front and factory at back” operations. Hong Kong collects orders from international markets and Shenzhen performs subsequent development. On the other side of the coin, many Shenzhen software enterprises have entered the Hong Kong market, providing services such as software development, IT technology services and business process services. From Hong Kong,
they have even managed to expand into foreign markets.

II) Great strength in service outsourcing business

Many Top 500 multinational corporations, including IBM, Microsoft, Oracle, Wal-Mart, Flextronics, Lufthansa, UBS and Maersk, have established outsourcing service centers in Shenzhen. Fifty-nine enterprises in the city have earned CMM/CMMI ratings, seven of which achieved Level 5, four Level 4 and thirty-seven Level 3, underlining Shenzhen’s strength in international service outsourcing business.

III) Solid foundation to develop service outsourcing industry

Known as the most dynamic city open to international business, Shenzhen’s export volume is larger than any other city in China with the number of foreign-invested companies comparable to that in China’s biggest cities. Currently, 166 of the Top 500 global firms hold stakes in Shenzhen. A solid manufacturing foundation, well-developed export-oriented industries (electronic information, high-tech industry, modern logistics and financing) and especially its highly advanced software industry all make Shenzhen a software and IT outsourcing business powerhouse.

Shenzhen service outsourcing industry boasts particular advantages in the following fields:

1. Software (IC design) and information technology outsourcing. According to statistics from the Shenzhen Software Industry Association, more than 1,500 certified software enterprises were based in Shenzhen in 2008, 117 with output exceeding RMB 100 million yuan. The software industry’s gross output in 2008 reached RMB 231.7 billion yuan, up 42 percent year on year. As a pillar industry, the software sector contributed 11% to the city’s GDP. Shenzhen’s software industry has now become globally renowned for its independent innovation, especially competitiveness in high-end sectors.

2. For IC design outsourcing, Shenzhen ranks top in China. By 2008 it was home to 130 IC design companies with more than 5,000 employees, among whom more than 3,000 are professional IC designers. In 2008 the gross output of the Shenzhen IC design industry broke through RMB 2.5 billion yuan, accounting for 23% of the national total and making it the top ranking for the third consecutive year.

3. Industrial design and animation design are also national leaders. More than 300 industrial design enterprises are active in Shenzhen, with as many as 100,000 employees. The industry’s annual output exceeds RMB 12 billion yuan. Almost 60% of China’s industrial design talent is based in Shenzhen.

In terms of animation design, Shenzhen is a state-ratified industrial base for the animation industry and has three animation bases (animation cities) at present. There were 337 enterprises and about 10,000 people working on animation and games in 2007, producing original works for films, TV shows and cartoons, making it the country’s 8th biggest national animation base. In November 2008, Shenzhen was officially approved by UNESCO to join the Creative Cities Network and was awarded the title of “City of Design”.

4. Financial service outsourcing has an extensive future in Shenzhen. Its finance
industry and financial ecological environment boasts rich experiences in financial business innovation. Having built a sound financial institutional system, by the end of June 2008, 183 financial institutes and 70 corporate bodies were located in the city, with total financial assets topping RMB 3.16 trillion yuan. Shenzhen also enjoys other favorable conditions, including well-developed financial businesses, advanced infrastructure construction and close proximity to Hong Kong, where numerous international financial institutes have clustered. With a great amount of IT talent and Cantonese-speaking employees, Shenzhen has become the main access point of clearing systems and clearance of HK dollars, US dollars and RMB to the Mainland, making the city well prepared for taking up international financial service outsourcing transfer business. At present, many banks, such as the Bank of China (Hong Kong), Standard Chartered Bank (HK) and Bank of Communications Hong Kong Branch, have set up data processing facilities and archive centers in Shenzhen.

5. Shenzhen’s service outsourcing is also taking a lead in logistics and supply chain management. Logistics is the city’s main pillar industry. Among the top 100 Chinese logistic and supply chain enterprises, 10 are from Shenzhen. Nearly 300 third-party logistics companies are located here, adding some RMB 73.452 billion yuan in industrial value in 2008 and accounting for 9.41% of the city’s total GDP.

6. Service outsourcing in R&D has great development potential. Shenzhen has formed a regional innovation system where manufacturing, study and R&D are closely knit. In 2008, RMB 34.05 billion yuan was invested in R&D, accounting for 4.36% of the city’s GDP. In the same year, 36,249 patent applications and 18,757 invention patents applications were delivered, ranking third and second among all the cities in China respectively; 2790 PCT patent applied, with a year-on-year increase of 24.84%, occupying 44.5% of the country’s total applications in that year and ranking the first in the country for five consecutive years. This reinforces Shenzhen’s capacity to take up R&D business from home and abroad.

Two service outsourcing demonstration regions, Shenzhen Software Park and Majialong Industrial Zone, have been set up to generate cluster-industry benefits.

IV. Incentives to Encourage Shenzhen Service Outsourcing

Development

I) training fees by BPO enterprises will be met by the government.
II) Financial support will be given to enterprises that apply for international qualification certifications such as CMM/CMMI, or those seeking to update them.
III) If enterprises indulged in outsourcing pay taxes based on income earned from offshore service outsourcing business, they’ll be reimbursed 80% of the amount paid on the condition it is used for R&D and construction.
IV) Enterprises dealing with outsourcing business in the fields of finance, logistics and cultural industries will receive financial support from a special fund the municipal government has granted to prop up the development of the above mentioned industries, according to regulations.
V) Once certified as High-tech Enterprises, companies dealing with outsourcing business will enjoy favorable conditions for high-tech enterprises.

VI) Technical renovation of service outsourcing enterprises could receive subsidies on interest payment of loans.

VII) Enterprises taking up outsourcing business taking part in promotion campaigns overseas may receive financial support.

VIII) The government will also invest in service outsourcing public service platforms and appropriate construction funds to improve communications and power facilities in service outsourcing demonstration regions, creating a more comfortable and convenient working environment for enterprises with outsourcing business.

V. Our Cases

A group of software enterprises, mainly in software outsourcing, export and IC design & manufacturing consignment, has been settled in Shenzhen Software Park, including IBM China’s outsourcing delivery headquarters, software giant ORACLE’s first Chinese R&D center, Microsoft Asia’s Center for Hardware, UBS China’s Finance IT Development Center, Kodak Commercial Imaging Service Corporation, Deutsche Lufthansa AG and Wal-Mart Global Procurement. IBM’s Global Delivery Center (GDC) has grown into one of the group’s four biggest GDCs in the world. Not coincidentally, in 2008, IBM outsourcing enterprises in Shenzhen achieved a 40% increase in business volume.

VI. How can Foreign Companies (Individuals) Develop BPO Business in Shenzhen?

I) Consigning BPO business picked up elsewhere to local Shenzhen companies

Offshore companies deliver part of their business to local Shenzhen enterprises. The special economic area has technical advantages in BPO business in many fields, including software and IT industry, IC design, industrial design, animation design, financial services, logistics and supply chain as well as research and development. Moreover, labor costs in Shenzhen are relatively low. The above two points make Shenzhen more competitive in taking up offshore BPO business.

II) Setting up foreign-invested enterprises in Shenzhen to directly take up BPO business

VII. Relevant Service Organizations and Contact Info

I) The North American Representative Office of Shenzhen, PR China
Address: Los Angeles World Trade Center, 350 South Figueroa Street, Suite 288, Los Angeles, California 90071, USA.
Tel.: 001-213-628-9888
The European Representative Office of Shenzhen, P.R. China
Address: Ostendstraße 100  Business Tower 20F  P.O. Box 38  D-90482 Nürnberg/Deutschland
Tel: 0049 (0)911 - 95 33 91 41
Fax: 0049 (0)911 - 95 33 91 42
Email: info@shenzhen-eo.com
Website: http://www.shenzhen-eo.de/index.htm

The Australian Representative Office of Shenzhen, P.R. China
Address: Suite 2, Level 23 Gold Fields House 1 Alfred Street Sydney NSW 2000
Tel: 0061 2 9247 8588
Fax: 0061 2 9247 7188
Email: info@setro.com.au
Website Address: www.setro.com.au

The Japan Representative Office of Shenzhen, P.R. China
Address: 東京都港区浜松町1-30-5 浜松町スクエアステューディオ 1908号室（ステューディオへは、正面玄関の右手にある東側の入り口です）
Tel: (03) 5733-2244
Fax: (03)3432-5333
Website: http://www.shenzhen-jp.org/

Shenzhen IT-BPO Promotion Council
The Promotion Council is engaged in many businesses, including custom software development, IT services, engineering technology development BPO, supply chain management, procurement, animation design BPO, data analysis, data mining etc. The council represents the overall interests of BPO enterprises. Charged with helping develop the BPO industry, it conducts industrial research, lobbies and implements government policy, trains BPO talent, builds technical support platforms and creates various opportunities to bring local companies to international BPO markets.
Address: 2nd Floor, Building No.8, Phase I of Software Park, Central Area of Shenzhen High-tech Industrial Park
Postal Code: 518000
Tel: 86-755-86169422/86169969
Fax: 86-755-86169268
Email: dy@szsoftwarepark.com
Website: http://219.134.65.45/expedite

Shenzhen Software Industry Association
The Association is in charge of registering software products, certifying and
annually verifying software enterprises, compiling software industrial statistics and managing copyright registration. The Association will help the government carry out industrial surveys, echo enterprises’ opinions, make policy proposals to the government and host lectures on policy and technology, providing membership enterprises with talented people and internationalized services ranging from technology, laws and intellectual property rights to industrial information. It also formulates and implements industrial rules and regulations.

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