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Outsourcing opens opportunities

(25-03-2007)

Watch out, China and India: Viet Nam has set its sights on claiming a share of the booming software outsourcing industry. **Do Le Ngoc Bich** finds out what Viet Nam has to do to compete with the world's IT giants.

The world software outsourcing industry needs skilled, low-cost labour, and Viet Nam is on its way to providing it – assuming the country can make a few key changes.

The nation's fledgling software outsourcing industry has grown by more than 50 per cent annually over the past three years, according to the HCM City Computer Association. But 2006 software outsourcing revenues of US\$90 million may be just the beginning.

Software companies in the US, EU and Japan are likely to spend \$27 billion on outsourcing this year, and India, the world's go-to country for outsourcers, only has the capacity to satisfy half of the predicted demand. That leaves the door wide open for Viet Nam and the 20,000 information technology (IT) engineers earning degrees here each year.

Starting small

Domestic involvement in the software outsourcing industry began about 10 years ago, but development has especially taken flight in the past five, says Nguyen Huu Le, chairman of the advisory council for TMA Company, one of the biggest software outsourcing firms in Viet Nam.

Overseas Vietnamese and local software companies jumped at the opportunities presented in the mid-90s when companies in developed countries began large-scale "outsourcing", using subcontractors in developing countries to meet the need for IT human resources.

At the time, Vietnamese software enterprises were relatively small, and the country had yet to develop a reputation for IT-trained labour. The crisis that struck the global IT industry in 2000 and 2001 weeded out the weakest domestic software companies and helped the superior enterprises tweak their strategies.

Since 2002, thanks to the recovery and stable growth of the world IT sector,



Tech training: Students visit the GHP company in the Quang Trung Software Park. The park has attracted 62 domestic and foreign companies with a combined investment of US\$9.5 billion and created jobs for 2,779 workers. Each year, Viet Nam sees the graduation of about 20,000 information technology engineers. — VNA/VNS Photo Thanh Vu



The right track: An instructor at the University of Technology helps students create software to correct Vietnamese spelling. Experts say Viet Nam needs improved IT training to cater to the need for software outsourcing. — VNA/VNS Photo Dinh Na



Talent show: Vietnamese Talent Awards are presented to honour organisations and individuals who have made great contributions to the development of the country's software technology industry.

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Vietnamese software outsourcing firms have been steadily developing and solidifying Viet Nam's place on the global software outsourcing map. As India and China have fallen short of the voracious demand for IT labour, multinational firms have started to pay attention to Viet Nam as a potential software outsourcing destination.

Many foreign companies have come to Viet Nam looking to set up branches and recruit IT engineers from the abundant low-cost workforce. Software giants including Microsoft, Nortel, Alcatel-Lucal, IBM, Oracle, Hitachi and NEC are among the companies that have outsourced to Viet Nam, he says.

Customers, especially in Japan, are looking to Viet Nam for an alternative to India and China, said Kevin Nguyen, chief marketing officer and co-founder of Global Cybersoft.

Japanese companies have taken an interest in Viet Nam's potential for software outsourcing. Big-name companies like Hitachi, NEC, Sanyo, Nissen and NTT have already begun outsourcing to Viet Nam.

Likewise, Japan represents a particularly attractive market for Vietnamese software outsourcers, says chairman of the Viet Nam Software Association (Vinasa) Truong Gia Binh. Japan's software outsourcing abroad is worth about \$3 billion per year, according to Binh.

At a conference on strategies to develop Viet Nam's software industry from 2006-2010, head of the Ministry of Posts and Telematics' IT Industry Department, Nguyen Anh Tuan, asserted that Japan took top priority in Viet Nam's software development strategy. Managing to provide even 10 per cent of the software Japanese companies import each year would be an important achievement for Viet Nam, he said.

Cultural similarities, geographical proximity, strong political relations and economic co-operation policies make the two countries particularly suited to an outsourcing relationship, says Ton Quoc Binh, director of High Performance Technology Joint Stock Company (HiPT).

Development potential

Experts have begun to wonder whether Viet Nam has the potential to become the next India of the high-tech world. A flood of intelligent young Vietnamese are entering the workforce each year, eager to make their mark on new technology.

What's more, the educated Vietnamese labour force exhibits strong mathematical and technical aptitude, Quoc Binh says. According to Binh, the IT sector demands independent study skills, making Vietnamese students, if properly trained, suitable to become professional developers.

Employers who have experience with Vietnamese engineers have expressed their satisfaction with their employees. Joe Woolf, CEO and founder of Atlas Industries, was quoted by the New York Times on September 30, 2004, saying he chose Viet Nam over other countries for outsourcing because he found Vietnamese workers to be honest and less apt to switch jobs. Atlas currently has 100 staff working in HCM City.

Vietnamese software engineers are also appealing because of their price tags: around \$10,000 per year, in comparison to the \$150,000 average salaries of developers in Japan.



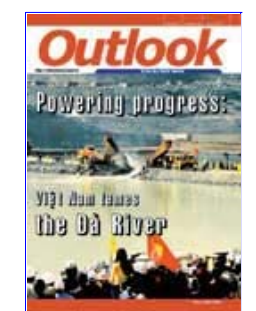
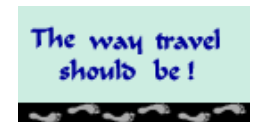
A world away: Software specialists work away at the High Performance Technology Joint Stock Company

Targets for the software industry through 2010

- Reaching an annual growth rate of 35-40 per cent, with revenues of over US\$1 billion and exports accounting for 40 per cent

- Training 150,000 IT engineers and technicians, with 40-50 per cent software professionals

- Becoming one of the world's 15 biggest software outsourcing nations



How to get there

Viet Nam's software pioneers are still facing some challenges in competing with rivals like India, China and South Korea.

Many experts claim that the country's quantity and quality of human resources are insufficient to compete on the international market.

AT Kearney, a global management consulting firm, ranked Viet Nam 20th out of the 25 most attractive countries for offshore IT services, business processes and call centres. The company's annual ranking, known as Global Services Location Index, is based on financial structure, human resource quality and availability, as well as the overall business environment.

The less-than-stellar rating is due in part to Viet Nam's lack of a network of top-flight technology universities, like those that trained much of India's IT workforce, Quoc Binh says. Local outsourcing companies lack technicians with experience and training in system design, making them unable to conduct large-scale software projects.

The biggest obstacle for Vietnamese IT engineers, however, is weakness in foreign languages like English or Japanese, according to Quoc Binh. English reading and writing skills for Viet Nam's IT engineers have been assessed at a low level while their counterparts in India have fluency, he says.

What's more, Vietnamese labourers tend to exhibit weakness in working in groups.

And despite the country's low cost of labour, costs like internet and electricity tend to be higher in Viet Nam than in their East Asian rivals. Inadequate infrastructure and a relatively undeveloped legal system also hinder Vietnamese firms from maintaining competitive prices.

While the software industry is growing quickly, Viet Nam still hungers for big companies, Tuan says.

Le agrees: "We have many software companies but few have the capacity to implement large, complicated projects."

Solutions

The answer, Le says, is investing to expand training.

"We all know that investment flow after WTO accession will lead to higher demands on human resources, but we still aren't prepared. This will cause a shortage of high-quality IT workers in the coming years."

VietSoftware general director Tran Luong Son echoes Le's sentiments and says that IT training should focus on helping Vietnamese engineers work both in local and international environments.

Le says another solution is to diversify education styles by allowing software enterprises and foreign universities to open IT training courses in Viet Nam.

The introduction of foreign companies doesn't mean Vietnamese companies should lose their own distinctive identities. Binh suggests that Vietnamese firms determine their own unique characteristics, improving their competitiveness on the international market by specifying what Vietnamese companies have to offer.

"The Government and enterprises have made a lot of efforts in the past few years, but co-operation between the two sides should be more efficient so that the industry will develop further," Le says. "With good preparation, we will have the opportunity to become Southeast Asia's outsourcing hotspot in the near future."
— VNS