

Asian Emerging Countries: Missing the Boat

IBM's new global delivery center in Vietnam highlights how poor security and ineffective policies holds Pakistan, Sri Lanka and Bangladesh back

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KEY POINTS

- Vietnam has been one of the region's hottest IT markets over the past two years, and is increasingly mentioned in the same category as China and India. In a sign of its growing importance, IBM recently established a global delivery center in Ho Chi Minh City, Vietnam (its fourth in Asia Pacific), and plans to use the country's immense young French-speaking labor force to better cater to French clients.
- Vietnam has a population of over 80 million, with around 70% under 30 years old. The country's high economic growth, potential, IT talent and relative national stability were key factors behind IBM's decision to invest more aggressively in the country.
- The newly established IBM center will cooperate with leading ISVs in the country such as TMA, Global CyberSoft and FPT to develop locally targeted solutions. This strategy will help IBM build on its ISV and SI network in the country to help realize domestic IT opportunities.
- Cost will continue to be an important factor for MNCs, but as prices increase in India and elsewhere, there will be room for countries such as Vietnam to provide niche services at a lower cost. Moreover, MNCs will continue to look for new locations in Asia to mitigate their country-specific risk.
- Other emerging countries in Asia Pacific have an opportunity to benefit as global delivery centers and provide an alternative to India, where costs are rising rapidly and talent availability is increasingly tight.
- The locations and regional strengths of Sri Lanka, Pakistan and Bangladesh place them to take advantage of this second wave of MNC offshoring, but these nations are being held back due to poor national security, ineffective policies and a failure to position their offshoring niches beyond cost arbitration alone. Until these issues are addressed, MNC vendors will continue to look elsewhere and instead invest in regions close to these countries.

NEW OPPORTUNITIES FOR ASIAN EMERGING COUNTRIES

In the recent past, Asian IT markets have gained a lot of attention from multinational players and are viewed as drivers for increased growth and revenues. With the success of offshoring to India and China, MNCs are looking at other Asian countries as BPO and IT offshore locations and this is opening new vistas for IT vendors. Virtually all IT MNCs are projecting a doubling of revenues from offshoring to Asian emerging markets by 2010. Toward this objective, in February 2007, IBM opened its Global Delivery Center (GDC) in Ho Chi Minh City, Vietnam. It is estimated that the country produces around 15,000 ICT graduates every year, of which 70-80% have a science background. Vietnam's strategic geographic location, skilled French-speaking labor

pool, favorable business policies and competitive cost structures (20-30% less than India) are some of the key advantages that position Vietnam as an attractive destination for IT companies. With the establishment of the delivery center, IBM plans to better cater to the French market, as the French SMB segment continues to grow substantially. Also, the company is partnering with local ISVs to further penetrate the domestic market.

In their search for offshore BPO and IT centers, vendors now look for a multi-faceted package of the right skill-set, competitive cost structures, and favorable country dynamics from an economic, political and business policy perspective. The game, therefore, is no longer about cost arbitrage alone. Increasingly, emphasis is more on the countries that can cater to a specialized segment. In addition, MNCs consider the potential of the domestic software and hardware market for future expansion. The combination of the factors above has kept India and China far ahead of other Asian countries. Although still playing catch-up, countries such as Vietnam, Malaysia and Philippines are slowly narrowing the gap.

In contrast, Sri Lanka, Pakistan and Bangladesh have had to work hard to lure business to their shores. These nations have been touting themselves as cost-effective destinations, but have not clearly articulated their offshoring niches and have struggled with challenges such as poor national security and IT policy missteps.

MISSION CRITICAL

In the rapidly evolving global ICT arena, competitive pressures are driving large corporations to seek high-quality, cost-effective offshoring solutions in new and emerging markets. Vietnam, Malaysia and the Philippines have aspirations to become large, specialized offshoring hubs and have found some success. However, emerging countries such as Sri Lanka, Pakistan and Bangladesh – in spite of their inherent potential – are slowly responding to the promising opportunities and are failing to grab their fair share of this considerable market opportunity.

In spite of favorable economic indicators, Asia's emerging countries share a lack of vision in developing a niche offshoring position and high political and security threats. Table 1 provides an overview of these countries' key characteristics in relation to more successful offshore markets such as Vietnam, the Philippines and Malaysia.

Table 1: Country Overview

Country	GDP Nominal (2006) (In US\$ Mln)	GDP Real Growth (2006)	Population (July 2007) (In Mln)	Median Age (In Yrs.)	Literacy Rate
Pakistan	128.996	6.6%	164.7	20.9	49.9%
Bangladesh	65.216	6.6%	150.4	22.5	43.1%
Sri Lanka	26.794	7.5%	20.9	30.0	90.7%
Vietnam	60.995	8.2%	85.3	26.4	90.3%
Philippines	116.931	5.4%	91.1	22.7	92.6%
Malaysia	150.923	5.9%	24.8	24.4	88.7%

Source: IMF, CIA

Among all the Asian emerging countries, Pakistan has a greater advantage to become competitive as it has an immense young population and increasingly strong infrastructure. Sri Lanka claims the highest literacy rate in the South Asian region and it is estimated that software development costs in Sri Lanka are 20-30% lower than that of its neighboring country, India. At present, there are around 50-60 BPO companies in Bangladesh and growing with the rate of 10-15% annually. In spite of these strengths and indicators, the focus on specialization continues to be minimal for these countries and security concerns are formidable, which will inhibit their ability to emerge as key IT and BPO offshoring hubs. On the other side, Vietnam, Philippines and Malaysia are gaining the advantage because of stable economic indicators, large young literate populations and favorable business conditions.

In addition, the software industry in the emerging countries of Asia is in the infancy stage. Pakistan and Bangladesh possess around 280-300 registered software companies each and Sri Lanka has around 100-120 software development companies in operation. As such, these nations have yet to position themselves as contenders on the world software map.

In spite of challenges, potential does exist in these emerging countries. Recently, an Indian telecom player – Bharti Airtel – announced it will invest around US\$150 million in rolling out its operations in Sri Lanka. In a similar vein, Microsoft has a subsidiary in Pakistan and plans to invest US\$150 million in establishing training centers and certification programs in the country.

CHALLENGES FOR ASIAN EMERGING COUNTRIES

Although Pakistan, Sri Lanka and Bangladesh show inherent potential to be effective offshore hubs, the IT development in these AEC countries cannot be realized unless the security situation improves to draw global companies confident enough to invest. MNCs such as IBM has had a direct presence in Sri Lanka for more than 40 years, but has not capitalized on the country's potential as a full-fledged IT hub.

In order to reach an improved state of development, AEC countries require political stabilization, better IT policies and larger investments of money and time. Moreover, these countries need to address some serious bottlenecks such as high telecom costs,

infrastructure problems, poorly trained IT professionals, and weak marketing networks. Thus, to keep pace with other Asian nations, emerging countries need to undertake major reforms such as improving education and increasing private initiatives in the segment. As Vietnam has shown, following in the earlier footsteps of India and China, a determined government can build an international offshore center in spite of challenges.

CONCLUSION

Growing industry consolidation and slowing growth abroad has drawn multinational companies' increased focus on countries that can act as favorable offshore hubs. Emerging Asian countries Sri Lanka, Pakistan and Bangladesh offer significant untapped growth opportunities for both domestic and foreign IT vendors. Unfortunately, these countries are losing ground due to their unstable political and security outlook, slow IT growth and weak focus on becoming a niche player.

These countries should learn from Vietnam, Malaysia and Philippines and focus on emerging as niche players. These emerging nations need to rewrite their strategies to promote their images as countries with a competitive edge in one specialized category, instead of merely positioning themselves as yet another low-cost destination in the region. Although the security dynamics in these countries are more difficult to reverse, they are equally important and are having a direct impact on lessening the IT opportunities in these countries.