

Miracle On The Mekong River

Vietnam's startup ecosystem is growing, and growing fast

By STEVE CERVANTES



Among the numerous dynamic ecosystems I have worked with in the last 10 years, Vietnam's whirlwind development bears no comparison. As recently as five years ago, Vietnam was widely seen as a premier outsourcing destination, but not as a top-tier startup hub.

The inflexion point came in 2019. Vietnam unprecedentedly surpassed perennial Southeast Asian (SEA) leader Singapore in tech startup funding and earned 17% of SEA's total startup investment.

According to the Vietnam Tech Investment Report 2019 by Do Ventures, startup investment reached a record high in 2019 of \$861 million in 123 venture

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deals, twice that of 2018. The amount of invested capital and number of technology deals have grown eight-fold from 2016-2019, in which foreign investment constituted the [lion's share] of total investment (Vietnam Net).

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Perhaps Vietnam's most revealing milestone is its aggregate of 3,000 strong startups, second only to Singapore in sheer numbers and three times as many as its nearest rival, Indonesia.

Though skeptics point out that Vietnam's two unicorns (VinaGame and VNPAY) are both fewer in number and smaller (in terms of valuation) than Indonesia's four, the comparison could be misguided given government strategists' forecasts of ten unicorns by 2030. These

'sooncorns' could render Vietnam the per-capita regional and global leader.

The Vietnamese startup ecosystem's achievements in the last five years, its DNA, and its scalability are truly encapsulated in its moniker, the "Miracle on the Mekong River."

Vietnam's five-year metamorphosis

Though Vietnam's cashless payments remain the lowest in contrast to leading ASEAN nations, Co-founder of mobile platform provider Appota Lien Nguyen says that online payment infrastructure has seen improvements over the year.

Pre-COVID-19 Vietnam's credit card ownership was only 4.1% compared to Thailand's 9.8%, and the debit card ratio was even worse at 26.8%, lower than Indonesia at 30.9% and Malaysia at 73.8% (VnExpress), but this has rapidly changed.

"Online payment infrastructure [...] has improved with aggressive investments of well-funded startups in the digital financial services industry, as well as incumbents in the financial and retail services," Lien says.

Exemplifying this, Tiki.vn (one of Vietnam's fastest-growing B2C e-commerce platforms), which received an undisclosed amount equivalent to a 25% stake from Chinese e-commerce titan JD.com and \$75 million from North Star Group last year (e27).

What's more, Vietnam's most recent unicorn, VNPAY—one of Vietnam's largest fintech startups—became a unicorn in early 2020. VNPAY's \$300 million in funding from Masayoshi Son's Softbank Vision Fund and Singaporean sovereign wealth fund GIC in 2019 made it the most-funded SEA fintech startup last year (Retail News Asia).

Massive capital infusions notwithstanding, the preferred payment method pre-COVID-19 was cash on delivery (COD), which made up 88% of online transactions. Trust and transparency are generally culpable for perpetuating offline consumer purchasing; delivered products sometimes differ from those ordered; and COD affords customers the right to decline payment upon delivery.

Yet, the pandemic is conversely promoting consumer trust in online and mobile purchasing behavior; so much so that according to a February 2020 Nielsen Report, 38% of those surveyed said they are using online bank-



ing and e-wallets more frequently, and mobile payments year-over-year grew an astounding 200% (Nikkei Asia).

Like most global ecosystems, the highest proportion of funding goes to selected top-tier Vietnamese startups; founders lacking connections or networks have difficulty attracting domestic or foreign funding. "Most funding goes to the big guys," says Hieu Nguyen, CEO of XTAY-PRO, one of Vietnam's leading sharing economy platforms in transportation.

There are, however, fledgling trend changing investments in startups under the radar by Vietnam's largest investor: South Korea.

South Korea's largest conglomerate, Samsung, is Vietnam's largest corporate foreign investor. The company kicked in \$17 billion in foreign investment in 2019 alone. While Samsung is not investing in startups per se, its spillover effect is luring in some of South

Korea's largest venture capital and private equity firms, such as POSCO Venture Capital and Mirae Asset-Naver.

Mirae Asset-Naver is notably investing jointly with VinaCapital Ventures (a \$100 million Vietnam-focused venture capital platform) in tech related 'minicorns'—startups with a valuation of over \$1 million.

Perhaps an even greater challenge for startup funding over the years has been government laws and regulations.

"Although the government has expressed support for the startup ecosystem, much still needs to be done, especially updating the legal system," says Hieu.

"Even the VCs are complaining [about] how hard it is to legally invest in Vietnam-based startups; that we often must move our headquarters to Singapore to receive the investments. This in turn complicates the unnecessary paperwork and increases the cost of operations."

The Vietnamese government, cogni-

zant of this roadblock, is amending current investment laws to attract the investment that's hastily leaving China because of the Sino-American trade war. The government hopes that this will incentivize startups to incorporate in Vietnam, or encourage those who have moved to Singapore to repatriate, stemming corporate and capital flight.

Taking effect in January 2021, the new investment law will give foreign investors the same market access as domestic ones, as well as investment incentives such as tax exemptions and lessening incorporation procedures.

While this is encouraging, strides still need to be made in the corporate tax arena. Vietnamese corporate taxes are about 20% with few exemptions. In comparison, Singapore's corporate tax rate is 17%, and there are numerous tax exemptions, such as a 75% exemption on the first \$100,000 of chargeable income (GuideMeSingapore).

Also, while incorporating in Viet-

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nam can take up to three months, Singapore is normally two weeks.

Vietnam's post-COVID-19 ecosystem

The Vietnamese startup ecosystem's rapid pace of growth is likely to pick up where it left off pre-COVID-19, and then some. This is largely due to who the investors are.

By and large, Vietnamese startups' leading investors come from APAC nations, specifically China, South Korea, and Singapore. North American and Western European investment is negligible. Vietnam's proximity to its leading investors, domestic market saturation, and enormous startup growth potential have catalyzed investment growth exponentially.

Though Lien believes that startups can "make a great impact" as funding grows and various startup verticals crystallize into fixtures of Vietnamese daily life, she believes more can be done.

"There has still not been enough invested [commensurate] to the amount of growth potential thus far," she says.

"There's room to grow in many industries in Vietnam. It seems that the most fundamental industries are in dire need of reform and startups may be able to solve problems in those areas better than incumbents—areas such as healthcare, education, etc," Lien adds.

The role of the foreigner in Vietnam's startup world

Contrary to foreign VCs and PEs, foreign startups have yet to significantly contribute to meeting Vietnam's shortfall in demand.

The country's paucity of foreign startups compared to other Asian ecosystems are linked to language barriers, less governmental assistance in the form of grants or programs, fewer expat networks, and a dearth of partnership opportunities with Vietnamese companies.

Yet, despite these barriers to entry, post-COVID-19 Vietnam's sheer market size and FDI may galvanize foreign startups to take the plunge.

Though it will be difficult for non-Vietnamese speakers to enter innovative and high-tech areas given communication issues, coming in with a foreign perspective and leveraging skills in areas of demand could create niche markets and new value propositions in those areas.

Lien predicts plenty of changes over the next five years, apart from 2019's pivotal (and continued) growth in startup funding.

"With continued strong macro fundamentals and favorable demographics, the startup ecosystem will continue to attract funding from domestic and foreign investors, and funding is certainly an extremely important piece of the puzzle that can catapult Vietnamese startups into the next level," she says.

Vietnam's ecosystem has truly 'come of age.' The fledgling startup ecosystem, once a blip on the world's tech radar, is now a global player in its own right.

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