

Financial Times
April 23 2006

Gates open to Vietnam's IT potential

By Amy Kazmin in Hanoi

As Vietnam's Communist party apparatchiks met this weekend under portraits of Marx and Lenin for the opaque process of selecting the country's new rulers, Bill Gates, the world's richest man, landed in Hanoi for a one-day visit and was received as a conquering hero.

Mr Gates, founder and chairman of Microsoft, a first-time visitor to Vietnam and the epitome of capitalist success, was given a red carpet welcome at the dilapidated Hanoi University of Technology, where he was mobbed by thousands of cheering students, many clutching Vietnamese-language versions of his books.

In a speech and subsequent question session, Mr Gates won repeated applause as he spoke of the potential for young Vietnamese to work in software outsourcing, call centres, back office processing and other niches of the global information economy.

"With the internet having connected the world together, someone's opportunity is not determined by geography...but by the investment in education that you make," he told hundreds of IT students.

"You represent the future of invention and technology," he said. "In fact, you represent the future of this country, making sure it uses digital processes to grow in a rapid way."

The rapturous reception given the Microsoft founder – as the country's leaders were discussing the "socialist-oriented market economy" – reflects the conflicting impulses in today's Vietnam, where the ruling communists are struggling to reconcile their aspirations for a strong "knowledge-based economy" with the legacy of the socialist past.

Although Hanoi is eager to develop high-technology industries as a cornerstone of the economy, analysts say progress is being hindered by vested interests from the state-controlled past. These legacies include a vast, inefficient – and deeply corrupt – state sector that still gets preferential access to scarce capital, and tight government controls over the university system which stifle innovation and creativity.

"There are two operating systems in Vietnam," said Tom Vallely, director of the Vietnam Programme at Harvard University's Kennedy School of Government. "One is the state economy, and one is the more modern globalised economy. But there is a tension between the central planning system and the modern global economy."

Vietnam is growing fast – and catching the imagination of global investors. The economy has expanded at an average annual rate of 7.5 per cent since 2000, with growth hitting 8.4 per cent last year. Foreign direct investment is rising, and Intel recently announced plans to build a \$303m (€250m, £174m) microchip assembly plant in Ho Chi Minh City.

Vietnam's maiden sovereign bond in October raised \$750m and has brought strong capital inflows in its wake. Merrill Lynch recently issued a bullish report, urging investors to "buy Vietnam" for themselves and their children. The stock market, with just 36 listed companies, has risen about 90 per cent so far this year.

Despite the country's increased integration into the global economy, Vietnam's leaders still want the state sector to dominate and are pouring resources into state companies such as Vinashin,

the shipbuilder, which was granted the entire proceeds of the bond. State investment grew 11 per cent in 2004, accounting for 55 per cent of total new investment.

“The party and the government have been consistent in their objective of keeping the commanding heights of the economy state-controlled, or state-owned,” said Jonathan Pincus, a Hanoi-based economist for the United Nations Development Programme. “They are not embarrassed about saying this but nobody is listening.”

The fledgling private sector, though dynamic, remains small and constrained. There are almost no large private companies, and the sector lacks substantial heft, a potential obstacle to technological progress. “After 20 years of reform, and a good decade of market liberalisation, you would expect to see some big private firms if there weren’t real obstacles,” he added.

Meanwhile, universities and higher education institutes are controlled by education ministry bureaucrats, who dictate the entire curriculum, including mandating extensive study of Marxist-Leninist theory and “Ho Chi Minh thought”. Universities produce almost no original research and are detached from business or industry.

“They don’t have knowledge output because the system they use doesn’t have ingredients of excellence – merit-based promotion, competition, research,” said Mr Vallyely. While Harvard offered to help Vietnam build a top-tier university, the government’s initial enthusiasm appears to have waned in the face of resistance from bureaucrats.

Yet few doubt Vietnam’s potential to build a knowledge economy. “Education is a national obsession,” said Mr Pincus. “If the education system would respond to the demand, the sky is the limit.”