

Vietnamese Software Parks

FACTS AND SUGGESTIONS

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I. Facts of VIETNAM software parks

1. The current situation

Over the past five years, many software parks have been set up along with the boom in establishment of software companies. Up to now, there are at least 9 operational software parks in Vietnam: four in HCMC (Quang Trung Software Park - QTSP, Saigon Software Park - SSP, E-town Smart Building, and VNU-ITP), and five in other cities (Đà Nẵng Software Park - DSP in Đà Nẵng city; Huế Software Park in Huế City; Cần Thơ Software Park - CSP in Cần Thơ City; Hải Phòng Software Park - HSP in Hải Phòng City; and Hà Nội Software Park managed by Hanel). Some of cities and provinces of Vietnam including Hà Nội, Thanh Hoá, Bà Rịa-Vũng Tàu, Đồng Nai, Bình Dương ...are also in preparation to build new software parks.

Almost of the above-mentioned software parks (SPs) have used capital from state budget, except E-town Smart Building invested by a joint stock corporation (REE Corporation).

These SPs offer high-quality environment for working to some 120 software companies (making up more than one-sixth of total nationwide software companies), including nearly 50 companies with wholly foreign invested capital. Some 4,000 developers/programmers are working in these parks (or over one-fourth of the country's software workforce). And they are training more than 10,000 workers in various international programs.

2. Forms of SPs

Based on the SP formation over the past five years, we can divide them into two forms as follows:

- The first includes IT buildings or software technology buildings like E-Town smart building, SSP building, DSP building, CSP building... This form is easily built and their functions and contents of activities adjusted because of its small and medium size as well as specific and immediate effects on the economy. This form is in conformity with short-term investment plans; and only with localities (cities and provinces) which do not have a lot of advantages as Hà Nội and HCMC. But it is not the case that any city can build this SP form successfully, because it also requires both full-fledged infrastructures and high skilled IT workers to fully tap the capacity of the building. This form is in essence rental office building whose customers are mainly software companies.

- The second are software parks (SPs) like Quang Trung SP in HCMC, etc. If the first form is invested to build rental offices with advanced facilities for software production, software services and IT training, then the second is invested to construct technical infrastructures to attract investments for developing of software industry and facilitate business environment for software industry. It is referred to the name of high-tech park specialized in software industry. According to the International Association of Science Parks (IASP), a software park usually has formal links with one or more universities, is

designed to encourage the formation and growth of knowledge-based industries and has a management function actively engaged in the transfer of technology and business skills to tenant organizations on it. This form needs to invest with huge capital in the required area (According to IASP - A science park / software park covers an average area of 115 acres (47 hectares). It is focused on creating socio-economic effects in a long term. Location suitable for high-skilled workforces, universities and R&D centers is the factor that must be considered carefully before planning construction. Therefore, this form is only in conformity with large cities like Hà Nội, HCMC and other cities (Hải Phòng, Đà Nẵng, Cần Thơ).

II. Shortcomings and suggestions

1. Shortcomings

Although the IT industry has recorded fast achievements, especially in policies and telecommunication infrastructures, there are a lot of disadvantages and weaknesses that place barriers to foreign and local investment in Vietnamese software parks (VSPs):

- Financial systems: The major problems to the Vietnam high-tech financing system are the low speed-line payments, immature venture capital financing system and inefficient stock market. Vietnam also does not have a full-fledged credit system.

- Intellectual property protection: Currently, a very important issue is how to protect intellectual property. Although Vietnam government provides many incentives and facilities, the parks still cannot lure high-tech companies because of

property problems. Intellectual property protection is a major source of contention between Vietnam and foreign partners/companies in the high-tech industry. According to the Business Software Alliance (BSA), in 2003, the piracy rate of Vietnam is 94%, topping the world's piracy list and causing a loss of US\$49 million to the copyright owners.

- Most of SPs do not establish close relations and cooperations with research institutes and universities.

- Most of companies are typically small and medium enterprises (SMEs) with high dependence on customers and partners. They may go bankrupt and leave the SP if their customer is in trouble.

- Their business type is either software production or software service. So their operations are limited as compared to high tech parks. This causes difficulties in marketing the SP and its members. (In high-tech parks, the potential customers of software production or service companies are other companies located in the same site).

- State investment in infrastructures remains modest due to a lot of administrative formalities.

- Professional associations & clubs are not developed. There are still a lot of problems in regulations on land-use right transfer, land rental which need to adjust.

- "One-door" policy is not yet effectively implemented. Alternatively, most of SP developers are state-owned enterprises or institutions, so they are still influenced by bureaucracy.

- The marketing strategy of SPs is also not fully devised.

- The IT workforce training strategy must be improved continuously as quick as possible.

- The strategic identification for integration in the global software production/service industry (BPO, partner with major providers, diversity to new markets..) is still not distinct.

- Local software markets are not promoted and supported appropriately.

2. *Suggestions for the Government and Vietnam Software Parks (VSPs)*

2.1 Regarding central & local government

* Policies & legal framework:

(1) Intellectual property protection: The Government must take effective measures to bring intellectual property (IP) protection laws into reality as follows: strictly punishing IP violators; taking criminal proceedings against IP violators; supporting, encouraging, exempting charges for IP and copyright registration; upgrading and improving the IT/SW awareness of the population by educational programs (in schools, through mass-media frequently ...); buying copyright IP products; and reducing income tax for companies which use copyright IP products.

(2) Abrogating the monopoly in telecommunications: It is necessary and very important for the Government to shorten the roadmap to full abolishment of monopoly given to its telecommunications business by the following methods:

- Forming its own corporation to manage telecommunications lines (axis) linking nationwide and international nodes.

- Applying one - price mode and one - service regime for every telecommunications service providers (Voice, Internet service providers..).

(3) Venture capital: In fact, the venture capital firms (VCFs) have done business in Vietnam ineffectively, so this activity is still not developed as desired. There are the gaps among VCFs, startup software firms and growing software firms. To narrow the gaps some suggestions are given as below:

- The biggest issue of Vietnam's stock market is lack of transparency. Hence, it should be settled to promote the establishment of VCFs through the

stock market.

- The Government should issue regulations to facilitate the right environment for VCFs.

- Vietnam Government should negotiate with large foreign software companies such as Microsoft Co, LTD to help start-up software firms and growing software firms buy software at lower prices and fees.

(4) Main points and pilot policies/regulations for some of SPs: First, the Government shall implement long - term and stable priority policies for the IT industry. In addition, it also gives incentives to software parks which are admitted as national main points; second, some SPs are pilotly internationalized in cooperation with foreign countries; and third, best incentives and facilities are granted to some of main-point SPs to attract multinational investors in compliance with current legal framework .

(5) Improving IT/SW awareness of the population and increase the number of IT/SW users: The Government should continuously assist and encourage programs to improve IT/SW awareness and skill to use IT/SW products; and reinforce the education of IT/SW in schools.

(6) The "Government as a Customer" program will be helpful to boost up the local software market. The detailed methods are as follows :

* Promoting E-government program and giving priority to a typical SP (for example, Quang Trung SP) so that it becomes the ideal environment for software production in terms of protection of intellectual property, a free-flow of ideas between research and industry, and telecommunications infrastructure with inexpensive Internet access; and appointing this SP as a contractor for the IT- applied national projects.

* The Government should require the implementation of information exchange standards, for example mandating only one Vietnamese font

for all official business in the country and the unique format of all banking forms; and provide a centralized statistics database for market information. This would create immediate demand for those having to upgrade to meet requirements and enhance domestic capabilities. And the typical SP has to catch up with market requirements from this policy.

- Master plan for the Vietnam software parks system:

From the reality of SPs development in Vietnam today, especially from the Quang Trung SP case, the Government should give its attention to the following points:

- (1) There must be a consensus in the role and necessity of the software city model for the software technology development (it's an environment to attract the best, fastest and major investments for IT growth). Next, there must be necessarily a national master plan of the high - tech area, the concentrated software production parks, standards and necessary conditions to establish an SP.

- (2) Based on the master plan of SP system, both of central & local government should concentrate their efforts on the merging or changing functions of small and incapable SPs on the same locality. Nowadays, in HCMC, there are 4 SPs which disperse human resources and financial and technological supports, thus it caused big losses to Vietnam. Ineffective SPs should be reorganized and specialized to exploit their strengths.

- For SP developers: In any cases, SP developers must be sufficiently capable of establishing unified missions and goals for SPs and send their requirements to international and local investors. On the other hand, SP developers must continue to provide the best possible environment for the software industry development in SP(s). This includes:

- Economic incentives such as substantially reduced tax rates and

other supports for companies and employees;

- High quality telecommunication links at a low price;

- International quality buildings and facilities; and

- Easier access to QTSC from HCMC.

In the present phase, SP developers must focus on making administrative reform radically towards "one-stop" procedure. This helps investors reduce their wastes of efforts, time and money. Furthermore, the Government should consider to convert SP developers into joint stock company and invite an experienced SP operator to manage the park as soon as possible.

2. 2 Regarding VSP responsibilities:

- For R&D centers and academy relationships:

VSPs should attach special importance to following methods right from the start:

- Be necessary to deploy the construction of R&D centers inside the SPs and make easy access for universities and researchers.

- Transfer information and technology and allow universities and institutes to build their training and R&D centers inside the SP.

- Give incentive policies and combine the SPs' training programs with universities and institutes.

- Investors: Most of SPs prefer to attract foreign companies to invest and provide them with various privileges, but pay less attention to local entrepreneurs. The Government should rectify this wrong practice and give equal incentives and facilities to firms whoever they are.

- Technology level: There are a lot of gaps in this area between HCMC, Hà Nội and other provinces nationwide. Other local SPs cannot attract talents and professionals to join the park because of their limitations in financial benefits, R&D facilities, human resources, and attractive

projects provided by the SP. Consequently, Vietnam Software Parks still face a lot of problems in its development.

To surmount those disadvantages, they must:

- (1) establish the list of multinational or large firms they need to attract investment and encourage local entrepreneurs to join the SP and provide equal services to them, not focus only on foreign companies or joint ventures;

- (2) identify target markets suitable for their scale and capacity;

- (3) co-operate with large universities and institutes, and provide labs and facilities for them to generate orders of training programs as well as for R&D centers; and

- (4) build facile networks and communications from the outset.

- Creating the perfect business environment in SPs: This work shall be done as follows:

- (1) Building a stable technology infrastructure and ensure a convenient environment for foreign experts to live and work;

- (2) Designing and improving the "one-stop" policy or procedures for newcomers and investors, and providing after-licensing services for investors;

- (3) Establishing centers for legal consultancy, business doing, protection of intellectual property, evaluation of software products ... inside SPs;

- (4) Enhancing managerial skills for SP developers in accordance with ISO requirements; and

- (5) Creating and giving facilities to internationalize and popularize the SP companies' products.

- Venture capital: The following methods are suggested for successful developments of both VSPs & venture capital firms (VSFs):

- (1) VSPs must play an active role to narrow the gap between VCFs and local firms by helping VCFs and new software firms understand their mutual wants and supplies;

(2) VSPs should have good cooperative relations with VCFs. VCFs can request VSPs to assist start-up as well as growing software firms in which VCFs decided to invest capital, in terms of transfer technology and product planning. As mentioned above, VSPs can also play the role of middlemen who screens new software firms (start-up and growing software firms) for VCFs' portfolio;

(3) VSPs must strongly act as a hunter for software projects from potential customers and then channels them to start-up software firms;

(4) VSPs help start-up and growing software firms to get access to government-funded programs, for example, the HCMC program for training 300 PhDs and MAs, the credit program for demand stimulus;

(5) VSPs will be able to attract venture capital if they create the right legal, business and financial environment and culture to foster the growth of creative entrepreneurs and provide them with tax incentives and other supports ■

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Measures to Lure More Foreign Investment to HCMC and Develop It into a Commercial and Financial Center

by LÊ SONG TÙNG

Taking advantages of its favorable position and potentials, HCMC has been playing an important role in the process of economy development of Vietnam. Since the economic reform, HCMC has been definitely leading the country in attracting foreign investments so far by making the best use of its natural conditions and appropriate policies. Foreign investment projects in HCMC have surely affirmed its role as one of significant forces to the city's economic growth.

However, to maintain its stable and sustainable growth and become a commercial and financial center, HCMC should have an orientation for investment structure, especially measures to make use of foreign investment effectively. To reach this goal, city authorities have to work out long-term strategies as suggested below:

- Making the investment and business climate more competitive to attract and encourage domestic and foreign investors to develop high-quality services and hi-tech industries in which it has comparative advantages.

- Creating favorable conditions with a view to encouraging investors to form mutual funds and finance companies in order to diversify stock market.

- Allowing foreign investors to take part in certain fields such as: real estate, high quality health services and

telecommunications.

- Building more open investment environment; making policies on investment fairer and more transparent, beefing up the infrastructure and adopting tax policies attractive to foreign investors.

- Encouraging investments in hi-tech industrial parks, modern infrastructure, real estate market (especially high-class apartment buildings), general education and vocational services

- Simplifying administrative procedures with a view to saving foreign investors from waste of time and money.

- Beefing up marketing, and introducing new policies and invest environment to countries with high potentials for overseas investment, such as Japan, USA and some European countries.

- The plan for 2006-2010 must emphasize changes in the structure of industry by increasing the growth of the service sector to a level equal to that of manufacturing and construction sector; making the share of the service sector the biggest one in the GDP; and helping this sector gain a growth rate higher than that of the manufacturing and construction sector after 2010.

In short, good implementation of these measures will be able to increase the flow of FDI to HCMC and help turn it into a commercial and financial center where great contribution to the economic growth will be generated ■