

Vietnam or ...

*Thailand and Vietnam, with 22 billion US Dollars in foreign investments, are among the most **sought-after** investment locations in Asia after China and India.*



BY GUNTHER DENK ::: Where should you invest? In Thailand or Vietnam? As a general rule, the following criteria determine the outcome of this kind of decision.

1. The security of the investment depends on social stability, an orderly legal situation **and the protection of intellectual property**.

The usual pressure in China from imitators within one's own business environment is not part of the business culture in Vietnam or Thailand. From a political standpoint, Thailand gets the short end of the stick compared to Vietnam: the political circumstances in the Kingdom are characterized by a lengthy conflict between **the** "old elites" and the protesting "Red Shirts", who stand on the side of the ousted Ex-Prime Minister Thaksin. Vietnam on the other hand is a "stable" Communist single-party dictatorship. But while in Thailand, civil rights similar to the German Civil Code and independent courts decide disputes, the courts in Communist Vietnam are subordinate to administrative agencies and aren't exactly friendly to foreigners in trials. A frequent complaint by companies is rampant corruption in a complicated game with the various administrative levels that want to "tap into" investor resources.

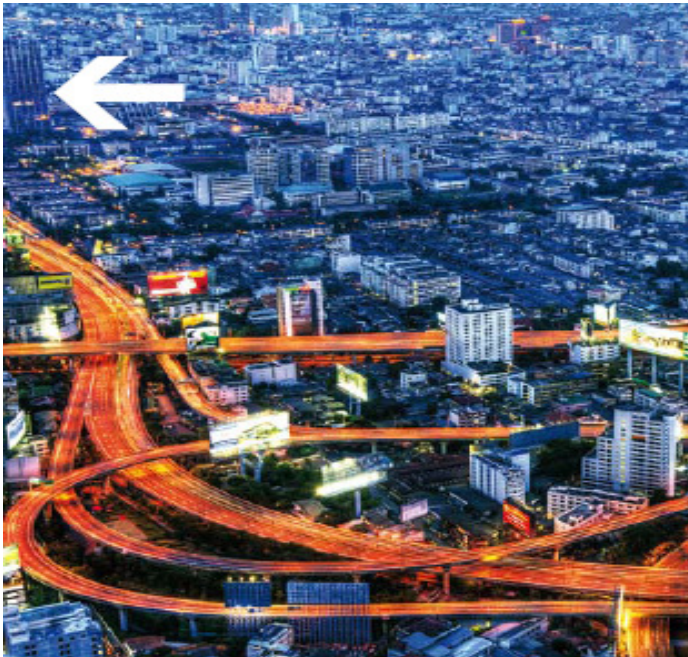
2. **Low tax rates and easy repatriation of profit** also belong to the key criteria for foreign investment in the perspective of moneylenders. The repatriation of revenue is connected with some formalities, but basically problem-free. With a normal rate of 30%, the corporate income tax in Thailand is higher than in Vietnam, where it sits at 25%. Thailand, through its Board of Investment (BOD), grants investors up to eight years of tax exemption and a further seven years of 50% remission as well as a

double deduction of infrastructure costs including all shipping fees. This and other tax benefits are regulated by law in a catalog that determines the benefits according to industry, region and makes the distinction between recognized industrial parks and "green space".

Vietnam grants similar incentives, specifically up to four years exemption from corporate income tax and up to nine years relief of a maximum of 80%. Whether or not benefits are granted and how many, however, must be negotiated on a case-by-case basis. In terms of the transparency of the benefits, Thailand clearly takes the lead.

3. Every company has to pay attention to **availability and costs of suitable employees as well as their efficiency**. The availability of a trained work force ("Skilled Workers") is certainly significantly larger in Thailand than in Vietnam. But in both countries, nothing happens without intensive operational training, the general training and school education is too poor. The Vietnamese eagerness to work higher depending on mentality. The cost of wages is also much cheaper in Vietnam: if you include ancillary services, the result is a cost advantage of up to 35% compared to Thailand. The difference decreases, however, with increasing qualifications. Expats in management positions require more money in Vietnam than in Thailand for the same job. Finally, the living conditions in Thailand offer foreign employees amenities that aren't as easy to find in Vietnam. But at the bottom line, Vietnam wins this round.

4. In global business, good and economical **logistics and a stable infrastructure** often determine success or failure. Both countries shine as geographic hubs to Australasia and especially China. A container from Bangkok or Ho-Chi-Minh



... Thailand

Through new customs agreements with China, both countries make it possible for their investors to export goods duty-free into the Middle Kingdom from a safe community. But when it comes to choosing a location, many other factors count.

City to Shanghai or Hong Kong costs about 150 Euro. Together with the proximity to market and delivery time, some investments add up quickly. Vietnam is currently planning and building under high pressure deep-sea ports, airports and road networks. Thailand on the other hand can offer all of this already: two deep-sea ports near industrial centers, a brand new large airport, airports in almost all provinces, a 6 to 12 lane road network in all parts of the country as well as underground and elevated trains in the capital Bangkok mean a powerful leap ahead for Thailand. To catch up, Vietnam will have to estimate another 8 to 15 years. Furthermore, Thailand scores points in all industrial parks for reliable infrastructure. In Vietnam, by contrast, it can happen that the power supply goes out for hours or days at a time for “maintenance work”, while the operations own power units keep the machines running temporarily.

5. That **components, raw materials and machines** are not available to the same extent as they are in China is a fact well known to the governments in Vietnam and Thailand. Both countries therefore encourage foreign investment by waiving import tariffs for many years. In this case, Thailand is already a step ahead of Vietnam: The long-term economic development makes it so that many supply industries are internationally competitive, while in Vietnam they are still in their infancy. You can have industrial facilities built in Thailand without concern and, above all, maintained.

6. Of course an investor also hopes for **new sales in the domestic market** of the country he invests in. Over 80 million consumers are waiting in Vietnam, about 60 million in Thailand.

High quality consumer goods, targeted toward the middle class, find a wide consumer base in Thailand. Certainly the Kingdom, as an already developed national economy, has more demand for modern machines and plants. A “developing” national economy like Vietnam is more interested in basic equipment, such as storage techniques, paper and simpler machines. The opportunities on the domestic market can therefore vary greatly and should be investigated individually for the company.

The results show Thailand in the lead for almost all key criteria for a foreign investment. Only in labor costs does Vietnam have clear advantages. Vietnam is undertaking great efforts in all areas, but how quickly it will catch up to its rival Thailand depends for one thing on a believable fight against corruption and more efficient management in the country itself. On the other hand, Thailand loses attractiveness to investors because of its civil unrest and indeterminate political situation, which indicate no trend toward stability.

When making an investment decision, follow the rule of thumb that labor-intensive producers find in Vietnam cost benefits that balance out some of the disadvantages of the country and the system. If reliable infrastructure and logistics, available primary products and trustworthy legal conditions are the deciding factor, then Thailand should be first choice. :::

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