

Telecommunication

I. Market Overview

Vietnam is still one of the most prospective telecom markets within ASEAN, The Vietnamese telecommunication industry, under supervision of the Ministry of Information and Communications (MIC), as a whole has experienced significant and continuous two-digit growth over the past years, particularly in the mobile and Internet/Broad Band (BB) sector, which increased in pace in 2010. Unlike many other developing countries, Vietnam also grew in the fixed / landline sector.

It is estimated that Vietnam has a total of over 150 million phone subscribers, including more than 130 million mobile and over 17 million fixed phone subscribers. However, these reported high penetration rates (a tele-density of > 100%) have to be taken with high caution: Due to a lack of definition on what constitutes a subscriber, mobile network operators often report substantial numbers of inactive mobile subscribers in their total subscriber numbers; additionally many subscribers carry more than one SIM card across multiple networks (mainly to take advantage of preferential tariffs or promotions) and may be counted as a customer on several networks. Consequently, the real number of active, revenue generating mobile customers is hard to determine.

With 90% of mobile subscribers being prepaid subscribers, and even postpaid contracts having short termination periods, customer churn is high and the SIM purchase cost to networks is high. In addition, failure to identify and reallocate unused subscriber numbers leads to inefficient use of core network resources. The Ministry recently introduced directives to restrict the number of SIMs for any individual customer to a maximum of 3, but it is difficult to know how this will be monitored.

Following a decision to create more competition in the sector, the government has issued a number of licenses to “facility based operators” (network operators) as well as allowing non network owning companies to enter the market. Despite this, the telecom sector is still largely dominated by three 100% state owned enterprises, Mobifone and Vinaphone (organisations belonging to VNPT) and Viettel (Ministry of Defence), which combined account for more than 90% of the market share.

Network quality and availability in Vietnam still is underdeveloped but recent deployment of fibre backbones and new international capacity helped to improving the situation. However, until now, the regulatory framework has not reflected the market development accurately. This is likely to change with the new Telecommunication and Radio Frequency Law, which will provide a significant legal improvement.

- 1. Mobile sector subscriptions:** Recently Vietnam's ninth mobile operator started service, leading to more competition in what was already a crowded market place. This has led to intense pricing and promotional competition in the segment, which hurts those networks with high fixed costs and low subscriber numbers. As the mobile sector is dominated by the three State operators, who control 90+% of the mobile market share in



terms of subscribers, revenues and profit, this means that the remaining 6 other operators are finding financial viability difficult. The Ministry recently introduced Circular 11/2010, which lays down restrictions on promotional offers and free airtime that MNOs can offer to customers, in order to avoid “price dumping” practices and create a more even playing field on promotional offers.

Most of the networks use GSM technology, with only two of the smaller networks using CDMA technology. One network which had been operating a CDMA network switched to the GSM format last year.

3G licences have been issued to four existing operators (one each to Viettel, VNPT, EVN Telecom and new operator VDC) by way of a “beauty contest”. These networks launched 3G services in 2010 but the vast majority of their customers are still using 2G and 2.5G services. The first Mobile Virtual Network Operator licence was issued in 2010 but the license holder has not yet launched commercial services. The market for Value Added Services is still currently quite small but offers huge potential, particularly in areas such as mobile banking, mobile internet, transaction based services, etc.

2. Broadband (BB) and internet subscriptions: Vietnam has over 21 million Internet and 2.6 million BB subscribers. However, 2/3rd of BB subscribers are in Hanoi and HCMC, the provinces are largely underrepresented. VNPT dominates the market with over 50% market share. FPT, a publicly traded company, is able to maintain a close 3rd market position after Viettel. The number of Internet subscribers is around 25 million, growing by more than 15 percent over the last year. Vietnam is in the top 20 countries of internet users in the world. The number of indirect internet users (via friends, family, internet cafes) is significantly higher at an estimated over 50 million.

3. Fixed line: The fixed line sector still experiences growth with now more than 17 million subscribers, even though the number of mobile phone use is significantly higher, 8-fold the number of fixed-line subscribers. Accordingly, the number of fixed line connections is expected to even out in the coming years, as more and more substitution through mobile phones is expected. Prices are currently fully regulated but from 2011 on operators will have more flexibility in pricing. More than 2/3rd of the market is traditional PSTN with fixed wireless applications accounting for the remainder.

4. Wireless Broadband Access (WBA): The MIC issued a number of trial licences for WiMAX which were mostly concluded this year. However there is no clear picture on the proceeding with commercial licences. The 3G networks that went live in 2010 are providing WBA in the urban areas, surrounding provinces and increasingly outside the cities.

II. Key issues of further market development



The development of the sector in recent years is very impressive with some of the highest growth rates in Asia. The massive increase in penetration rates contributed to the general economic development of Vietnam. However as the mobile market nears maturity, profits margins are becoming tighter, competition for marginal customers more fierce, while the lack of legislation on infrastructure sharing means investment costs are still high.

To ensure healthy growth in the sector, the Government needs to look at the following:

- The creation of a strong independent regulatory body with real powers to ensure a level playing field for all operators.
- Network quality standards and international capacity need further improvement and the National Telecommunication Fund must be fully utilized to support the connectivity of rural areas.
- Further strengthening of network reporting definitions, standards and practices to ensure more consistency in comparing network metrics and more efficient use of network resources in the sector.

III. International Investment Opportunities

EuroCham believes that international industry investors will be able to contribute to the further development of the sector in Vietnam in commercial means but also in improving network infrastructure and penetration. A number of well-known and respected European telecom operators are willing to engage in this through strategic partnerships with Vietnamese operators. Until recently the only legal structure for foreign operators to invest in the local market was through a “Business Cooperation Contract” (BCC) with a Vietnamese operator. However, a BCC is of limited duration and gives the foreign party a revenue share but no equity rights. Only two European companies as well as three Asian operators have operated by way of BCC in the market.

Despite announcements since 2005 by the Government of its intentions to equitize state owned enterprises in the telecom sector, in particular the dominant operators Mobifone, Vinaphone and Viettel, there has been considerable delay in this equitisation process and, to date, not one single SOE in this sector has announced a timetable towards an IPO.

Whilst legislation has been changed to allow foreign participation in the telecom sector, particularly in network services, the new regulations are still a long way short of Vietnam’s WTO accession terms. Under WTO, Vietnam agreed to open the sector more to international participation and allow foreign ownership in a “facility based “(network) operator of up to 49%. However the current draft legislation limits foreign ownership in a single network operator to 30% and just 20% if that foreign owner has shareholdings in another network operator in Vietnam. All of this is moot however, as currently the three dominant network operators are all 100% controlled by Government in one form or another, and there are no published plans for an IPO of any of these operators in the near future.



As spectrum is scarce and the market is already over crowded with nine mobile operators (all majority Government owned), then the preferred investment model for foreign participation in this sector is by way of purchasing equity in an existing operator. This preferred investment model can only happen with the will of the Government to push through the equitisation program, and the appropriate legislation in place to allow the maximum foreign ownership anticipated under WTO accession terms.

III. Recommendations

The new Law on Telecommunications and Law on Radio Frequency will be significant steps towards a suitable framework for the sector. The Government has to create an independent regulatory body with the means and tools to secure the further development of the sector and service availability for the country. In particular:

- **Destructive competition:** It will be important to find a fair balance between competition levels sufficient to satisfy the customers' needs and a regulatory environment that allows equal opportunity for long-term growth and related involvement for all investors in the sector. Accordingly, the government should look at further enhancement of regulations that encourage fair competition and efficient use of resources, which would avoid destructive losses of smaller players in the sector, and ensure long term availability of choice for customers.
- **National network development plan:** A national network development plan must focus on the broad availability of connectivity with suitable bandwidth and reliability. The current mainly price driven competition, especially in the mobile sector, though leading to a fast reduction of consumer prices, may fail to secure a market environment to deliver long term investment in network infrastructure and services.
- **Equitization roadmap:** Despite clear WTO commitments, investment possibilities in the telecom sector remain unclear. EuroCham believes that equitizing and thus allowing European champions to enter the Vietnamese market is the best option to ensure Vietnam's medium and long-term growth in the telecom sector. The contribution of external European expertise and experience will help the leadership of Vietnam in telecom sector. We therefore recommend that the Vietnamese government speeds up the equitization process of telecoms operators, starting with announcing a reliable roadmap and definite timelines for equitization in the sector. The role and expectations towards foreign strategic investors and the criteria for their selection should be made clear and transparent.