

**CHINA'S RISING SOFTWARE INDUSTRY:
A GOVERNMENT-DRIVEN MODEL**

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Executive Summary

1. China's software industry has maintained a high growth rate of over 30% since 1992. Nevertheless, industry output of US\$ 50 billion in 2005 remained small as it only accounted for 4 percent of the world's total software outputs.
2. China's domestic software industry is a weak and underdeveloped sector with few competitive advantages, yet it has tremendous growth potential and appears a threat to even advanced producers. The industry is also fragmented and composed of thousands of small and undercapitalized firms, yet they are located in one of the world's largest and fastest growing markets, including a dynamic IT hardware manufacturing sector.
3. Chinese software firms typically focus on developing niche applications tailored to the unique needs of the domestic market (e.g. financial software developed for China's unique accounting practices) and adopting products to Chinese language platforms.
4. By the end of 2004, the software industry hired more than 700,000 employees. However, according to the Chinese Software Industry Association, there is still a lack of 500,000 talents in the software industry and the demand is growing at a rate of 20% annually.
5. High-end talent is the most pressing need for the Chinese software industry. High turnover rates—as high as 20% even in the leading firms—are an often mentioned challenge for Chinese software firms.
6. The Chinese government has propelled the birth of the software industry since the very beginning and led the industry's development. In spite of several years of reform aimed at separating government from industry in China, the government's presence in the software industry remains far-reaching.
7. Chinese policymakers and bureaucrats act alternatively as customers, producers and operators, regulators, and promoters in the software industry.