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Tholons 2016 Top 100 Outsourcing Destinations

29 January 2016

Rankings & Executive Summary

Tholons Top 100 Outsourcing Destinations 2016

Rank 2016	Movement from 2015	Region	Country	City
1	-	Asia Pacific	India	Bangalore
2	-	Asia Pacific	Philippines	Manila (NCR)
3	-	Asia Pacific	India	Mumbai
4	-	Asia Pacific	India	Delhi (NCR)
5	-	Asia Pacific	India	Chennai
6	-	Asia Pacific	India	Hyderabad
7	+1	Asia Pacific	Philippines	Cebu City
8	-1	Asia Pacific	India	Pune
9	-	Europe	Poland	Kraków
10	+2	Europe	Ireland	Dublin
11	-	Americas	Costa Rica	San José
12	-2	Asia Pacific	China	Shanghai
13	-	Asia Pacific	China	Beijing
14	+1	Europe	Czech Republic	Prague
15	-1	Asia Pacific	China	Dalian
16	-	Asia Pacific	Sri Lanka	Colombo
17	+2	Asia Pacific	Malaysia	Kuala Lumpur
18	-	Asia Pacific	Vietnam	Ho Chi Minh City
19	+1	Asia Pacific	Vietnam	Hanoi
20	+1	Middle East and Africa	South Africa	Johannesburg
21	-4	Asia Pacific	China	Shenzhen
22	-	Asia Pacific	India	Chandigarh
23	-	Asia Pacific	India	Kolkata
24	+1	Europe	Hungary	Budapest
25	+5	Europe	Poland	Warsaw

26	-	Americas	Brazil	Curitiba
27	-3	Americas	Brazil	São Paulo
28	-1	Asia Pacific	Singapore	Singapore
29	-1	Americas	Chile	Santiago
30	+1	Asia Pacific	India	Coimbatore
31	-2	Europe	Czech Republic	Brno
32	-	Asia Pacific	China	Chengdu
33	-	Americas	Argentina	Buenos Aires
34	+1	Americas	Uruguay	Montevideo
35	+1	North America	Canada	Toronto
36	+1	Asia Pacific	India	Jaipur
37	-3	Europe	Russia	St. Petersburg
38	+5	Europe	U.K.	Belfast
39	-1	Asia Pacific	China	Guangzhou
40	+2	Middle East and Africa	Ghana	Accra
41	-2	Europe	Romania	Bucharest
42	-2	North America	Mexico	Mexico City
43	-2	North America	Mexico	Monterrey
44	+1	Americas	Colombia	Medellin
45	-1	Americas	Brazil	Rio de Janeiro
46	+1	Asia Pacific	China	Tianjin
47	-1	North America	Mexico	Guadalajara
48	-	Americas	Colombia	Bogotá
49	-	Europe	Slovakia	Bratislava
50	-	Americas	Brazil	Brasília

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51	+1	Europe	Estonia	Tallinn
52	-1	Europe	Bulgaria	Sofia
53	+1	Asia Pacific	India	Bhubaneswar
54	-1	Europe	Slovenia	Ljubljana
55	-	Asia Pacific	Indonesia	Jakarta
56	+1	Middle East and Africa	South Africa	Cape Town
57	+1	Americas	Peru	Lima
58	+4	Europe	Poland	Wroclaw
59	+5	Europe	U.K.	Glasgow City
60	-1	Europe	Russia	Nizhniy Novgorod
61	+4	Europe	Ireland	Cork
62	-2	Middle East and Africa	Morocco	Casablanca
63	-	Asia Pacific	India	Ahmedabad
64	-8	Europe	Russia	Moscow
65	-4	Asia Pacific	China	Xi'an
66	+3	Asia Pacific	Philippines	Davao City
67	-1	Asia Pacific	India	Thiruvananthapuram
68	-	North America	USA	San Antonio, Texas
69	-2	Asia Pacific	Malaysia	Penang
70	+3	Asia Pacific	Taiwan	Taipei
71	-	Americas	Argentina	Córdoba
72	-	North America	Canada	Halifax
73	+2	Americas	Colombia	Bucaramanga
74	-4	Americas	Puerto Rico	San Juan
75	+3	Asia Pacific	Australia	Perth
76	+3	Americas	Guatemala	Guatemala City

77	-	Americas	Brazil	Recife
78	-2	Middle East and Africa	Egypt	Cairo
79	+1	North America	USA	St. Louis, Missouri
80	+1	North America	USA	Birmingham, Alabama
81	+1	Asia Pacific	Philippines	Santa Rosa, Laguna (or Metro Laguna)
82	+2	Asia Pacific	South Korea	Seoul
83	-	Americas	Nicaragua	Managua
84	-10	Middle East and Africa	Turkey	Istanbul
85	+1	Asia Pacific	Philippines	Bacolod City
86	-1	Asia Pacific	Thailand	Bangkok
87	-	Europe	U.K.	Leeds (Yorkshire & Humber)
88	-	Americas	Brazil	Campinas
89	-	Americas	Chile	Valparaíso
90	+1	Asia Pacific	Philippines	Iloilo City
91	+2	Americas	Paraguay	Asunción
92	+2	Americas	Colombia	Cali
93	-	Asia Pacific	Philippines	Dumaguete
94	+1	Asia Pacific	Philippines	Baguio City
95	+1	Europe	Serbia	Belgrade
96	-	Middle East and Africa	United Arab Emirates	Dubai
97	+1	Asia Pacific	Philippines	Metro Clark
98	-1	Middle East and Africa	Kenya	Nairobi
99	-	Americas	Panama	Panama City
100	-	Middle East and Africa	South Africa	Durban

Source: Tholons Top 100 Outsourcing Destinations 2016

Overview

The generally tepid movement of destinations in the *Tholons 2016 Top 100 Outsourcing Destinations Report* reflect the lingering impact which both geo-political and geo-economic disturbances left upon the world in 2015. Such incidents have not only caught the world's collective attention, but have likewise influenced the short-term courses of global commerce and politics. The success and spread of globalization has allowed for tremendous economic gains to be shared across global markets, but likewise, globalization has also exposed nations to an ever-increasing number of *'shared vulnerabilities.'*

In 2015, tensions across economic and political markets were as diverse as they were widespread. Relations between Russia and the West, particularly U.S., took a turn for the worse, with the former involving itself in the turmoil of the Middle East. Western sanctions against Russia and the decline of oil prices contributed additional pressures on Russia, forcing the Federation to react, albeit seemingly in haste, in many instances. Compounding an already precarious global recovery was China's continued economic slowdown. In recent months, capital markets have again swiveled their eyes to China's deflating stock market, amidst the equally bleak backdrop of a slowing Chinese domestic market.

Unprecedented geopolitical issues also took form in 2015. Mass migrations from Eastern Europe, and war-torn regions in the Middle East, to its Western neighbors, was compounded by deteriorating relations between several Eastern European nations and Russia. Further, Turkey, which holds a strategic location between the Middle East and Europe, now finds itself dealing conflicts from both Russia, and with IS extremists in its South and Eastern borders. Though political turmoil may have earmarked Europe in 2015, it must be noted that the continent had still not recovered from its own recession, and key EU members such as Spain and Greece, remain hobbled economically.

The effects of both geo-political and geo-economic risks will undoubtedly influence the near-term direction of the global services outsourcing industry. That is, the economic and political aspects of any service outsourcing location (whether from the buyer or producer sides) are directly peripheral to industry movement and trajectory.

Turmoil Brewing in Emerging Markets

Global commerce has undergone a drastic transformation in recent decades. Once isolated markets are now part of the global and *communal marketplace* brought about by globalization. Historically restrictive trade barriers have opened up underserved markets and consumer bases, with global investments flowing into high-growth potential markets. Growth and potential have been the recent earmarks of such emerging markets.

However, the past five years has seen a contrasting dynamics, affect the world's more prominent emerging markets. Regional turmoil, domestic instability and economic volatility have all induced respective challenges to these once flourishing economies. Brazil, Russia and China, are three such emerging markets which have seen recent growth stunted because of such debilitating issues.

Brazil, in particular, the preeminent economy in South America in recent years, is going through one the worst financial trials in its history. Recession has settled taken a grip of Latin America's largest economy. In 2015, the World Bank estimates GDP to contract to -3.7%, an incredible drop from the already waning 3%, of just two years ago in 2013.[1] To compound matters, inflation rates are expected to continue to increase because of price realignments of electricity and fuel. Rising unemployment rate has induced lower tax collection rates, creating a cascading (and negative) effect on public finance reserves. To further complicate the already dire situation, political crisis (i.e. accusations of corruption by the ruling party and calls for the impeachment of President Dilma Rousseff) in the country has added yet another volatile element into the already precarious situation.

Similar to Brazil, Russia in 2015 was in the midst of its own recessionary period, with spiraling oil prices and Western sanctions, hindering the country's already ailing domestic economy. Its economy slumped at its lowest point since the 2007 global financial crisis with GDP contraction of 3.3% this year.[2] Inflation also skyrocketed due to the Ruble's depreciation. GDP growth of Russia is expected to remain vulnerable, as inflation, falling wages, and weakened consumer confidence, are expected to induce even more reserved spending by the consumer market. Though there are those that are more optimistic for the Federation in 2016, Russia's recent geo-political interventions in Eastern Europe and the Middle East have become valid causes for alarm. In particular, ongoing tension between Turkey and the latter's Western allies are expected to result in even more trade sanctions on Russia, while its military presence (and action) in Syria, supporting Syrian President Bashar al-Assad, has led to even greater tension between with Western nations who had already imposed heavy sanctions on Syria's current regime.

Finally, the largest economy among BRICS, China's economic charge slowed significantly in 2015, punctuated by the plummet of its stock market in the last quarter of the year, agitating an already nervous economic climate. A more reserved exports market as caused by the recent Global Recession (leading to creased demand of Chinese manufactured goods), leading to a hit on China's manufacturing output, was one of the root causes of this recent downturn. This then caused weaker domestic spending, as evidenced in the sluggish real estate market, and highlighted in the slowdown of China's important steel industry. Admitting to the current slump, Chinese Government has announced their revised economic growth projections, with domestic growth projections now set to a *more moderate* 6.5% annually from 2016 to 2020.[3] An aging population (labor force), a decrease in manufacturing jobs, and continuously rising labor costs have all likewise contributed to the downturn. Though slowdown was imminent, given China's decades long surge, it nonetheless has been a cause for concerns for most, if not all, of China's trade partners. Mirroring this cautious sentiment, the World Bank estimates the Chinese economy to have grown 6.9% in 2015, while expecting a gradual decline to 6.7% in 2016 and further slowdown to 6.5% in the following two years.[4]

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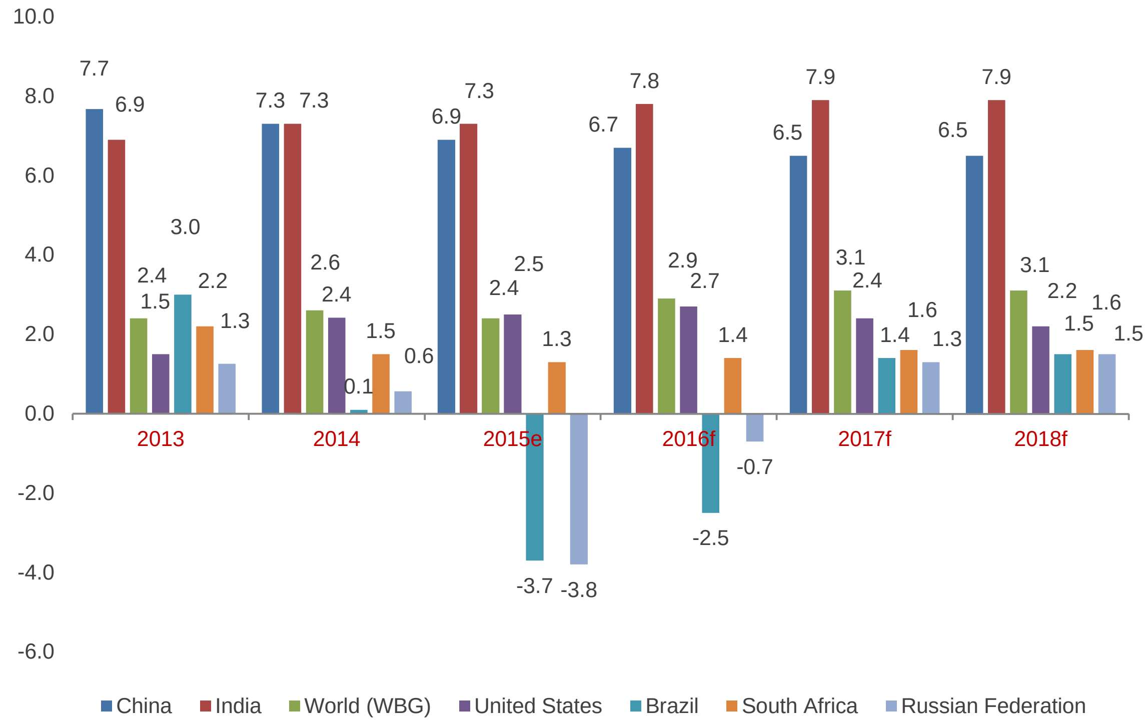
[1] The World Bank, 2016.
[2] The Wall Street Journal, "*Russia Downgrades Outlook for 2015 but Expects Return to Growth in 2016,*" August 2015.
[3] The Wall Street Journal, "*China Premier Sets Growth Target 'at least' 6.5% for Next Five Years,*" November 2015.
[4] The World Bank, 2016.

Chart 1 below highlights the *tepid trajectory* of BRICS in the near-term. Though economic and political forces will continue to shape the global outsourcing industry; however, recovery seems on track. India's continued domestic surge, is equally important in keeping the global IT-BPM industry buoyant, as India remains the largest provider to the critical North American and Western European buyer markets for outsourced services.

Chart 1: Real GDP growth (%)



Source: The World Bank

Despite sentiments of trepidation hovering over these key markets, there still persists opportunities for the services outsourcing market to continue to expand across both established and emerging destinations. In particular, sustained ICT adoption rates, greater access to technical education, and a generally more skilled and mobile global workforce, has fueled the spread of services outsourcing, by improving the *capabilities of provider destinations*.

Further, the outsourcing platform itself, has remained a proven method to reduce operational costs and increase efficiencies, and service buyers will continue to look for stable and resilient markets where good governance and sustainability are present. The lure of improved bottom lines, is simply too great a reward for service buyers not to *'explore'* their outsourcing options. Aside from Brazil, China and Russia, which have also been historically important service provider nations, the last five years has also seen the rise of numerous service outsourcing nations, which have leveraged on their otherwise *more stable, and calculable service delivery ecosystems*, to attract service buyers and providers alike.

Tholons Top 100 Rankings 2016: Biggest Movers

2015	2016	Movement	Country	City
43	38	5	U.K.	Belfast
30	25	5	Poland	Warsaw
64	59	5	U.K.	Glasgow City
62	58	4	Poland	Wroclaw
65	61	4	Ireland	Cork
69	66	3	Philippines	Davao City
73	70	3	Taiwan	Taipei
78	75	3	Australia	Perth
79	76	3	Guatemala	Guatemala City

Source: Tholons Top 100 Outsourcing Destinations 2016

Highlighting the *Biggest Movers* in the Tholons 2016 Outsourcing Destinations List, is the continued rise of Poland. Undoubtedly, the services outsourcing industry has contributed to the reshaping of Poland. After decades of economic stagnation, Poland's GDP per capita has nearly doubled in the last decade. A more dynamic workforce, contributing to a more varied economic folio, has allowed the country to explore and cultivate fresh opportunities in the services sector. The country has now emerged as a regional leader in the provision of outsourced IT-BPM services. Two Polish cities, Warsaw (25^{th}) and Wroclaw (58^{th}), are amongst the Tholons Top 100 biggest movers. Meanwhile, another Polish city, Kraków, is well situated at the 9^{th} spot amongst the Emerged Outsourcing Destinations.

Poland's recent success has also been attributed to market-oriented reforms and institutional building which have helped the country transition from recession. Further, Poland has benefited from the inflow of European Union (EU) investments to the Eastern & Central European region, which in turn has connected Poland to a larger commercial market. Aside from economic and political stability in Poland, one of its key assets is its large and skilled talent pool – *the largest in Central Europe*. Poland also has relatively low cost of doing business with wages and rents lower than most EU member countries. Another obvious draw for Poland with regard to service outsourcing (nearshoring) is its geographical proximity to Western European service buyer markets. Tholons remains optimistic on the long-term prospects for Poland, as both a regional and eventual global player. Where potential and promise *similarly characterized* many of its regional peers in the recent past, Poland has surged out of the pack and taken hold and made these market opportunities into market realities. As such, the country has established itself as one of the Europe's most promising services delivery locations.

Amongst the traditional UK destinations, Belfast was most notable, recording a 5-place progression at 38^{th} place, while Glasgow now sits at the 59^{th} spot, up five spots from the previous year. Belfast, continues to be one of the region's *'safe bets'* – due in large to a capable infrastructure, competitive operating costs, strategic location, and the availability of a technically skilled workforce. These prominent advantages have allowed Belfast to become a go-*to destination* for larger IT, BFSI, and professional services companies in the region.

Guatemala's capital city also emerged as a notable mover in this year's Tholons Top 100 List. Guatemala City recorded a 3-place progression, now ranked at 76th. Despite recent political scandals which have somewhat disrupted the otherwise generally progressive sentiment of the country, Guatemala's emerging IT-BPM industry has remained resilient. The country's long term potential rests on its still untapped labor force – founded on a young and economically active population - with 70% of its 15 million citizens, younger than 40 years old.[5] Guatemala also benefits from the largest number of tertiary level enrollees in all of Central America.

Taipei, Perth and Davao City were the biggest movers in APAC region. Taipei moved 3 places up from 73th to 70th while Perth and Davao now ranked 75th and 66th in the list, respectively. As one of *Philippines Next Wave Cities*, Davao City has risen to become one of the more viable alternative destinations beyond Manila NCR and Cebu City. Davao City faces little of the saturation issues of Manila NCR, and there is ample space to expand in-and-around the city. Moreover, service providers have showed increasing interest in Davao City as a delivery location, because of more of its geographic advantages (i.e. almost devoid of flooding, earthquakes, and other natural calamities). Davao City also serves as an educational hub for the large Mindanao region, complemented by the development of capable ITeS infrastructure such as the recently completed *Matina IT Park*. Large BPO providers such as Convergys and Teleperformance are already in Davao City.

Of particular note in this year's List is Taipei of Taiwan. The country has risen to become one of the most prosperous economies in Asia, and its well-established business environment rivals that of Singapore. In the *World Bank's Ease of Doing Business 2016 Index* for instance, Taiwan ranked 11 out of 189 countries. It also ranked 15th in the *Competitiveness Report 2015-2016* and positioned as the 14th most welcoming environment for multinational corporations in the *2014 Business Environment Rankings*. This favorable commercial ecosystem, is evident in the rise of its services outsourcing sector, particularly in the ITO and KPO spaces. Today, Taipei who houses global service providers like Accenture, Wipro, ACS, Diebold, Amdocs, Pitney Bowes, Tata Consultancy Services, Convergys, Capgemini and Hewitt Associates. Historically viewed as a gateway to the Chinese manufacturing sector, and given the state of China's current slump, Taiwan is once again emerging a potential rich destination for high-value service providers to explore.

One of the important shifts in the APAC region in this year's Top 100 List, was the rise of Cebu City in the Philippines – moving upwards, from 8th to 7th spot. A continuously improving infrastructure – as of Q1 of 2015, the PEZA counts a combined 27 IT Centers and IT Parks to be operating in Cebu[6] - and an enlarging talent pool that draws diverse talent from the Southern archipelago, has allowed the city's IT-BPM sector to sustain recent developmental gains. The province of Cebu is likewise considered the educational hub of Central and Southern Philippines,

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[5] Invest Guatemala, 2015.
[6] Philippine Economic Zone Authority (PEZA), 2015.

with the Central Visayas Region counting 138 higher education institutions (public and private) in its fold, reaching almost 260,000 undergraduate enrollees for the academic year of 2013-2014[7]

Today, Cebu City's local IT-BPM industry is a healthy mix of services, cutting across all three major service lines (ITO, KPO, BPO). The variety of process groups being fulfilled in the city also mirror the diverse talent pool available to the location (i.e. software development, FAO, medical transcription, and contact support services, among others). Large multinationals such as JPMorgan Chase, Aegis, Accenture, Teletech, IBM and Convergys, among many others, have all established delivery centers across Cebu City's numerous IT Parks and Centers.

Tholons remains bullish on the trajectory and long-term potential of Cebu City as a global services outsourcing destination and there is opportunity for Cebu City to capitalize on the prevailing weakness of global competition. Economic turmoil in several of Latin America's key economic markets for example, has temporarily dulled the region's luster, pushing large service buyers/providers to re-focus activities on proven locations which can provide both scale and better long-term sustainability. The rash of global geo-political incidents should also compel service buyers/providers to favor 'safer service delivery havens' such as Manila NCR, Cebu City and the host of established delivery locations in India.

Tholons likewise also holds the opinion that Cebu City has not been 'marketed enough' (i.e. industry identity remains somewhat BPO-centric) in the global services outsourcing marketplace. Though this latter observation may not necessarily be a problem inherent of Cebu City, but more so a characteristic of the Philippines IT-BPM industry in general – it nonetheless reflects the tremendous upside and potential for the location.

Tholons Top 100 Rankings 2016: Biggest Declines

2015	2016	Movement	Country	City
74	84	-10	Turkey	Istanbul
56	64	-8	Russia	Moscow
17	21	-4	China	Shenzhen
61	65	-4	China	Xi'an
70	74	-4	Puerto Rico	San Juan
34	37	-3	Russia	St. Petersburg
24	27	-3	Brazil	São Paulo

Source: Tholons Top 100 Outsourcing Destinations 2016

[7] Commission on Higher Education Region VII, 2014.

Conversely, the biggest drops in this year's List were found in locations where socio-political and economic turmoil were most evident. Istanbul had the biggest drop of 10 places. Istanbul's IT-BPM sector had experienced recent gains as its strategic geographical position and growing economy had made Turkey the ideal headquarters for hundreds of multinationals doing business in the region. However, Turkey has since been engulfed in regional turmoil. Already struggling with the *forced role* of being a gateway to Europe for Syrian and Middle East refugees, Turkey and Russia have since been locked in a precarious diplomatic row over Turkey's downing of a Russian jet in November 2015. Aside from the regional instability, Turkey has also been saddled with political ramblings on the domestic front (i.e. allegations of corruption on the ruling party, political disunity, etc.). The result of these risk conditions has not been pleasant for Turkey's economic outlook, as political instability and security risks have become a pressing concern for foreign investors and situated companies, many of which are likely to consider exiting from the country and its volatile condition.

Russia's key service delivery locations, Moscow and St. Petersburg, also experienced significant drops on the List, with declines of 8 and 3 positions, respectively. As previously mentioned, collapsing oil prices and Western sanctions have contributed to debilitating Russia's domestic economy. Coupled with security and risk exposure, due to the country's curious role in regional conflict in the Middle East – Russia has become a high risk destination for prospecting service providers and buyers, who may have previously considered utilizing the Federation's deep and technically skilled talent pool.

Finally, economic gridlock characterizes the other locations in the List that experienced significant declines in 2015. São Paulo, Brazil falls from 24th to 27th spot. Puerto Rico fell from 70th to 74th, due in part to spiraling international debt and domestic unemployment. Related to the island's unemployment woes, and of particular concern to its fledgling IT-BPM sector is the migration of skilled Puerto Rican citizens to the US mainland. Similar tepidity is seen in most of the service delivery locations in China, where a gloomy domestic economy has taken focus away from the country's large and potential rich domestic IT-BPM market.

Tholons Top 100 Rankings 2016: New Entrants

2015	Region	Country	City
93	Asia Pacific	Philippines	Dumaguete
96	Middle East and Africa	United Arab Emirates	Dubai

Source: Tholons Top 100 Outsourcing Destinations 2016

The Tholons Top 100 List also welcomes two new Asian cities in 2016 – Dumaguete City (93rd) from Philippines and Dubai (96th) from United Arab Emirates (UAE). Dumaguete has established its identity as a viable (and alternative) IT-BPM destination in the Philippines. The city's relative proximity to Cebu City, and access to the rich talent pool of the southern Philippines archipelago, add to its favorable draw. A skilled local talent pool is also available, with the talent pipeline being sustained by several universities situated in Dumaguete, most important of which is Silliman University. Dumaguete's outsourcing portfolio is diverse, which is highly significant, especially when considering that Dumaguete City has a population of less than 150,000. Beyond the traditional Contact Support Services typical of other country locations, there are also established providers delivering a slew of outsourced processes such as graphic design, software programming, and medical transcription among others. Currently, the largest providers in Dumaguete are Teletech, Qualfon and SPI Global.

Significant for the other new entrant was the establishment of the Dubai Outsource City (DOC) in 2007. DOC provides the communications infrastructure and modern state-of-the-art facilities for companies looking to outsource in UAE, be it in finance, healthcare, HR, IT or call center operations. DOC currently houses 120 companies including Genpact Services. Dubai also houses the largest ICT hub in Middle East and North Africa, the Dubai Internet City (DIC), which opened in 2000. DIC is home to a number of Fortune 500 companies and global ICT giants including Microsoft, Oracle, HP, IBM, Dell, Siemens, Canon, Logica, Sony Ericsson, Schlumberger and Cisco. Facebook and LinkedIn are also housed at DIC as well as start-ups and many small and medium enterprises. DIC involves business activities in software development, internet services, business services, and consultancy among others. If progress for the DOZ is sustained, Tholons believes Dubai capable in establishing itself as the primary service delivery hub for the region.

About Tholons

Tholons is a Services Globalization and Investment Advisory firm that combines "Best of Breed" consulting experience with deep execution expertise and investment insights to deliver truly effective services to its clients. Tholons offers a detailed understanding of business processes and combines it with practical hands-on expertise in executing the strategy. Tholons draws upon the considerable experience of a hand-picked team, which has successfully formulated and executed globalization strategies to unlock value for Global Fortune 1000 companies. Service providers leverage Tholons expertise to optimize their global delivery model. Tholons advisors engage with government bodies to build compelling strategies for making countries attractive destination for outsourcing.

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