



THE TECH GIANTS HAVE MOVED TO VIETNAM. WHY & WILL YOU FOLLOW SUIT?

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Overview

In 2004 the first United States ambassador of Vietnam, Pete Peterson said “You’re going to see Vietnam competing with India and some of the other countries doing this [outsourcing] within the next five years.”¹ His projections were correct, 10 years later Vietnam is now quickly becoming one of the most significant countries in Southeast Asia. Its population of 92 million has an Internet penetration of over 37 million people.

When referring to Vietnam, people sometimes have images of a war-torn country from 40 years ago. However, the rebuild and transformation has already happened and has been happening for the past 15 years. The construction and traffic chaos are signs of transformation from the past. No longer is the bicycle the most common means of transportation - they’ve been replaced with scooters and cars. The economy is booming so are the high tech sector and software outsourcing business.

There have been many shifts in Vietnamese culture and foreign policy that have set it up to be the next top destination for technology & software outsourcing.

Many tech giants have already caught on to this shift. This paper will evaluate why they have brought outsourcing operations to Vietnam and how you can get started doing the same.



Tech Giants in Vietnam

“Vietnam is making a big push to turn itself into an outsourcing powerhouse. Mathematics instruction has long been the strong suit of Vietnam’s educational system, and now the country’s government is trying to train people across the country in computer skills”² - The New York Times. The following companies have already joined Vietnam in this push.

Intel

“In January 2006, Intel Corp first announced a US\$300 million plan to set up assembly and test facilities in Vietnam. The total registered investment was increased to \$1 billion ten months later. The chipmaker has so far disbursed \$450 million into its Vietnamese operations, nearly 50 percent of the registered capital”³

Samsung

“South Korea’s Samsung Electronics Co Ltd (005930.KS) has applied for a license to invest \$3 billion in building a second smartphone factory in northern Vietnam, a government official said on Monday.

Samsung Electronics Vietnam plans to build the factory in Thai Nguyen province, where it opened a \$2 billion smartphone plant in March, said a senior official at the province’s Planning and Investment Department.

“We are working on the project,” said the official, confirming

an earlier report by Dau Tu, a newspaper controlled by Vietnam’s Planning and Investment Ministry. “There are still a few things to fix.”

Samsung has been increasing production in Vietnam to reduce costs and better compete with the low-priced smartphones of Chinese rivals in particular.

A subsidiary of the electronics giant, Samsung Display Co Ltd, said in July it received regulatory approval to build a \$1 billion display module assembly plant in the country.”⁴

Nokia

“The world’s leading mobile phone maker Nokia plans to open a handset factory in Vietnam next year in order to take advantage of growing markets in Asia.

Nokia said it planned an initial investment of around 200 million euros (\$275 million) “with further sizeable investments thereafter”. The factory in Vietnam is part of

its effort to reach the billions of people who do not own a mobile device or have access to the internet.”

Other Tech Giants in Vietnam

Development & Manufacturing:

Canon
Fujitsu
Foxconn
Microsoft
Panasonic

R&D Outsourcing:

Alcatel-Lucent
Amdocs
Avaya
Cisco
Juniper Networks NEC
Toshiba
Hitachi

“

Vietnam is making a big push to turn itself into an outsourcing powerhouse. Mathematics instruction has long been the strong suit of Vietnam’s educational system, and now the country’s government is trying to train people across the country in computer skills.”²

- New York Times

Why did they go to Vietnam?

Let's stop and evaluate why these tech giants moved to Vietnam. The following reasons have made Vietnam a likely choice for the IBM's of the world. It is the current destination of cost-effective IT and software resources where supply will continue to exceed demand for many years.



COST EFFECTIVENESS

"In Vietnam, labor costs are 90% less than those in the U.S., which means significant cost savings for your company. Even compared to other outsourcing destinations."

"Vietnam remains one of the most competitive options in the world for software outsourcing due to its competitive labor costs and other business cost"[2010]."

"Low labor cost in Vietnam is attracting many Japanese companies in outsourcing their software development services [Nikkei 2014]." ⁵



TAX INCENTIVES

"The generally applicable Corporate Income Tax (CIT) in Vietnam is 25%. However, preferential tax treatment including tax exemption, tax reduction and preferential tax rates (10% and 20%) is available for investments in encouraged sectors including health, education, high-tech, infrastructure development and software and encouraged special economic zones or areas with difficult socio-economic conditions. As a part of the preferential tax treatment, investments in encouraged sectors projects attract a corporate income tax exemption for first 4 years of operations, income tax at 50% of the preferential rate."⁶



LABOR FORCE

"A perfect phrase to describe the workforce of the Vietnam software industry and its outsourcing industry in general is "keen on learning". The country has thousands of university and college graduates who are more than capable of keeping up with the demand for professionals in the Vietnam software outsourcing industry.

What's more is that Vietnam has a low turnover rate of less than 5%, as compared to other Asian countries whose turnover rate ranges from 10% to 20%." ⁷



SOCIO-ECONOMIC STABILITY

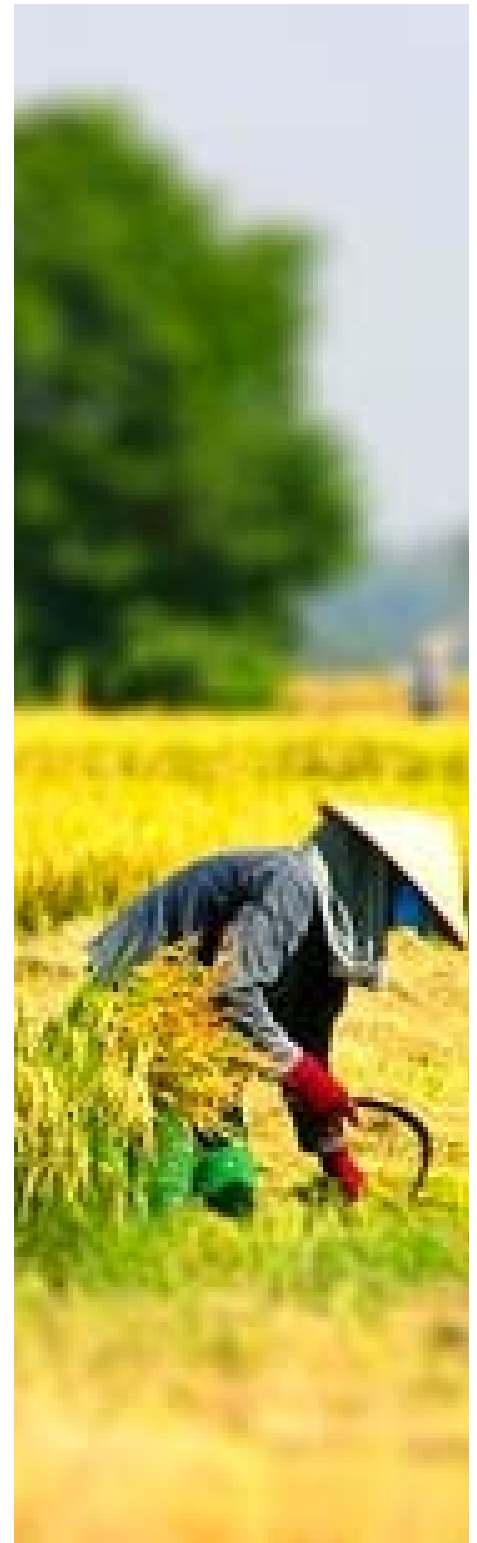
"In terms of socio-economic stability, Vietnam is heads above other politically or economically-fragile nations. For example, if you consider the political instability in Thailand, the situation would not bode well for your investment. In Vietnam, things are pretty much stable politically, socially and economically.

Religious stability, a free market which has a centrally-planned economy, a protection for intellectual property rights – these are the other reasons why it pays to invest in Vietnam." ⁸



LANGUAGE

"Both the English and Vietnamese languages use the Latin alphabet which makes it easier for the locals to learn and speak the English language. As such, companies who wish to outsource their IT projects to a Vietnam software outsourcing firm would have no problems communicating." ⁹



Getting started in Vietnam

A suggested process on getting started in Vietnam

Step 1:
Start your research on the top outsourcing companies in Vietnam on www.amchamvietnam.com and/or www.vinasa.org.vn.

While looking, try to avoid companies that provide both services and products because they are not focused.

Step 2:
Contact the companies you feel are promising and have offices in your country. Review their website and arrange a visit to their local offices in your area. If you are still impressed arrange a visit to Vietnam. Try to see as many companies as you can during your time in Vietnam.

Step 3:
Before you go make sure you gather their practices and process. Learn about consistency, agility, and quality in a sample pilot project.

Step 4:
Discuss total cost of the service (IT cost, travel, data pipe, leverage factor, inflation, etc.) while you are there but most importantly get a feel and sense for the company culture and see if it is a fit for your organization.

Resources

For general info about Vietnam outsourcing
www.vietnamoutsourcing.org

A directory of Vietnamese Outsourcing companies
www.amchamvietnam.com

Learn about the biggest Software & IT Parks in Vietnam

South Vietnam - Ho Chi Minh City
[Quang Trung Software Park](#)
[Saigon Hi-Tech Park](#)

Central Vietnam - Da Nang
[Da Nang ICT Infrastructure Development Centre](#)

South Vietnam - Can Tho
[Can Tho University Software Centre](#)

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