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India Set to Challenge China as Global Offshoring Sector Evolves

India is diversifying from IT powerhouse to a substantial manufacturing destination

Paris, September 7, 2007 - A survey by Capgemini, one of the world's foremost providers of consulting, technology and outsourcing services, and ProLogis, a global leader in industrial real estate, suggests that India could challenge the position of China as the manufacturing center of the world in the next three to five years.

For the past 15 to 20 years, Western economies have seen the economic role of India and China move from being mainly raw material suppliers to become important production and service platform providers, as well as growing consumer markets. While China is currently the preferred offshoring destination for manufacturing activities, India is the destination of choice for IT, finance and customer service activities. However, according to the responses of more than 340 of the world's largest international manufacturing companies - from Europe, Americas and Asia Pacific - India will become a substantial manufacturing destination over the next three to five years.

According to the report, current developments suggest that some of the main manufacturing locations in China are becoming too expensive relative to other countries in the region, which includes India. While 43% of the companies that offshored manufacturing activities to India have not achieved their initial objectives, the main barrier to success has been a lack of manufacturing and supply chain infrastructure. If the Indian Government makes significant investments in this infrastructure then it should be able to attract foreign manufacturing activities and realize its potential.

Despite China's booming manufacturing industry and rapidly growing consumer market, the report found that the clustering of manufacturing centers around major Eastern coastal regions has also led to a surge in labor and real estate costs. Wages, being the most significant cost, are now around double the average wages in neighboring countries. Furthermore, moving to other parts of China may not be a solution as a lack of infrastructure would mean a significant rise in transport costs.

Roy Lenders, Vice President for Consulting Services, Capgemini, said, *"India has a proven track record in providing quality services to overseas organizations and has more open policies on foreign entry to the market. If the Indian government can provide the right investments in infrastructure for manufacturing and supply chain operations, it will soon become the destination of choice for manufacturing worldwide. "*

Although executives surveyed indicated strong interest in offshoring manufacturing activities to India in the coming years, they said currently their companies are more successful in offshoring to China than to India today. Eighty-three percent of the companies that offshored activities to China have achieved or outperformed their expected benefits, compared with 69% for India. However, this varies widely depending on the activity. For example, in India 67% of companies have outperformed their expected benefit for IT offshoring, while less than half have not achieved their benefit for manufacturing offshoring. In contrast, about 90% of executives indicated that they have achieved the expected or better-than-expected benefits in China for the manufacturing offshoring activities.

The survey also found that outsourcing and offshoring to China and India has had a relatively limited impact on the corresponding Western operations. According to the study, outsourcing and offshoring of activities has led to a closure of corresponding Western activities in, on average, no more than 10% of the cases.

“The results of this study provide tremendous and useful insights to professionals within the logistics and supply chain industry. It most definitely will support companies in their decision making around planning, location and development of industrial real estate in Asia”, says Bert Angel, Senior Vice President of Global Services within ProLogis.

About the survey

The report is based on a survey conducted in the first half of 2007 with the objective of providing a high-level understanding into the experiences of large manufacturing companies when outsourcing and offshoring in China and India. It also provides insight into future trends in the outsourcing and offshoring sectors. Copies of the key findings of the survey can be downloaded at www.capgemini.com

About Capgemini

Capgemini, one of the world's foremost providers of consulting, technology and outsourcing services, enables its clients to transform and perform through technologies. Capgemini provides its clients with insights and capabilities that boost their freedom to achieve superior results through a unique way of working, which it calls the Collaborative Business Experience. Capgemini reported 2006 global revenues of EUR 7.7 billion and employs more than 80,000 people worldwide. More information is available at www.capgemini.com

About ProLogis

ProLogis is the world's largest owner, manager and developer of distribution facilities, with operations in 105 markets across North America, Europe and Asia. The company has \$29.9 billion of assets owned, managed and under development, comprising 446.9 million square feet (41.5 million square meters) in 2,523 properties as of June 30, 2007. ProLogis' customers include manufacturers, retailers, transportation companies, third-party logistics providers and other enterprises with large-scale distribution needs. Headquartered in Denver, Colorado, ProLogis employs more than 1,300 people worldwide. For additional information about the company, go to www.prologis.com.