

Vietnam as a Back-Office Expansion Hub: A Practical Guide

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For many foreign corporations, Vietnam is increasingly becoming a viable destination for expanding back-office operations. Be it for software development, finance, design, operations support or a range of other areas, Vietnam has developed a reputation as a cost-effective and practical option.

With its rapidly growing economy, favourable investment policies, and skilled yet cost-effective workforce, the country presents compelling opportunities for companies looking to optimize their operations and enter Southeast Asia. However, as with any expansion, a strategic and informed approach is crucial.

What does establishing a back-office look like in Vietnam, considering the practical and regulatory landscapes.

Overview: Opportunities for Back-Office Expansion in Vietnam

1. Cost Efficiency and Workforce Quality

Vietnam has become a popular destination for companies looking to lower operational costs while maintaining quality. The country's labour costs remain significantly lower than in other Asian hubs like Hong Kong or Singapore, yet the workforce is relatively well-educated, particularly in fields like finance, accounting, IT, and customer support. Vietnam produces over 100,000 IT graduates annually, and the country's emphasis on STEM (Science, Technology, Engineering, and Mathematics) education provides a significant talent pool for companies seeking access to skilled professionals in these areas.

In addition to technical skills, language proficiency is another key factor. While not as widespread as in other Southeast Asian nations like the Philippines, English proficiency is rising, particularly among young professionals. Many companies successfully run English-language based back-office operations from Vietnam, and it's increasingly seen as a core competency.

2. Economic and Political Stability

Vietnam's strong and consistent GDP growth has earned it a reputation as one of the most dynamic economies in Asia. Over the past decade, Vietnam's GDP has grown steadily at an annual average rate of around 6-7%. Its middle-income status and growing consumer market

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have turned it into an attractive location for businesses of all types.

Further, Vietnam's political environment is stable, and the government is committed to promoting foreign investment. The country has continued to sign significant Free Trade Agreements (FTAs) in recent years, including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the EU-Vietnam Free Trade Agreement (EVFTA), which continue to provide a conducive environment for international businesses. For companies seeking long-term stability, Vietnam offers a promising platform.

3. Strategic Geographic Location

Located in Southeast Asia, Vietnam is well-positioned as a hub for back-office operations supporting businesses with regional operations. Its proximity to and time-zone alignment with, major markets like China, Japan, South Korea and Australia, combined with improving logistics infrastructure, makes it an ideal location for companies looking to cover multiple Asian markets.

Vietnam's growing network of industrial zones, business parks, and tech hubs—especially in cities like Ho Chi Minh City, Hanoi, and Danang—further supports its growing role as a business process outsourcing (BPO) centre. These areas offer modern facilities, reliable utilities, and connectivity to global supply chains.

Practicalities of Expanding Back-Office Operations to Vietnam

While Vietnam presents numerous opportunities, establishing back-office operations requires careful planning and an understanding of the local environment. Here are some practical considerations.

1. Legal Structure and Investment Options

Vietnam offers several investment options for foreign businesses, each with its own set of legal implications. The most common compliant structure is a 100% foreign owned enterprise. This model provides full control over operations, as a subsidiary of the foreign parent.

There are other structures, such as Joint Ventures with local partners or entering through a Representative Office, however these can be more restrictive (commercially or regulatory), and are often less suited to the BPO expansion approach.

Understanding the implications of legal structure best suited is critical. Although Vietnam's legal framework is evolving, and recent reforms continue to make it easier for foreign businesses to operate, regulatory complexity remains, and working with legal professionals familiar with the local environment is essential.

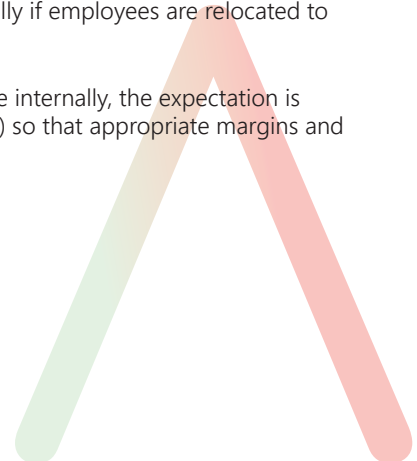
2. Taxation Considerations

Vietnam offers a comparably favourable tax environment for foreign businesses, but companies must be aware of specific tax regulations. Key taxes to consider include:

- **Corporate Income Tax (CIT):** The standard CIT rate is 20%, but incentives are available for businesses operating in high-tech zones, industrial parks, and certain prioritized sectors.
- **Value Added Tax (VAT):** The standard VAT rate is 10%, though there are reduced rates for specific industries, such as healthcare and education.
- **Personal Income Tax (PIT):** Employees, including foreign employees working in Vietnam, are subject to personal income tax on their worldwide income if they are considered residents. Non-residents are taxed only on their Vietnam-sourced income.

Vietnam has signed numerous Double Tax Agreements (DTAs) with various countries, providing mechanisms to avoid double taxation on income. Utilizing these treaties effectively can significantly impact a company's tax strategy, especially if employees are relocated to Vietnam.

When considering taxes, although back-office arrangements may be considered as purely a cost centre internally, the expectation is that they are revenue and profit generating, requiring tax compliant funding agreements (ie, cost-plus) so that appropriate margins and taxes on profits are paid.



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3. Labor Laws and Employment Practices

Vietnam's labour laws are substantially pro-worker, and companies should be aware of compliance with local labour regulations. The Labour Code covers areas such as working hours, overtime, employment contracts, and severance pay. Hiring local employees is straightforward, but businesses looking to relocate foreign staff must navigate work permit and visa requirements. These processes have become more streamlined in recent years but still require detailed attention to ensure compliance.

An essential part of labour compliance are statutory insurance contributions. Both employers and employees are required to contribute to social insurance, health insurance, and unemployment insurance, which is withheld and remitted through the payroll process. Failure to comply with these requirements can result in penalties, so accurate payroll management is vital.

4. Office Space and Infrastructure

Vietnam's major cities offer a range of commercial real estate options suitable for back-office operations, including co-working spaces, office towers, and business parks. The cost of office space in Vietnam is significantly lower than in other regional hubs like Singapore or Hong Kong, making it an attractive option for businesses looking to cut costs.

When choosing a location, factors such as connectivity, availability of skilled workers, and proximity to other businesses in the sector should be considered. Ho Chi Minh City and Hanoi are the primary business hubs, but cities like Danang are increasingly attracting attention due to lower costs and improving infrastructure.

5. IT Infrastructure and Data Protection

Reliable IT infrastructure is critical for back-office functions, and Vietnam has made substantial progress in building its digital economy. However, businesses should carefully assess the quality of the IT infrastructure available, especially if their operations rely heavily on technology. Cloud services, broadband access, and data centres are widely available, but companies should ensure their service providers meet their required international standards for reliability and security.

Data protection is another critical issue, particularly for companies dealing with sensitive information. Vietnam's laws on cybersecurity and data protection imposes stringent data retention and protection requirements, including the obligation to store certain types of data locally. It is important to consult with legal and IT experts to ensure compliance with these regulations while maintaining efficient and secure operations.

Commercial Considerations

Beyond the legal and practical issues, businesses must evaluate the commercial implications of expanding back-office operations to Vietnam.

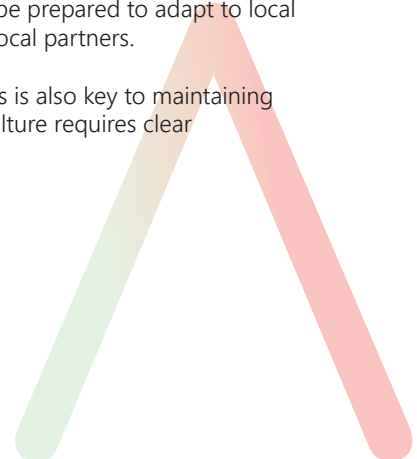
1. Cost-Benefit Analysis

While Vietnam offers lower operational costs, particularly for labour and real estate, companies should conduct a thorough cost-benefit analysis before committing to expansion. Considerations include the cost of relocating key personnel, setting up infrastructure, and the time required to achieve operational efficiency. In some cases, the savings on labour and office costs will outweigh the initial setup expenses, but this varies by industry and business model.

2. Cultural and Managerial Considerations

Vietnam's business culture may differ significantly from what foreign companies are accustomed to. Decision-making processes can be hierarchical, and relationship-building is essential for business success. Senior management must be prepared to adapt to local business practices and cultural nuances, especially when managing Vietnamese staff or working with local partners.

Training local managers and employees to understand and implement the company's global standards is also key to maintaining operational consistency. Additionally, integrating Vietnamese operations into the broader company culture requires clear communication channels and strong leadership from headquarters.



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3. Long-Term Growth and Scalability

Vietnam's back-office operations should not be seen as a short-term solution but rather as a long-term investment. The country's economy is expected to continue growing, and businesses should consider how they can scale their operations as the company grows. Vietnam's youthful population, growing consumer market, and improving infrastructure make it an attractive option for businesses looking to expand their presence in Asia over the long term.

Vietnam's combination of cost advantages, skilled labour, and strategic location makes it an attractive destination for companies looking to expand their back-office operations. However, success depends on understanding the local regulatory environment, navigating cultural differences, and ensuring the right legal and commercial strategies are in place.

For foreign corporations considering Vietnam, careful planning, professional advice, and a long-term vision will be critical in turning this opportunity into a sustainable success. With the right approach, Vietnam can serve as a powerful hub for back-office functions, supporting your business's growth in Southeast Asia and beyond.

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