

2013 Vietnam Telecommunications Services Report

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Abstracts

Which industry has been contributing the most to Vietnam's economic growth? One might ask. There could be oil and gas, agriculture, textile, or anything else, but it cannot be denied that the telecommunications industry used to be a key driver for the whole economy. While IT industry has made a significant contribution to the country's GDP within the past several years, the telecommunications industry seems to fall behind. While Vietnam is now ranked among the most attractive destinations for IT outsourcing and FDI companies such as Samsung, Nokia, Canon, Intel, Foxconn, and Gemtek Technology have increased their commitment and investment in Vietnam, foreign investors such as SK Telecom and VimpelCom have tried to find ways to exit and Hutchison Telecommunications have been struggling with intensified competition. Vietnam lacks of strategic investors in the sector while local players such as Viettel and VNPT are seizing more than 80% market share and functioning as an oligopoly. There have been signals that such relationship violating the competition law while ruining customers' benefits.

2011 was indeed a year of lots of fundamental changes. The ruling Communist Party of Vietnam has organized its national meeting in early 2011 and prepared for the election of a new National Assmeby in mid 2011. A new government was formed and people are hoping for better things. The Vietnamese economy has faced tougher conditions in comparison with these of 2008 crisis. Tighten fiscal and monetary policies have challenged even strongest enterprises. Since early 2012, banks have stopped lending and commercial banks started to go through a restructuring process. Real estate and stock markets were frozen while deposit rates remained very high to catch up with high inflation rate. Prices of essential goods such as gasoline, electricity, and relevant ones have increased several times making macroeconomic conditions worse and the poor poorer. As an emerging market, Vietnam is gaining forward steps with chaos. Transportation infrastructure is not catching up with development rate. Bribery and corruption are even worse leaving the public many doubt against the government and

its ruling party on transparency and fairness.

2011-2012 was a busy period for the telecommunications sector in Vietnam. Telecommunications industry has left its hot growth stage to dig deeper in the saturated area. One could see that there will be no more leapfrog in revenue streams and the number of subscribers. Operators have to maintain or increase ARPU by introducing more new applications and value-added services and at the same time they have to reduce the frequency and strength of promotion campaigns. This year was also a starting point for an unavoidable trend of industry consolidation and restructuring to assist the market to become more attractive and competitive. EVN Telecom was merged into Viettel. VNPT is about to choose proper solutions to meet new regulation of not owning more than 20% of two networks at the same time. The domestic market seems to be narrow so after Viettel, other Vietnamese operators have started to invest in overseas markets.

Southeast Asia, Indochina, or Vietnam is well-known as emerging markets. We have to acknowledge the fact that every growth in the region and in Vietnam particularly is teamed up with chaos before the market itself moves to a performing stage. We are in the opinion that it is worth risk-taking for making investment or doing business in Vietnam. We will show you later on in the report a transformation of a country on the progress of going through decisive, fundamental changes. One would probably share with us that it is rewarding to select Vietnam in our discussion agenda.

We start by looking at the big picture about Vietnam. The road to a market economy for Vietnam began in early 2000s as the controlling Communist Party and the government started the Renewal Process since 1986 – the greatest transformation of the country since the 1975 reunification. WTO entry in 2007 let Vietnam further integrate into the world economy. We will examine GDP's real growth, foreign direct investment, and country debts in recent years in addition to some basic demographic factors.

Next, we will carefully look at the regulatory and legal framework relevant to the telecommunications industry in Vietnam. The report provides details on legal basis, historical development of regulation and market liberalization, key government agencies, tariffs regulation, interconnection and shared infrastructure issues, management of scarce resources such as spectrum and numbering plans, and the operation of universal telecommunications services fund. We will understand in depth the way the telecommunications market has been developed in Vietnam. It is a painful process to move from monopoly in and before 2002 to the transition period between 2002 and 2007 and to a more market-oriented at this point in time where competition

has been established. We can learn that there are more things to do with relevant to the interconnection and shared infrastructure and management of scarce telecommunications resources as there is a learning curve to the Vietnamese regulator obviously. We can tell how the end-users can be protected and digital divide challenge is faced in an emerging market where growth exists together with chaos.

Readers and investors can hope for a business opportunity as the market is evolving but not really matured yet. The report, for the purpose of such due diligence, provides an extensive analysis on the licensing and investment framework in the telecommunications sector in Vietnam. There is no longer the “first come first serve” approach in terms of acquisition of a competence license and relevant scarce resources. The recent regulation improvement allows a fair competition via a Beauty Contest or an Auction. More importantly, a company can transfer a license after being granted. Private sector is now encouraged to participate into the infrastructure business which is used to be reserved for the state-owned enterprises. Foreign investors can hold up to 30% of an infrastructure-based operator. Such regulation advances and market liberalization trend have created favorable conditions for the industry to develop. The market mechanism is step by step established.

We can anticipate that the industry will be consolidated and restructured along the way to have even a more rapid growth as competition does exist. The report provides an extensive analysis on forms of foreign investment and market entry whether it is a Business Cooperation Contract, a Joint Venture Company, or participation in terms of an equity investor into an existing company for an overseas investor to consider. Basic information on how to pursue a successful M&A transaction is also introduced in addition to an analysis on several affects which Vietnam has from being part of international organizations.

We then take a closer look at every single aspect of the telecommunications industry in Vietnam. The report first provides deep analysis on major challenges and opportunities. Next, we examine single area from wireless communication including mobile communications and satellite communications to wire line communications consisting of fixed-line telephony, VoIP, submarine cables, Internet and capacity services. In each particular area, the report provides our careful research, analysis, and forecasts up to 2013-2014 on factors such as market share of services providers, ARPU, traffic, subscribers, and transmission capacity.

We will spend a substantial amount in time to look at mobile and broadband as these two sectors are the driving forces of the industry. We can learn how the mobile

communications industry started from scratch in Vietnam, how the first mobile network was introduced, and how dynamic the market would be since the market itself has laid off about 6 mobile networks within the last decade. We can press forward to see how an emerging economy has promoted itself by utilizing foreign investment in mobile telecommunications and as a result now such an economy can be a very attractive destination as most advanced communications technologies are widely deployed. We can realize some opportunities for new entrants and challengers who wish to penetrate into an established mobile communications sector by a thorough introduction and analysis on MVNO and MVNE and roaming approach with other existing 2G services provider. A new business model in providing traditional services such as voice and data can be further improved by working extensively with multimedia content providers. We can see the opportunity window for telecommunications has been shortened as WiMAX and now LTE were put into trials while 3G services have been introduced to the market not too long.

We will see how the Internet has been proliferated in Vietnam since it was introduced in 1995. We can better understand why the oligopoly stronghold in the industry exists and what have been done to make the situation better such as a recent regulatory change to allow local ISPs to buy IP Transit directly from overseas upstream providers. We can see how important the infrastructure is where the government and enterprises have been making heavy investment in new submarine cables systems and communications satellites recently. All actions have been taken with a careful strategic consideration. The Vietnamese operators now are capable of facing competition from overseas counterparts by giving their customers the best benefits while the market is now open in phases to competition.

The report also provides substantial information about the fixed-line and VoIP services. Vietnam was among the most expensive place where one had to make a call to the outside world in early 2000s. The situation is much better and voice now is almost free. The fixed-line business is getting hurt due to the aggressive offers from mobile operators. Operators now see a non-stoppable decline in VoIP termination tariffs was stopped by efforts of MIC and big guys. Recent regulation suggests that there would be soon some activities to be taken to help fixed-line operators stay in the business with a little margin. And this did happen.

Perhaps the section on major industry players is the most interesting part. Only by studying this section, one might figure out several interesting facts behind the scene. We explain details about major services providers and most of them are infrastructure-based operators – those who must be owned majorly by the state. We certainly need to

understand about the incumbent – VNPT and the companies belong to this group. We will understand the way VNPT has structured their services. It is very much on “to divide into territory to conquer”, as a result, we see there are VTI, VTN, and 60 local P&Ts. As telecommunications is a conditional business area, we can see the participation and influence of the army and police forces. The country’s power group is also an active participant in the telecommunications industry thanks to its infrastructure. Local governments from Hanoi and Ho Chi Minh and key government agencies have also been participating in this industry by founding several enterprises. FPT is the only private group in the field.

We try to keep the report as short and as much informative as possible. We choose to be objective from an insider’s viewpoint. Although it is a market research, we would like to share more than we could. We composed with passion and careful research although statistically we are seeking more accuracy on the figures as public information is not available nor well organized and reliable. At the end of the day, readers could find where business opportunities lie in the telecommunications sector.

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