

All eyes on Vietnam

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SINGAPORE — China may be the name on everyone's lips when it comes to the preeminent Asian market and production base, but a growing number of major technology firms are taking notice of a new contender to the throne—Vietnam.

One of the poorest countries in the region in the aftermath of the Vietnam War, the country now boasts an annual growth rate of over 8 percent, the highest in Southeast Asia, as well as the best performing stock market in the region. The pro-business stance of the nominally communist government and Vietnam's impending accession to the World Trade Organization (WTO) are working to lure companies in droves. While past ventures were largely confined to agriculture or textiles, more recent investments have targeted industries like telecoms and chip design.

Early this year, chip maker Intel Corp. unveiled plans to open a \$300 million fab in a high-tech park outside Vietnam's commercial center, Ho Chi Minh City. This was followed by an announcement in October that Intel's venture capital arm had teamed up with private equity firm Texas Pacific Group to take a \$36.5 million stake in FPT Corp., the country's main information technology provider. Also in October, local fund manager VinaCapital and Silicon Valley venture capital firm Draper Fisher Jurvetson jointly launched a \$50 million fund that will seek out growth opportunities in Vietnam's IT and telecom sectors. Other firms expanding in Vietnam include Hewlett Packard, Japan's Renesas and Nidec, Singapore's Allied Technologies, and Denmark's Sonion.

Authorities at Saigon Hi-Tech Park, where Intel's new facility will be located, recently announced that the zone had already attracted nearly \$1 billion in investment, most of it from foreign companies—not bad for a place that wasn't expected to obtain any commitments at all until mid-2008.

While Vietnam's electronics sector is relatively small, it is expanding at an impressive rate. The Ministry of Trade expects the country to export \$1.8 billion worth of electronic goods and computer components this year, up 25 percent from 2005.

Companies active in the country claim its skilled workforce and youthful population—about half of the population of 80 million is under 25—represent an unmatched opportunity. And it is a population that is increasingly tech-savvy, with Internet and mobile phone penetration growing well above global norms.

Per capita income of \$600

With a "generation that pushes for and drives technology development, Vietnam is a market for technology companies like Intel to consider," says Intel's country manager, Phu Than. "Our channel program has grown from a dozen PC shops in Ho Chi Minh City in 1997 to a network of 1,000 dealers nationwide today."

Than says Intel chose the Saigon Hi-Tech park for its new facility "because of its good physical infrastructure, the available workforce and the tremendous interest in IT in Vietnam, as evidenced by the rapid growth of the industry there."

His sentiments are echoed by Louis Nguyen, managing director of VinaCapital's new tech fund, who says the possibilities for the country are "quite exciting, especially in the Internet space."

Nguyen says the fund will be looking for opportunities in the privatizations of the state-owned companies that still dominate Vietnam's technology and communications landscape, as well as investments in wireless and Internet firms that may eventually be snapped up by multinationals.

Firms like Google and Yahoo have made it clear that Vietnam is their "top priority" in Southeast Asia, he says.

Still, the newfound enthusiasm for Vietnam has to be tempered with some harsh realities. With a per capita GDP of just over \$600—less than half of China's—the latest consumer gadgets remain out of the reach of many of its people.

Fred Burke, managing partner at Baker and Mackenzie's Vietnam practice, also points out that the country's accession to the WTO will leave authorities less free to plump the local technology industry with incentives and subsidies, though the tax breaks that welcome firms to places like the Saigon Hi-Tech park are likely to stay.

Finally, few are expecting the country to compete with places like India and China when it comes to intellectual property—at least not in the short term.

"It's clear Vietnam's not Silicon Valley," Nguyen admits. "Successful models will basically be duplicated into Vietnam, but the user base is large enough to make that attractive."