

Is China the Next India?

Global attention may be currently turned to Beijing for the Olympics, but U.S. IT executives have long been focusing their attentions on China. For many, it has become a viable outsourcing location.

As rising labor costs and infrastructure issues begin to lessen the advantages that India has had as the world's top offshore location, China has emerged as a popular alternative. The cost structure is considerably lower in China, and many experts agree the technical skills of China's new generation are on par with any country.

According to McKinsey research, China's outsourcing and offshoring services currently account for less than 10 percent of the global market. But, if developed, China could generate about \$56 billion in outsourced services annually by 2015.

However, several "proceed with caution" signs appear as companies examine China's outsourcing capabilities. For example, much of McKinsey's predictions on the growth of China's outsourcing sector involve Japan and Korea. China has about two million Japanese and Korean language speakers, but English speakers are far fewer.

China as an offshore outsourcer

Strengths:

- good telecom infrastructure and government support
- low labor cost, for now
- good technical skills in some disciplines

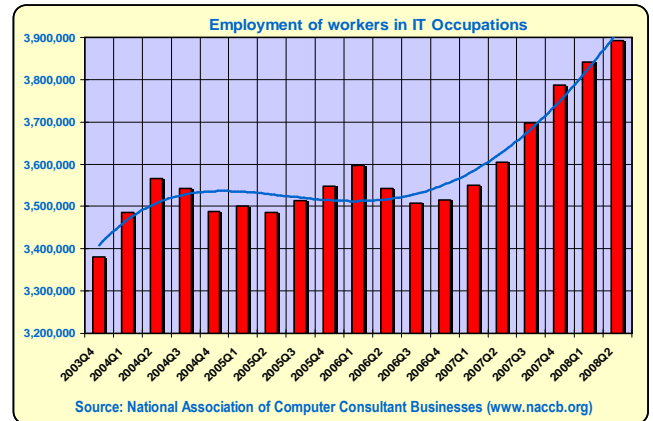
Weaknesses:

- deficient English language skills
- lack of market maturity
- poor history regarding protection of intellectual property
- data security

English language skills, which cannot be developed overnight, put China's technical talent at a clear outsourcing disadvantage to countries like India, where English is an official language and is widely spoken.

Despite a low-cost telecommunications infrastructure, China is relatively new when it comes to servicing the western world. China's R&D and large manufacturing base for high-tech verticals, such as semiconductors, demonstrate success in the global marketplace. However, many see major drawbacks to taking advantage of the country's manufacturing capabilities. China's poor track record of protecting intellectual rights has made many manufacturers hesitate to outsource the production of goods to China.

Some worry that the lack of protection of intellectual property could translate into lack of data protection as well. As new outsourcing destinations continue to spring up around the world, it will be interesting to see how China fares in the global competition for IT services. As they will soon be saying in Beijing, "Let the games begin!"



Is New IT Equipment Part of Your Economic Stimulus Plan?

The year is only half over, which means businesses still have time to take advantage of the Economic Stimulus Act of 2008. But move fast: New property must be bought and put into service by January 1, 2009.

The legislation won't give your business cash to buy new computers or software, but it does include special incentives, such as a 50 percent depreciation allowance for certain property put into service in 2008. According to the IRS, "The types of property that qualify for the 50 percent special depreciation allowance are section 168 property with a recovery period of 20 years or less, off-the-shelf computer software, water utility property and qualified leasehold improvement property."

There are also provisions that increase maximum expense deductions to \$250,000 in the tax year beginning in 2008 for qualifying businesses in what is commonly known as section 179 property. Without this new legislation, the section 179 property expense deduction limit would have been \$128,000.

In shaky economic times, companies are often hesitant to buy new equipment. However, being able to write-off half of the equipment's value right away may make good financial sense for a qualifying business that is able to safely incur the capital expense now.

Disclaimer: The above is only a summary and not intended as tax advice. You are encouraged to consult your tax advisor.

IT Employment Reaches All-time High

Demand Is Increasing

IT employment reached an all-time high in the second quarter (see chart on page 1) topping 3.9 million in June. So far this year, IT employment has grown by almost 90,000 jobs while the overall employment market has lost 438,000 jobs.

The unemployment rate for most IT occupations remained significantly below the overall national unemployment rate of 4.7 percent in 2Q 2008.

Occupation	2Q2008 Unemployment rate
Computer hardware engineers	1.7%
Computer and information systems managers	2.1%
Computer programmers	3.3%
Computer scientists and systems analysts	1.0%
Computer software engineers	1.9%
Computer support specialists	3.7%
Database administrators	1.6%
Network and computer systems administrators	2.8%
Network systems and data communications analysts	2.5%
<small>Sources: NACCB based on unpublished U.S. Bureau of Labor Statistics data</small>	

The year-over-year hourly wages increase for all workers was 3.5 percent, but weekly wages were up only 3.2 percent, which indicates that workers' hours have been cut back. The reverse occurred in many IT/high-tech sectors where weekly wages rose faster than hourly wages. This was a result of high demand for those services as workers logged more hours.

For example, hourly wages for workers in the Internet Publishing and Broadcasting and Web Search Portals sector rose 4.7 percent while their weekly wages rose a remarkable 13.9 percent. Similarly, workers in Data Processing, Hosting and Related Services experienced only a 4.4 percent rise in their hourly pay but a 6.3 percent increase in their weekly wages. For workers who make Computer and Peripheral Equipment, their hourly wages were stagnant. But, they worked more hours because their weekly wages were up slightly at 2.7 percent.

Those in Computer Systems Design Services, which has the highest wages within the IT/high-tech sectors, saw steady growth. Their hourly and weekly wages rose by the same amount, 8.4 percent, which was more than double the amount for all workers.

Web 2.0 to Reach \$4.6 billion

Forrester Research estimates that the size of the Web 2.0 market will reach \$4.6 billion by 2013. But what exactly is Web 2.0? There probably are as many definitions of Web 2.0 as there are conferences about it.

Some examples of Web 2.0 technologies are social networking sites, blogs and wikis, which are "a collection of Web pages design to enable anyone who accesses it to contribute or modify content."

That definition comes from the best known wiki out there, Wikipedia, the online, user-edited encyclopedia. Wikipedia defines Web 2.0 as "a term describing the trend in the use of World Wide Web technology and Web design that aims to enhance creativity, information sharing and, most notably, collaboration among users."

Forrester Research believes that Web 2.0 technologies will continue to find purpose and relevance in the business environment. According to Forrester, these collaborative tools "will eventually disappear into the fabric of the enterprise, despite the major impacts the technology will have on how businesses market their products and optimize their workforces."

However, Web 2.0 technologies are not without problems, and corporate IT departments should be cautious about allowing them on their networks. *PCWorld.ca* recently summed up the risk: "Malware is big business, and hackers are trying to cash in using the latest Web 2.0 tools: social networking profiles, blogs, and other publicly available media and Web pages."

Tech Companies Top the S&P 500

In late May, a small but significant shift occurred in the Standard & Poor's 500. The financial sector lost bragging rights as the largest segment in the S&P 500. It had been at the top of the heap since 2002.

The S&P 500 is an index composed of blue chip and large cap stocks (market capitalization more than \$5 billion) and represents about 75 percent of the total U.S. equities market.

Replacing finance in the top position was the tech sector. This was not the first time tech was at the top of the equity mountain. The last was during the dot-com bubble. But when the bubble started to deflate in early 2002, the financial sector took over the top spot and has been there ever since - at least until this year.

Does this mean that the tech boom has returned? No. S&P executives explain that the financial sector has simply declined at a faster rate than the other sectors that make up the index.