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ASEAN's New Economic Player

Vietnam: ICT as Engine of Rapid Growth

By Vincent Mack, Benny Oon and Cung Vu

SYNOPSIS

The headwinds from the trade war between China and US is dampening export demand from Asian economies. Particularly affected is the ASEAN region. But why is Vietnam thriving when its larger and more developed neighbours are suffering from the trade war?

COMMENTARY

ONE DOES not usually think of Vietnam as an economic power. Yet, over the past decade, Vietnam's annual GDP growth rate has been on the rise, fluctuating between 6-8% in the past year. This is in contrast to its regional neighbours, where the combined GDP for the five more developed ASEAN economies – Indonesia, Malaysia, the Philippines, Singapore and Thailand – have fallen from 5.5% to 4.5% in the past quarter.

According to Bank of America Merrill Lynch, these economies are projected to slow down even further in the coming year. Unlike its neighbours, Vietnam's economy shows signs of expansion. According to the Nikkei Purchasing Manager's Index (PMI), Vietnam's PMI score in November 2018 rose to 56.5 from 53.9 in October 2018.

Vietnam as a Manufacturing Hub?

Vietnam's economy has an interesting history; similar to China, Vietnam is a communist regime with a semi-open socialist market economy. Like China, Vietnam liberalised its economy with the launch of its Doi Moi reforms in the 1980s, shortly after Deng Xiaoping's reforms.

Today, Vietnam has become one of the darlings of global manufacturing supply chains, capable of competing with China with its high quality of manufacturing output in selected products while providing lower production costs. Many international firms have situated their factories in Vietnam, from electronics producers such as Samsung and LG, to automobile manufacturers such as Mercedes-Benz.

However, one might be missing the big picture if one only thinks Vietnam is only an outsourcing hub for manufacturing. In the past decades, Vietnam has quietly carved for itself a strong foothold in the ICT sector. The growth of Vietnam's Internet economy – covering online travel, e-commerce, online-media and ride hailing – is a clear indicator, with a compound annual growth rate (CAGR) of [38%](#) between 2015 and 2018.

“Hidden Gem” in ICT Development?

Today, Vietnam's ICT sector is on the rise and is globally trusted. Its global companies portfolio include Microsoft, Deutsche Bank, Google, CISCO, Disney to name a few. In 2017, Vietnam had reportedly exported around US\$71 billion net worth of high tech products. It is a powerhouse in ICT infrastructure and software development, attracting top investors from Japan, Korea, Germany, Taiwan and Singapore.

There are three key factors for Vietnam's emergence as a potential ICT giant. First and foremost is Vietnam's ICT talent pool. Vietnam has a young and well educated population: literacy rate is high at 93.7% with more than 400 universities and colleges hosting 1.6 million students. Also, approximately 64% of its 95 million people are under the age of 40 with two-thirds of the population at the working age.

Vietnam is also host to the second largest pool of ICT human resource in Asia, with around a total of 300,000 ICT graduates from universities, colleges, vocational institutes entering the job market each year.

Home-Grown Private Sector

Second, Vietnam's ICT development is driven by a home-grown private sector with global presence as well as state enterprises such as Viettel which provides telecommunication infrastructure for Myanmar. Vietnam is well known as a global ICT outsourcing hub, with firms such as [FPT Information Systems](#) and [TMA solutions](#) serving clients in over 30 countries worldwide.

Also, of note is Global Cybersoft (now Hitachi Consulting Vietnam), a Vietnam-based IT consulting firm that was acquired by Hitachi in 2014 that has 120 clients and partners in 18 countries. The private sector hires the bulk of Vietnamese IT graduates, be they local or from abroad, providing bridging training to push them up to speed in a fast-paced industry.

Last but not least, the ICT sector in Vietnam is backed by a supportive government pushing the “4th Industrial Revolution” as a key strategic and developmental priority. The government has a keen interest to grow the ICT manpower base and the Vietnam ICT start-up community.

This is evident in the setting up of Quang Trung Software City (QTSC), an Incubator Hub and one-stop shop for ICT enterprises, which provides value-added benefits for start-ups beyond low-cost rental such as IT infrastructure support and tax incentives, creating a conducive ICT ecosystem for the industry.

Centrally-planned Strategy

Walking the talk, the Vietnamese government has the Ministry of Science and Technology to map out strategy and plans at the central level, supported by many similar ministries at provincial and local levels to provide research, consultancy, strategy and training.

These think tanks, focusing on economics, financial analysis, policy, strategy, etc., also provide consultancy and training services to both government and corporate sectors. They act as a sounding board to provide critique to government policies before they are rolled out. The government also has an ambitious Smart City Plan, targeting Ho Chi Minh City, Da Nang, Binh Duong, and Hanoi as sites for development.

Vietnam's ICT Challenges

However, Vietnam still suffers from some challenges. While Vietnam has an enormous supply of ICT technicians, not all of them have sufficient proficiency in foreign languages such as English, a prerequisite to thrive in the international market. There is also a lack of innovation capacity.

For one, the ICT sector is led by a few established big players and there is a lack in the rise of local firms able to compete with them at the same level. Also, new ICT startups focus more on service development rather than creating new and innovative products. This is in part due to the relatively young and unsaturated Vietnamese market, as well as the talent drain where highly skilled Vietnamese ICT engineers and doctorates are lured overseas with more competitive pay.

Also, despite the government's enthusiasm in growing the lucrative ICT sector, its development remains in its fledgling stage, and does not match up to larger sectors such as manufacturing yet. Nevertheless, things are slowly but surely changing, as evident in the rise of QTSC and other incubators. Moreover, the private sector is also proactive, even partnering with language schools and top Ivy-League universities to enhance their language and communication skills to prepare them for a global client base.

With the recent ratification of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) by Vietnam and the drive towards creating an ASEAN Economic Community, one wonders how Vietnam's competency in the ICT sector would affect its future competitiveness and economic growth. With the trade war between China and United States in the background, would Vietnam be able to take advantage of the unsettled global supply chains and emerge as a regional or maybe even a global leader?

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