



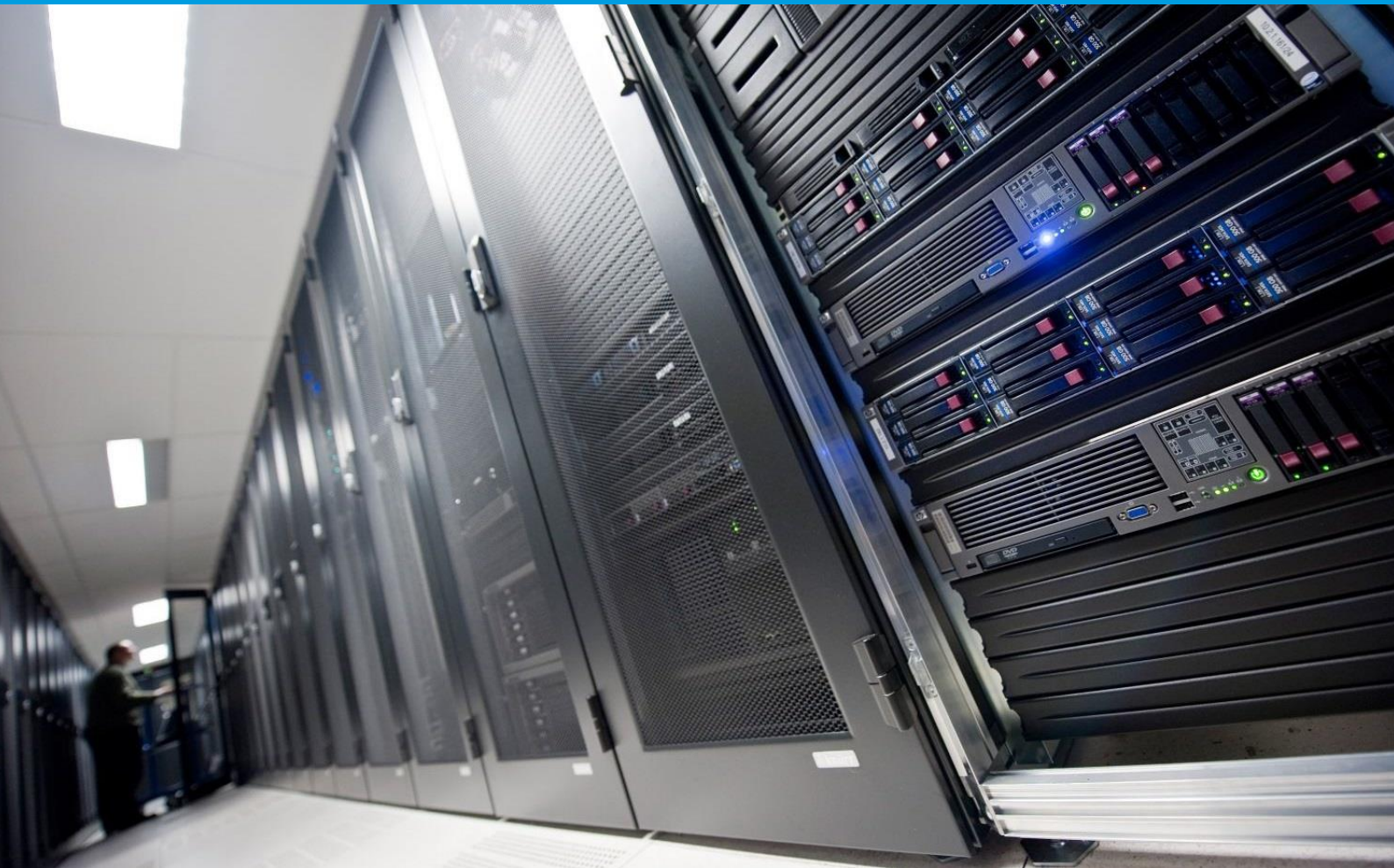
Rijksdienst voor Ondernemend
Nederland

Opportunity Report

Service Outsourcing Industry in Shandong Province

NBSO Jinan

*>> Duurzaam, Agrarisch, Innovatief
en Internationaal ondernemen*



Colofon

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In comparison to China's traditional GDP contributors such as manufacturing, energy and chemical industry, service industry is regarded as a perfect approach to a green and sustainable economy. Therefore in the past two decades, with substantial support from central to local governments, China's service outsourcing industry has witnessed tremendous growth.

About Shandong Province

Shandong Province is situated on the east coast of China; it covers a land area of 157,000 km² and has a coastline of more than 3,000 km, 1/6 of China's total. Shandong is the 3rd economic power in terms of GDP and the 2nd most populous province with about 97 million inhabitants in China.



Facts of Shandong Province

Location	on the east coast of China, facing the Korean Peninsula and the Japanese archipelago across the sea
Geography	Surface area 157,126 km ² (420km from north to south, 700km from east to west)
Coast line	3,345 km, 1/6 of nation's total
Population	97million
GDP 2015	6.3 trillion RMB (3 rd nationwide after Guangdong and Jiangsu)
Main cities	<ul style="list-style-type: none"> - Jinan (capital) - Qingdao (coastal city and financial center) - Yantai, Weifang, Zibo, Linyi and Dongying
Per capita GDP 2015	64,358 RMB
Trade with NL 2015	Export to NL 4.16 billion USD (+6.5% y-o-y) Import from NL 2.1 billion USD (-33.4% y-o-y)
Main trade partners	Japan, Korea, EU, U.S., ASEAN, Russia and Brazil

Shandong Service Outsourcing Industry

Shandong is among the leading provinces in China with respect to the service outsourcing industry, and accounts for about one-tenth of the nation's total. The value of contract execution of offshore service outsourcing increased from USD 125 million in 2009 to USD 6.61 billion in 2015, an increase of nearly 52 times in 7 years.

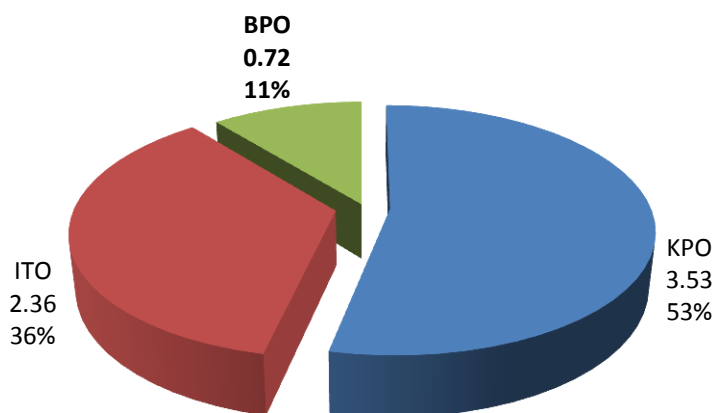
The value of signed contracts of offshore service outsourcing in 2015 totaled USD 87.29 billion, and the value of contract execution reached USD 64.64 billion in Shandong, accounting for 8.6% and 10.2% of nation's total respectively.

Overview of Shandong Offshore Service Outsourcing 2015

	Value of Signed Contracts (Billion USD)	Y-O-Y Growth	Value Contract Execution (Billion USD)	Y-O-Y Growth
Shandong	7.54	16.8%	6.61	20.1%
China	87.29	21.5%	64.64	15.6
Shandong/China	8.6%		10.2%	

Information Technology Outsourcing (ITO), Knowledge Process Outsourcing (KPO) and Business Process Outsourcing (BPO) represent the main pillars.

Main businesses of offshore service outsourcing (in billion USD)



Some examples

ITO (Information Technology Outsourcing)
 Inspur Group (system integration, cloud service)
 Haier Software (software system)
 NEC Software (software system)
 DIR Xunhe (securities and finance)

BPO (Business Process Outsourcing)
 CCRC (call center and data back-office service)
 ResourcePro (insurance data service)
 Genpact Qingdao (professional consultant)
 Eastdawn (geographical information)

KTO (Knowledge Process Outsourcing)
 Volvo Construction Equipment (design, R&D)
 Caterpillar (design, R&D)
 Weifang Keyuan (animation design)

Asia continued to be the first overseas market of Shandong, followed by the European Union and North America in 2015. U.S., Japan and Korea were the top 3 outsourcers, and Germany, U.K. and Italy pointed out the top 3 in the EU.

Main origins of service outsourcing businesses in Shandong

Region	Value of Contract Execution (in billion USD)	Percentage of Province's Total	Y-O-Y Growth
Asia	3.59	54.3%	-

- Japan	0.69	10.4%	-
- Korea	0.51	7.7%	-
EU	1.14	17.2%	93.5%
- Germany	0.18	2.7%	100.5%
- U.K.	0.16	2.4%	93.7%
- Italy	0.13	2.0%	307%
- Netherlands	0.106	1.6%	140%
North America	1.08	16.3%	44.5%
- U.S.	0.89	13.5%	-
Total	5.81	87.8%	-

A number of foreign subsidiaries have invested in Shandong to undertake offshore service outsourcing businesses. For example, ResourcePro, a U.S. company, has set up all 3 China branches in Shandong to provide insurance services to their clients in the U.S. and Europe. Another company NEC Software in Jinan focuses on the offshore development and BPO services for NEC global.

By the end of 2015, a total 2,581 companies have been established and registered as service outsourcing enterprises in Shandong, among of which 607 are for offshore businesses. Moreover, five industry agglomerations have been formed in Jinan, Qingdao, Yantai, Weifang and Weihai, contributing over 97% the province's total value of contract execution. Among them, the outsourcing industry in Qingdao developed especially fast. According to the Qingdao Association of Outsourcing (QAO), from 2011 to 2015, the average annual increase of the outsourcing contract execution is 80%; the number of registered outsourcing enterprises increased from 222 to 913. Main business includes background data services, technology research and development, and industrial design. The proportion of high-end business including R&D, industrial design, product design and testing has increased gradually. In 2016, Qingdao has been included into the list of "China Outsourcing Demonstration City" by the Ministry of Commerce. Jinan has been on the list since 2009.

Trends and opportunities

In the years to come, Shandong service outsourcing industry will be further enhanced and offshore outsourcing businesses will be expected to continuously grow at a fast pace. The following sectors are specifically highlighted by the Shandong government for the years to come which may generate more cooperation with foreign outsourcers.

1. Data analysis services. Use big data technology, data extraction and analysis to provide support service to production, marketing, research and development and other aspects. This can be used in manufacturing, wholesale and retail, transportation, storage and postal services and other industries.
2. Cloud computing services. Cloud computing can provide on-demand services to customers by using computing resources under unified management and scheduling on the internet. Services include host cloud, cloud storage, cloud development, cloud testing and comprehensive offerings. This can be mainly used in information transmission, software and information technology services, manufacturing, financial services, wholesale and retail, transportation, storage and postal services sectors.
3. Pharmaceutical and biotechnology R&D services. Pharmaceutical and biotechnological companies can outsource R&D business to third-party professional organizations.

4. Cultural and creative services. Focus on the development and marketing of intellectual property, mainly including radio, television, animation, audio, media, visual arts, performing arts and other services. This is applicable for businesses like software, architectural design, professional design and advertising design.

These highlights may create opportunities for foreign companies to outsource services from Shandong at a competitive price. Moreover, the technical level of Shandong service outsourcing industry is still low which features labor intensive and low complexity in outsourcing services. The ability in mastering core technologies such as database and cloud computing, and innovation is the bottleneck for Shandong. Hence, high level training in IT technologies can be very welcome in the coming years. HP (Hewlett Packard) has set an example by establishing an international software training base in Jining, where between 3,000 and 10,000 IT programmers and engineers will be trained per year.

Leading companies in Shandong

Inspur Group

Inspur ranked No. 9 in the 2015 Top 100 electronic information companies in China. The server sales volume for Inspur ranks No. 5 worldwide and No. 1 in China. The sales volume for Inspur storage has ranked first among domestic brands for 12 consecutive years.

Inspur has established five joint ventures with Global Top 500 corporations such as Microsoft, Cisco, LG and Ericsson. It has also established strategic partnerships with Intel, IBM, SAP, VMWARE, NVIDIA and REDHAT, and funded a joint-venture with Indian UPTEC to develop the practical software training industry.

Website: <http://en.inspur.com/inspur/2226018/index.html>

CVIC SE

CVIC SE was founded in 1991. It is one of the leading software developers and IT solution providers in China. Based on the technical strengths in middleware component technology and software engineering, CVIC SE can provide services including software development, IT training, and BPO services to a very wide range clients, e.g. government departments, financial sector, logistics (land and marine transport), medical sector, and education industries, etc.

Website: <http://www.cvicse.com>

ReSourcePro (Qingdao)

ResourcePro is committed to provide complete and innovative business solutions for insurance institutions in America and Europe to help customers increase revenue, improve profitability and enhance competitive advantage in the operating process. With continuous expansion and upgrading in the line of business, ResourcePro also provides wider and more sophisticated services for customers, including professional international training, accurate big data analysis, and lean business management consulting.

Website: www.resourcepro.com

DIR Xunhe Business Innovation (Jinan) Limited

DIR Xunhe Business Innovation (Jinan) Limited was established at Jinan Qilu Software Park in 2007. It's a wholly owned subsidiary of Daiwa Institute of Research BI. It's mainly engaged in Japanese projects such as computer application software development, system integration, software outsourcing, embedded software and BPO services.

Website: www.dirxunhebi.com

NEC Soft (Jinan)

Founded in January 2005, NEC Soft (Jinan) Co., Ltd. is a wholly owned subsidiary of NEC CORPORATION located in Qilu Software Park in Jinan. The business mainly focuses on all kinds of offshore development and BPO services.

NEC Soft (Jinan) is dedicated to NEC's Global Delivery Center (GDC) in the Greater China Region by not only continuously expanding offshore outsourcing businesses but also striving for a systematical integration, software product development and

sales in China.

Website: www.necsoft.com.cn

MESNAC

Established in 2000, MESNAC is an international group company originating from Qingdao University of Science and Technology. MESNAC is committed to R&D and innovation of information equipment, industrial software application and new rubber material research. It aims to promote the development of industrial intelligence and provide integrated software/equipment & management/control solutions for rubber companies. Apart from rubber machinery, it also operates in the field of automation logistics, Internet of Things, chemical industrial equipment, new rubber material. In 2006, MESNAC was publicly listed on the Shenzhen stock exchange, and became the first listed privately-run company in Qingdao.

Website: www.mesnac.com

HP (Hewlett Packard) International Training Base

In 2013, HP and Shandong Provincial Government signed an agreement to set up an international software training base and innovation park in Jining, a city in the south of Shandong province. The total investment will be USD 2 billion and main functions include training, software testing, IT resource service and demonstration. The training base can train between 3,000 and 10,000 IT engineers per year.

Government Support

Preferable policies have been implemented to companies active in the service outsourcing business in Shandong. For example, in Jinan and Qingdao, two national-level service outsourcing demonstration cities, VAT is exempted for offshore businesses. For those companies which are entitled as high tech companies, the corporate tax rate will be decreased to 15%, compared to the normal rate of 25%. More support policies are applicable in this sector such as governmental subsidies or funds that can be used for employee training and R&D.

Relevant authorities (provincial)

Below Chinese authorities are related to service outsourcing industry at national and provincial levels. The websites are only in Chinese.

1. **Shandong Provincial Department of Commerce**

Policymaker of service outsourcing regulations and supportive policies.
 Promotion of Shandong service outsourcing.
 Website: www.shandongbusiness.gov.cn (Chinese only)

2. **Shandong Software Association**

The Association is a non-for-profit organization initiated by software related companies in Shandong. The Association is operated under supervision of the Shandong Economic and Information Commission and Shandong Department of Civil Affairs. Shandong Software Association is one of the main execution bodies for governmental incentive programs in software industry. For example, the nomination of high-tech companies and application for governmental subsidies and funds.
 Website: <http://www.sdsoft.org.cn/> (Chinese only)

3. **Qingdao Association of Outsourcing (QAO)**

QAO is an association composed by enterprises, scientific research institutions and other service agencies that engaged in the outsourcing of information technology, business process and knowledge process, as well as colleges and training institutions of outsourcing talents in Qingdao.
 Website: www.qingdaoao.com/ (Chinese only)

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Sources

Shandong Provincial Department of Commerce
Shandong Statistic Yearbook 2015

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www.rvo.nl