Software outsourcers see bumpy road ahead

Chinese software outsourcing companies are facing future challenges from the anticipated appreciation of the yuan, surging labor costs and a slowdown in demand.

According to the Ministry of Commerce, the contract value of China's software outsourcing sector reached $7.48 billion in the first five months, up 112.6 percent year-on-year, but many challenges exist in the industry.

"The cost advantage of Chinese software industry is going to disappear due to the stress of yuan appreciation," Yi Xiaozhun, vice-minister of commerce, said at China International Software & Information Service Fair in Dalian.

"A slow increase in demand from other nations makes competition tougher for Chinese software companies," he said.

Dalian Hi-Think Computer Technology Corp, a major outsourcing company in China, said that it expected only single-digit growth this year, while in past years it maintained annual growth of between 30 and 50 percent.

"We are caught by a more challenging overseas situation now," said Liu Jun, chief executive of the company, adding that profits will be cut sharply if the yuan appreciates.

He said that it may take six months to a year for the impact of the current economic crisis to subside. Meanwhile, software companies are experiencing rising labor costs, which further decrease profits.

Dalian Hi-Think Computer's Liu said he has increased the salaries of employees by about 10 percent this year, to retain and attract talent.

Zheng Shiyu, chief executive of another leading outsourcing company Yidatec Co Ltd, said that the company may have to move to locations with lower labor costs.

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