

Gartner's 30 Leading Locations for Offshore Services

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Gartner has selected the top 30 countries for offshore services and rated each one according to 10 criteria. We summarize regional characteristics and list countries that didn't quite make it into the top 30.

ANALYSIS

Many organizations that choose to move IT services to lower-cost countries are daunted by the task of determining which country (or countries) would best host their operations. Gartner has used 10 criteria to analyze how suitable countries are for offshore IT and IT-enabled service work. This report lists our current top 30 countries for globally sourced activities. Sourcing managers and service providers should use this list of countries and ratings to help determine which locations are right for their organizations.

Objective and Methodology

Gartner has conducted analyses of 30 countries to assess their capability and potential as offshore service locations. The aim of the study was not to rank each country, as each organization will have a different view of which factors are the most important for its needs. For the same reason, we have not included an overall rating for each country. However, comparative ratings at a regional and global level were applied to ensure balance in the assessments.

We have identified 10 categories that we believe are important to consider when looking at a potential location for offshore or "nearshore" IT or business process services. Each category has been rated on a five-point scale from "poor," through "fair," "good" and "very good" to "excellent." This provides an at-a-glance view of the current comparative status of that country, although a more detailed level of assessment was used to arrive at this simple categorization. The reports on each country (listed below) are intended to be brief, high-level perspectives; they cite some key data points and give a brief analysis in addition to the Gartner rating for each criterion. They are an assessment of the country's current status; in a number of cases, countries have made investments to improve an area of weakness or enhance current strengths. The benefit of these investments may not yet be visible, in which case it has not been reflected in the rating. For example, investments in English-language education will take some time to have a demonstrable effect.

These reports point to a country's suitability for offshore service work; this could be application, business process or infrastructure related. Some adjustments would need to be applied to the ratings (for example, the availability of specific skills in the labor pool) if they were to focus on one specific service line, so this level of granularity is omitted from the report. Similarly, these reports do not address offshore outsourcing specifically. They can also be used by those seeking an outsourcing arrangement or those wishing to set up a captive center.

The following criteria were used to assess each country. The countries were evaluated based on Gartner analyst insights taken from their own experiences in, and knowledge of, these regions. Multiple additional sources were used to provide useful data points to substantiate, or provide a counterpoint to, our assessments. Where possible, common data points have been gathered from independent organizations to provide a consistent view across these countries.

Gartner's 10 Criteria

Language

We assessed each country's language proficiency and capability alignment to its major target market. The assessment included written and verbal competency in the context of technical and business discussions. While the English-speaking market constitutes the bulk of offshore service demand today, due account was taken of other relevant language skills that would benefit buyers (such as German-language skills in Eastern Europe, or Japanese-language skills in Asia/Pacific).

Government Support

This measured the degree to which government agencies and ministries actively promote the country as an offshore destination, and how they communicate their country's attributes, establish agencies for development opportunities and advocate for local service providers. We also looked at governments' commitments to develop educational systems that would create skilled workers to support the IT industry.

Labor Pool

Here, we looked at the quality and quantity of the current labor pool and its future scalability. We assessed the skill level in certain disciplines or areas of expertise, including project management skills, software development competency (including design, business analysis and architecture skills), R&D and business process experience. It was also necessary to take into account the numbers of graduates in each country's resource pool today, and project what might happen in the future. In this criterion, we also evaluated each country's work conditions, career opportunities and the modernity of facilities. We considered the labor advocacy, employee benefits and general adherence to maintaining high standards to ensure that the country can provide the labor skills and experience that companies may need.

Infrastructure

This measured the robustness, quality, stability and pervasiveness of each country's physical infrastructure, including power, telecommunications and satellites, as well as its transportation facilities for roads, rail service, air travel and ports into and around the country.

Educational System

We assessed the quality of each country's educational system, the quantity of colleges and universities, and the number of new graduates in IT-related disciplines.

Cost

This category measured costs of labor and other compensation, real estate, infrastructure and telecommunications. We primarily evaluated each country's cost-competitiveness by labor rates, relative to the most- and least-competitive countries.

Political and Economic Environment

This assessed the stability of the system of government, levels of corruption, geopolitical risks and security. It also measured the degree to which a country's political system and financial strength create a stable environment today, and in the future, for companies to develop and for the country to evolve as an offshore location. In addition, we looked at the potential for terrorism or war, the participation or support of trade unions, and financial issues, such as currency volatility and gross domestic product (GDP) growth.

Cultural Compatibility

We studied whether the cultural attributes of the offshore location make it easy to do business with the major buying locations. This assessment included cultural affinity and adaptability to multicultural approaches to support an international business environment. We also assessed accessibility, including proximity to the major buying locations, ease of travel to that country and time-zone differences.

Global and Legal Maturity

This category assessed the presence of multinational service providers in each country and the propensity of corporations to locate captive centers there. We measured the degree to which the country's legal system is lawful and legitimate by reasonable international standards, including overall legislation, taxation and intellectual-property laws. We assessed the legal system's ability to provide support to foreign entities doing business in that country, including reliable means for contractual redress or prosecution, and general respect for intellectual property.

Data and Intellectual Property Security and Privacy

We measured the effectiveness of legislation relating to protection of intellectual property, data protection and privacy, copyright, trademark and patent laws. We also assessed the enforcement of such legislation, the ethos within the country toward such protection and the maturity of the country's information security industry.

Gartner's Top 30 Offshore Locations, 2009

Gartner's top 30 locations for offshore services, by region, are:

Americas: Argentina, Brazil, Canada, Chile, Costa Rica, Mexico and Panama

Asia/Pacific: Australia, China, India, Malaysia, New Zealand, Pakistan, the Philippines, Singapore, Thailand and Vietnam

Europe, the Middle East and Africa (EMEA): the Czech Republic, Egypt, Hungary, Ireland, Israel, Morocco, Poland, Romania, Russia, Slovakia, South Africa, Spain and Ukraine

Gartner's assessments of these 30 locations can be found in the following reports:

"Analysis of Argentina as an Offshore Services Location"

"Analysis of Australia as an Offshore Services Location"

"Analysis of Brazil as an Offshore Services Location"

"Analysis of Canada as an Offshore Services Location"

"Analysis of Chile as an Offshore Services Location"

"Analysis of China as an Offshore Services Location"

"Analysis of Costa Rica as an Offshore Services Location"

"Analysis of the Czech Republic as an Offshore Services Location"

"Analysis of Egypt as an Offshore Services Location"

"Analysis of Hungary as an Offshore Services Location"

"Analysis of India as an Offshore Services Location"

"Analysis of Ireland as an Offshore Services Location"

"Analysis of Israel as an Offshore Services Location"

"Analysis of Malaysia as an Offshore Services Location"

"Analysis of Mexico as an Offshore Services Location"

"Analysis of Morocco as an Offshore Services Location"
"Analysis of New Zealand as an Offshore Services Location"
"Analysis of Pakistan as an Offshore Services Location"
"Analysis of Panama as an Offshore Services Location"
"Analysis of the Philippines as an Offshore Services Location"
"Analysis of Poland as an Offshore Services Location"
"Analysis of Romania as an Offshore Services Location"
"Analysis of Russia as an Offshore Services Location"
"Analysis of Singapore as an Offshore Services Location"
"Analysis of Slovakia as an Offshore Services Location"
"Analysis of South Africa as an Offshore Services Location"
"Analysis of Spain as an Offshore Services Location"
"Analysis of Thailand as an Offshore Services Location"
"Analysis of Ukraine as an Offshore Services Location"
"Analysis of Vietnam as an Offshore Services Location"

During the past 12 months, there has been significant activity in many countries to consolidate or grow their positions as leading locations for offshore services. The result of this is that four countries have dropped out of the "Top 30," and four that were just outside of the "Top 30" 12 months ago have been "promoted." This is not because the "relegated" countries have been performing worse over the last year, but because this dynamic market has seen others making more noticeable progress.

Those leaving the "Top 30" this year are: Northern Ireland, Sri Lanka, Turkey and Uruguay.

The new entrants into the 30 leading countries for offshore services are: Egypt, Morocco, Panama and Thailand.

While these 30 countries demonstrated their suitability to develop or enhance their offshore service credentials, another 42 countries were also considered. These 42 countries have exhibited initial activities to establish an environment that would be considered attractive for companies considering their own investments in a lower-cost country, or have external service providers located there that are beginning to sell services beyond their domestic market. Of these 42, the following 14 narrowly failed to make it into the top 30:

- Americas: Colombia, Guatemala, Peru, Puerto Rico, Uruguay and Venezuela
- Asia/Pacific: Indonesia and Sri Lanka
- EMEA: Belarus, Bulgaria, Latvia, Mauritius, Northern Ireland and Turkey

The following 28 were also considered:

- Americas: Cuba, Dominican Republic, Ecuador, El Salvador, Jamaica and Nicaragua
- Asia/Pacific: Bangladesh and North Korea

- EMEA: Algeria, Armenia, Bahrain, Cyprus, Dubai, Estonia, Ghana, Isle of Man, Kenya, Kosovo, Lithuania, Macedonia, Madagascar, Malta, Moldova, Saudi Arabia, Senegal, Slovenia, Tunisia and Uganda

Regional Summaries

Americas

Although only seven countries from the Americas appeared in the final list of 30, these countries are becoming (and, in some cases, already are) an attractive proposition for the largest buying market for offshore services — the U.S. Although only Canada was rated "excellent" for language (with fluent English and French), Latin American countries are able to leverage their Spanish-language skills increasingly in the U.S.; an increasing number of U.S. enterprises now require Spanish language from their providers for communication with parts of their workforce that speak Spanish as a first language.

Generally, a lack of government support to offshore initiatives has restricted development by countries in the Americas, with only Mexico rated "very good," although Brazil, Canada and Panama merited a "good" rating. Canada and Mexico also scored very well in the labor pool category; both of them placed higher than Brazil. The region performed creditably in terms of infrastructure, with Argentina and Panama being the only countries to rate lower than "good"; predictably, Canada was rated "excellent." In the educational system category, both Brazil and Costa Rica were only rated fair while Panama was rated "poor"; once more, Canada led the ratings.

The key evaluation criterion of cost was where Canada fared the worst ("fair") compared with "good" or "very good" ratings for all other countries in the region. However, Canada again led the rating for political and economic environment, cultural compatibility, global and legal maturity, and data and intellectual-property security and privacy. Argentina was rated less favorably than the rest for its political and economic environment. Brazil and Mexico were considered "very good" for cultural compatibility, and the Latin American countries all managed a solid "good" rating for global and legal maturity. As observed in other regions, data and intellectual-property security and privacy remains "work in progress" for many developing countries. Although Mexico is considered "very good," the other Latin American nations are only rated "fair" in our reports.

Asia/Pacific

Ten countries from Asia/Pacific were represented in the 30 leading countries. These included the undisputed leader in offshore services — India — and the greatest challenger in terms of potential scale — China. The rest are a mix of mature environments that offer limited cost benefits (such as Australia, New Zealand and Singapore) and emerging countries with a variety of challenges, but attractive costs (such as Malaysia, Pakistan, the Philippines, Thailand and Vietnam).

Only China, Thailand and Vietnam were rated less than "good" for language skills in the region. Government support for the promotion of their country as an offshore services location was generally strong in the region, although New Zealand, Pakistan, Thailand and Vietnam were only considered "fair." The combination of skills, existing scale and future scalability gave India an advantage over other countries in the region but, again, New Zealand, Pakistan, Thailand and Vietnam trailed the other countries in the region with a "fair" rating. Predictably, Australia, New Zealand and Singapore were all rated highly for infrastructure, as was China, which has made considerable investment in this area. Australia, India, New Zealand and Singapore were all rated "very good" in terms of their educational system; Pakistan, Thailand and Vietnam were rated the lowest ("fair").

On cost, the picture is somewhat different, with Vietnam rated "excellent" (the top score across all the countries we analyzed) and China, India, Pakistan, the Philippines and Thailand all "very good." The political and economic environment remains a concern for many companies when moving work to offshore locations; in this area Malaysia and Vietnam scored "fair," while Pakistan and Thailand were both rated "poor." The link between lower risk and higher cost holds true: The higher-cost locations of Australia, New Zealand and Singapore all rated "excellent" in this category, and led the ratings in terms of cultural compatibility, global and legal maturity, and data and intellectual-property security and privacy.

EMEA

The final list of 30 countries included 13 from EMEA. These countries included a mix of long-standing European Union (EU) members, some countries that have quite recently joined the EU, and some nations that remain outside the organization. For the first time, we have two North African countries entering the leading countries in EMEA. Locations such as Ireland, Israel and South Africa fared well for language skills, because of the quality and quantity of English-language speakers. However, other countries were also given credit for the availability of alternative languages that address the needs of an increasing number of continental European buyers. Notably, one of the new entrants into the "Top 30" countries, Morocco, has been successfully leveraging its French-language skills.

No country achieved a rating higher than "good" for government support, reflecting the amount of focus still needed to create an environment that will support the drive of these nations to become a part of organizations' global delivery models. The labor pool ratings were also indicative of some limitations, either in quality or scale of appropriate resources; again, no country achieved a rating higher than "good." The domestic maturity of Ireland, Israel and Spain delivered the highest ratings of "very good" when it came to an assessment of their infrastructure. This was also reflected in the scores for educational systems, although Russia also fared well in this category.

Relatively recent EU entrant Slovakia, together with the Ukraine, scored well on cost grounds. However, the whole cost profile of the EMEA region must be regularly evaluated, as salaries, real estate, communications and other costs are steadily rising. The countries rating lowest for their political and economic environment were, predictably, those nations that are not in the EU. However, even countries that are now in the EU must be monitored for the effectiveness and speed of their transition to an EU legislative framework consistent with their more-established counterparts.

Cultural compatibility was variable, although only one EMEA country (the Ukraine) was rated lower than "good." In recent years, many countries in EMEA have become nearshore centers for traditional service providers and large Indian providers. This is reflected in the global and legal maturity section, where eight of the 13 countries scored between "good" and "excellent." Few countries in this region, with the exception of Russia, have a good selection of local service providers actively selling their capability outside their own country. In the final category of data and intellectual-property security and privacy, a mature domestic environment or membership of the EU resulted in the highest ratings.

Sources

Sources used in compiling these reports included:

- gartner.com
- Factiva database
- Onesource database

- Global Insight
- Economist Intelligence Unit
- EBSCO
- World Bank
- World Audit
- Transparency International
- The World Competitiveness Yearbook
- U.S. Department of Commerce
- ISI Emerging Markets
- Multiple government resources
- Doing Business.com
- CIA World Fact-book
- U.S. Department of State
- UNESCO
- OECD
- IMD
- eMarketer
- ADB
- International Labor Organization (ILO)
- Federation of International Trade Associations
- BSA
- United States Agency for International Development

RECOMMENDED READING

"Consider Offshore Options Around the Globe"

"Offshore/Global Sourcing Strategies in IT Outsourcing: User Practices and Country Preferences"

"Factors That Influence the Effectiveness and Levels of Offshore Services"

"Gartner on Outsourcing 2007: Geographic Issues and Trends"

"Gartner on Outsourcing 2007-2008: The Growing Use of Global Delivery"

"Tutorial for Defining Key Offshore Services and Global Delivery Terms"

"Tutorial for Navigating Privacy Legislation in Europe"

"What Buyers Need to Know About the Changing Global Outsourcing Competitive Landscape"

"Six Best Practices for Offshore Outsourcing"

"Best Practices for Understanding and Negotiating Outsourcing Contract Risks"

"Data Center and Infrastructure Services: Sourcing Considerations and Location Options in Asia for Global Organizations"

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