Quest VENTURES

CLMV - Opportunities

Delving into the CLMV Start-Ups' Realm of Possibilities

Credits

Analyst
Mr Jonathan Lau, YLP Analyst

Research
Mr James Tan

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Overview

The CLMV countries, namely Cambodia, Laos, Myanmar and Vietnam, have traditionally been overshadowed by its more buoyant ASEAN neighbours. However, the pandemic-induced economic doldrums now pose a giant hurdle in ASEAN's endeavour toward becoming the fourth largest economy in the world by 2050. This is a rallying call-to-action for CLMV, whose growth is a key factor in that goal.

Startups, the seeds from which major corporations sprout, are the linchpin of economic revitalisation and a burgeoning investor hub. With a relatively raw entrepreneurial scene, CLMV has immense potential for growth and should strive to proliferate strong SMEs and local industries within the next few decades.

This report shall thus focus on the startup ecosystems of CLMV. This report will – (1) unpack outstanding features of the CLMV startup community; (2) examine the respective growth obstacles; and (3) highlight promising sectors that CLMV can dive deeper into.

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Foreword

Cambodia, Laos, Myanmar and Vietnam, commonly known as CLMV, is an eclectic grouping of long histories and rich cultures. With a sizable combined population of 175.7 million, the market in CLMV is challenging and exciting.

The technology startup scene in these countries has blossomed over the decade. In preceding years, our research and networks on the ground show the rapid growth in the amount of funding, number of startups created, and overall development of the ecosystem.

Even with COVID-19 as an important consideration, we remain bullish on the potential of CLMV. Barring major shifts in political direction, we expect growth in technology startups in CLMV to continue unabated.

James Tan
Managing Partner
Quest Ventures

Cambodia

Overview

Cambodia has had a turbulent history. 40 years on, Cambodia is still reeling from the effects of the Khmer Rouge regime, responsible for the mass killings of millions. Despite its past which has left a significant number of its population in poverty, the country has been striving to escape this state. Its poverty rate has in fact more than halved from 2004 to 2018, with the percentage of citizens under the national poverty line decreasing significantly from 47.8% in 2007[1] to 12.9% in 2018[2]. The economy has primarily been driven by industries such as Agriculture and Garments[3]. Tourism is another leading source of income for the nation as many tourists flock to the country for its magnificent Angkor Wat, contributing 12.1% to the nation's GDP in 2019[4].

However, the negative impact of COVID-19 on its core sectors has once again highlighted the importance for the country to focus less on traditional sectors that rely heavily on manual labour or external derived demand[5]. Instead, they need to shift their priorities to the digital economy which is often better able to weather heavy storms, and which is largely driven by young budding entrepreneurs in the community.

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[1] World Bank. (2019, October 29). Cambodia: Reducing Poverty and Sharing Prosperity. Retrieved from https://www.worldbank.org/en/results/2019/10/30/cambodia-reducing-poverty-and-sharing-prosperity

[2] Asian Development Bank. (2020, April). Poverty Data: Cambodia. Retrieved from https://www.adb.org/countries/cambodia/poverty#:~:text=Poverty%20Data%3A%20Cambodia&text=In%20Cambodia%2C%2012.9%25%20of%20the,Cambodia%20is%200.7%25%20in%202019.

[3] ASEAN Briefing. (2019, March 1). Cambodia's Investment Outlook for 2019. Retrieved from https://www.aseanbriefing.com/news/cambodias-investment-outlook-for-2019/

[4] Xinhuanet. (2020, February 26). Cambodia's tourism makes 4.92 bln USD revenue last year. Retrieved from http://www.xinhuanet.com/english/2020-02/26/c_138820873.htm

[5] EastAsiaForum. (2020, June 12). Cambodia's COVID-19 success and economic challenges. Retrieved from https://www.eastasiaforum.org/2020/06/12/cambodias-covid-19-success-and-economic-challenges/

Startup Community and Ecosystem

1. Co-working Spaces

More than 23 co-working spaces and innovation labs have been established in Cambodia since 2011[6] - a considerable number considering the early stage of the startup ecosystem in the country. In fact, these spaces cater not just to startups, but also to bigger names in the tech community. SmallWorld Realty, a partnership between SmallWorld Venture and Raintree, is one of the newest spaces launched in the country[7]. Its tenants include Microsoft and Grab, thus bringing together opportunities for large collaborations between tech companies and startups. As startup founders continue to grow their business and build their network while working at these collaborative spaces, the startup ecosystem in Cambodia is sure to continue growing and shows no signs of slowing down.

[6] Khmer Times. (2019, July 4). American Tech Companies Grow Cambodia's Digital Economy. Retrieved from https://www.khmertimeskh.com/620474/american-tech-companies-grow-cambodias-digital-economy/

[7] e27. (2019, October 22). Cambodian tech ecosystem adds new co-working space SmallWorld Realty, collaborating with creative office development Raintree. Retrieved from https://e27.co/in-photos-cambodian-tech-ecosystem-adds-new-co-working-space-smallworld-realty-collaborating-with-creative-office-hub-raintree-20191022/

2. Mentorship and Training

Cambodia has a considerable number of incubators and accelerator programmes although its startup ecosystem is still in a rather early stage of growth. The economy is slowly transforming from one heavily dependent on physical labour to one geared towards building skills and knowledge[8], tapping on the youthfulness and vibrancy of its population.

One such accelerator programme available to budding entrepreneurs include the BIO Accelerator Program, launched by the Cambodia Investor Club Association. It provides several months of intense training and mentorship for SMEs chosen to be part of their holistic programme. Entrepreneurs who undergo this programme learn to develop their businesses in a sustainable manner in order to achieve financial independence. SHE Investments has also delivered similar programmes, namely the SHE Incubator and Accelerator. What differentiates them is their specific focus towards women entrepreneurs whom they found are often unable to grow past the micro stage of business[9]. Hence, they aim to help women obtain the same resources and attain the same status as men in this developing economy.

Additionally, a major milestone for the startup community was the launch of the Techo Startup Centre, an incubation centre that aims to further the development of Cambodia's digital economy[10]. Being government-funded, this signalled the government's recognition for such innovative efforts and its willingness to dedicate resources to further the development of early businesses. Its location within the Royal University of Phnom Penh also increases its proximity to youths, allowing the community to harness the benefits of its young population.

[8] e27. (2018, June 27). Young but growing, Cambodia startup ecosystem is ready to step up. Retrieved from https://e27.co/young-growing-cambodia-startup-ecosystem-ready-step-20180627/

[9] United Nations Development Programme Cambodia. (2020, February 19). The Launching of "SHE Incubator and Accelerator Program". Retrieved from https://www.kh.undp.org/content/cambodia/en/home/presscenter/speeches/2019/remarks--by-dr--rany-pen--assistant-resident-representative--und.html

[10] Khmer Times. (2019, April 10). Government-funded business startup centre launched. Retrieved from https://www.khmertimeskh.com/595046/government-funded-startup-incubation-centre-launched/

3. Funding and Investments

Cambodia's business environment has been known for its openness to foreign companies and investors. The country has designated Special Economic Zones which provide tax benefits on imports and exports, and also permits full foreign ownership of most companies[11]. Although its investment law is already touted to be friendlier than its neighbours', the country is in the midst of revising its investment law in order to increase its competitiveness and attractiveness among foreign investors[12]. With fewer restrictions and greater protection for investors as compared to other countries, investors will be more incentivised to consider investing in startups in Cambodia.

Its open business environment has evidently reaped benefits, with the country's investment value increasing from USD 2.9 billion in 2012 to USD 9.4 billion in 2019[13]. The number of publicly-disclosed startup investments has also risen over the years, doubling to more than 10 between the years of 2015 and 2018[14]. This is a vast improvement as startups in Cambodia generally find it difficult to receive seed funding, let alone larger funds[15]. A greater diversity of funding sources has attributed to this rise in investments.

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[11] ASEAN Briefing. (2019, March 1). Cambodia's Investment Outlook for 2019. Retrieved from https://www.aseanbriefing.com/news/cambodias-investment-outlook-for-2019/
[12] Khmer Times. (2020, July 10). New investment law to attract more investments. Retrieved from https://www.khmertimeskh.com/50743474/new-investment-law-to-attract-more-investments/
[13] Council for the Development of Cambodia. (n.d.). Investment Trend. Retrieved from http://www.cambodiainvestment.gov.kh/why-invest-in-cambodia/investment-enviroment/investment-trend.html
[14] Kem, B., Sou, J., Ng, Z., & Chan, P. (2019, January 1). Startup Kingdom: Cambodia's Vibrant Tech Startup Ecosystem in 2018. Retrieved from https://static1.squarespace.com/static/56a87acd05f8e263f7b16c7f/t/5c9b0762085229887ba9af72/1553663849501/Cambodian_Tech_Startup_Report_Final_250319.pdf
[15] The Phnom Penh Post. (2018, March 6). Funding is the biggest hurdle for Cambodia's technology startups. Retrieved from https://www.phnompenhpost.com/supplements-special-reports/funding-biggest-hurdle-cambodias-technology-startups

The increase in funding in the last few years has originated from both public and private sources. In the private sector, the USD 5 million Smart Axiata Digital Innovation Fund was launched in 2017 to provide more funding options for local startups[16]. Additionally, Octane, a local venture capital firm backed by Worldbridge Group, closed its first investment fund in 2019 with a total of USD 55 million aimed at tech investments in Cambodia[17]. In the public sector, the government launched a USD 5 million annual fund at the 2019 Cambodia Outlook Conference which aims for "Digital Transformation toward Industry 4.0" [18]. The increase in financial support for local tech startups has thus shifted the country's focus away from traditional businesses and business models towards those in the digital economy. As the number of funding opportunities increase over the years, startups will be able to gain greater access to capital which will in turn propel further growth and development of the local startup ecosystem.

[16] Southeast Asia Globe. (2017, November 15). Smart Axiata announces the first three investees of its digital innovation fund. Retrieved from https://southeastasiaglobe.com/smart-axiata-innovation-fund/
[17] e27. (2019, March 1). Cambodia-grown VC firm Ooctane secures US$55M from country's logistic giant. Retrieved from https://e27.co/cambodia-grown-vc-firm-ooctane-secures-us55m-from-countrys-logistic-giant-20190301/
[18] KrASIA. (2019, March 27). Cambodia pledges $5m to strengthen tech startups. Retrieved from https://kr-asia.com/cambodia-pledges-5m-to-strengthen-tech-startups

Challenges

1. Poor Governance

Cambodia has been criticised for not being a true democracy due to the absence of a credible opposition. Kem Sokha, the former leader of the Cambodia National Rescue Party (CNRP), was arrested in 2017 for treason, and the CNRP was dissolved[19]. This enabled Hun Sen's party to win all parliamentary seats in the 2018 elections with a one party rule. However, no evidence has supposedly been found against Kem Sokha for the last two years, strengthening the theory that he was wrongly accused[20]. Beyond the conjectured corruption involved are dated political ideologies that may hinder the country from advancing together with global trends. The absence of an effective opposition questions the ability of the ruling party to accept foreign trends and practices, thus suppressing the introduction of new developments and perspectives. This may also instil fear in the locals to introduce new ideas to the community that may not be very welcomed by the government as they may risk being criminalised. These considerations may cause Cambodia to strive towards economic and political progress without any effective advancements, affecting all realms in the community including the startup ecosystem. The lack of a strong governmental structure and concerns of corruption may also in turn deteriorate trade relations and hinder foreign investors from entering the country, as already seen by the European Union's withdrawal of the Everything But Arms' trade scheme due to concerns of human rights violations[21].

[19] Forbes. (2020, January 22). Cambodia's Democracy On Trial. Retrieved from https://www.forbes.com/sites/oliviaenos/2020/01/22/cambodias-democracy-on-trial/#3df5e1a0158b
[20] The Japan Times. (2020, January 21). Cambodia is criminalizing democracy. Retrieved from https://www.japantimes.co.jp/opinion/2020/01/21/commentary/world-commentary/cambodia-criminalizing-democracy/
[21] European Commission. (2020, February 12). Trade/Human Rights: Commission decides to partially withdraw Cambodia's preferential access to the EU market. Retrieved from https://ec.europa.eu/commission/presscorner/detail/en/ip_20_229

2. Startups' Limited Access to Capital and Professional Services

One common problem that startups in Cambodia face is their inadequate access to capital and professional services. While strides have been made to promote and boost the local startup scene, these fundamental resources are required by the startups when developing their business.

The poor access to capital is a problem not only faced by startups, but by businesses in general. With high interest rates, undesirable loan terms, and high collateral requirements, local businesses find it difficult to receive capital financing. This has been highlighted as a problem by the Cambodian government under the Cambodia Industrial Development Policy 2015-2025[22], reinforcing the need to improve the country's banking system in order to support local businesses and further economic growth in the country. While a new fund dedicated to capital financing for SMEs was set up in 2020 by the Rural Development Bank[23], it specifically targets SMEs in the agricultural sector which has traditionally been the backbone of the Cambodian economy. As a result, SMEs in other rising sectors are still left behind.

SMEs have also had limited access to professional services, which are the key to establishing their businesses within the country's regulatory framework. Over 60% of founders have struggled to find sufficient information related to legal and tax advice[2424], thus posing an obstacle to their awareness of the latest updates or actions that they are required to take. Several firms have noted the importance of improving startups' access to professional services. In 2019, the first professional service alliance in the country was established, with a focus on the tech community which consists of many startups[25]. This marked a huge milestone for the startup community which will be able to receive more guidance and advice. To ensure that the startup community is able to continuously receive such crucial support, the alliance can consider bringing more professional services firms on board to expand the capacity that the fast-growing startup scene requires.

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[22] Royal Government of Cambodia. (2015, March 6). Cambodia Industrial Development Policy 2015 - 2025. Retrieved from https://policy.asiapacificenergy.org/sites/default/files/IDP-English-Version-FINAL1.pdf
[23] SME Magazine Asia. (2020, February 26). Cambodia sets up Fund to Enhance SMEs' Access to Finance. Retrieved from https://sme.asia/cambodia-sets-up-fund-to-enhance-smes-access-to-finance/
[24] The Phnom Penh Post. (2019, February 13). First startup professional service alliance launched. Retrieved from https://www.phnompenhpost.com/business/first-start-professional-service-alliance-launched
[25] e27. (2019, February 14). Cambodia catches up with launching of startup professional service alliance. Retrieved from https://e27.co/cambodia-catches-up-with-launching-of-startup-professional-service-alliance-20190214/

Rising Sectors

1. Fintech

Cambodia's population is becoming increasingly tech-savvy, yet 78% of them remain unbanked and a mere 13% are acquainted with mobile payments as of 2019[26]. As few established foreign players have noticed this under-served market[27], startups can capitalise on this opportunity to meet the needs of the local population. These startups can provide mobile payment solutions and even address the very issue of the limited access to capital that many startups are facing today. Several startups, such as Morakot Technology and Clik have already entered the Fintech sector, carving a name and reputation for themselves. As new Fintech startups are sprouting quickly, founders that aim to address existing problems in the Fintech sector need to take quick action and launch their business soon in order to ride this wave.

[26] Fintechnews Singapore. (2019, May 1). Fintech is the Single Largest Sector in Cambodia's Startup Scene. Retrieved from https://fintechnews.sg/30413/cambodia/fintech-cambodia-startup-largest/
[27] Khmer Times. (2019, July 4). American Tech Companies Grow Cambodia's Digital Economy. Retrieved from https://www.khmertimeskh.com/620474/american-tech-companies-grow-cambodias-digital-economy/

2. Agritech

Agriculture made up 20.71% of Cambodia's GDP[28] and employed 32.3% of the population in 2019[29]. As one of the key drivers of the country's economy, it is understandable why it has been receiving a considerable amount of attention and resources from the government. Apart from the specific funding provided to Agriculture companies, the Ministry of Agriculture, Forestry and Fisheries has soft-launched a mobile application for the sector, tying it in with e-commerce to match farmers with consumers[30]. There is evidently still a gap in the Agriculture sector in terms of streamlining processes and there remains a lot of untapped potential in terms of the mechanisation of agriculture. Nevertheless, farmers increasingly understand the importance of moving away from traditional manual processes in order to improve productivity[31]. Agritech thus plays an important role in transforming the sector that has supported the country tremendously for it to remain as a driving force for the Cambodian economy.

[28] World Bank. (n.d.). Cambodia: Agriculture, forestry, and fishing, value added (% of GDP) - Cambodia. Retrieved from https://data.worldbank.org/indicator/NV.AGR.TOTL.ZS?locations=KH
[29] Trading Economics. (n.d.). Cambodia - Employment In Agriculture (% Of Total Employment). Retrieved from https://tradingeconomics.com/cambodia/employment-in-agriculture-percent-of-total-employment-wb-data.html
[30] Phnom Penh Post. (2020, January 23). App to connect farmers to millions. Retrieved from https://www.phnompenhpost.com/national/app-connect-farmers-millions
[31] Khmer Times. (2020, January 27). Farmers need new skills, technology and research to become international. Retrieved from https://www.khmertimeskh.com/50683980/farmers-need-new-skills-technology-and-research-to-become-international/

Conclusion

Cambodia's open business environment is definitely a strong pull factor for foreign investors and business owners, but changes in its complex political scene may affect foreigners' perceptions of the country's long-term stability. The government's focus has appeared to be on traditional industries, such as Agriculture, Manufacturing, Garments, and Construction. While technology can play a significant role in digitising these industries and transforming them, it will be difficult for startups to enter these industries predominantly occupied by large players unless they are offered more opportunities to obtain the resources needed to compete effectively with these players. Although some of these efforts are targeted towards specific industries, it is heartening to know that there have been more initiatives from both the private sector and the government in the form of accelerators and funding.

Nevertheless, the startup ecosystem, while making significant progress over the years, may be at too early a stage for many foreign companies and angel investors to confidently enter and provide the resources it requires. It still needs greater support from the local community first before more foreign investors and companies are willing to step in and complement local efforts with their own.

Laos

Overview

A landlocked country with a small population of 7.2 million, Laos is often overshadowed by its neighbours, yet it has had comparable economic growth despite being one of the poorest countries in Southeast Asia. Having been given a status upgrade by the World Bank and transiting from a low income to a lower-middle income economy[32], Laos' real GDP has been steadily rising[33].

Its small domestic market has raised investors' doubts on whether the market is large enough to support sustainable growth[34]. To mitigate them, Laos has increasingly engaged in international trade, namely through its entrance into the World Trade Organization (WTO) in 2013. This has allowed the landlocked country to gain access to more trade partners and negotiate for more advantageous trade terms[35], introducing the closed economy to a trove of resources and opportunities. Yet at the same time, this may also expose the country to instability in the international economy that it was previously rather shielded from, especially if it becomes increasingly dependent on foreign consumption and investments. Nevertheless, it is undeniable that Laos has much to gain from greater international trade, and in particular, the startup ecosystem which has benefited both small and large countries all around the world.

[32] The World Bank. (2011, August 17). Lao PDR Now a Lower-Middle Income Economy. Retrieved from https://www.worldbank.org/en/news/press-release/2011/08/17/lao-pdr-now-lower-middle-income-economy
[33] The World Bank. (n.d.). GDP growth (annual %) - Lao PDR. Retrieved from https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=LA
[34] Good News From Southeast Asia. (2017, March 10). Startups in Laos on the Rise. Retrieved from https://seasia.co/2017/03/10/startups-in-laos-on-the-rise
[35] The Diplomat. (2013, February 7). What Will WTO Membership Mean for Laos?. Retrieved from https://thediplomat.com/2013/02/what-will-wto-membership-mean-for-laos/

Startup Community and Ecosystem

1. Co-working Spaces

Laos has progressively seen a stronger startup support system in its capital city, Vientiane, through the increased number of co-working spaces to facilitate interactions between startups. Modelled closely after other reputable co-working spaces in the world, Tohlao set up a co-working space in Vientiane in 2016, followed closely by Toong in 2019[36]. These spaces provide a conducive environment for intra and inter-party communication between startups, as well as invaluable opportunities for growth. Despite being a relatively new concept to the community[37], it has seen considerable success and support from local businesses.

[36] The Laotian Times. (2019, August 16). Toong: a Hub for Progressive Entrepreneurs in Vientiane. Retrieved from https://laotiantimes.com/2019/08/16/toong-a-hub-for-progressive-entrepreneurs-in-vientiane/

[37] Vietnam Economic Times. (2018, February 28). BIM & Toong to open first co-working space in Laos. Retrieved from http://vneconomictimes.com/article/business/bim-toong-to-open-first-co-working-space-in-laos

2. Mentorship and Training

To tackle the lack of education and skills among the Laotian population, appropriate guidance needs to be provided as even startups with the most extensive resources will be unable to flourish without relevant expertise. While sufficient funding is indeed an enabling factor for businesses, mentorship plays a pivotal role in the long-term development of the business.

As part of Tohlao's efforts to strengthen the local startup community and promote entrepreneurship, Startup Weekend[38], a competition for startups to hear from successful businessmen and develop a business plan, was organised. The winning teams will then be given the opportunity to participate in Tohlao's startup incubation programme[39], which has birthed successful startups such as Book Delivery, Bizgital and LOCA. Similar programmes will definitely aid the growth of businesses in Laos, where there is still a weak presence of strong incubators and accelerators catered to small companies.

The importance of training and developing future generations of skilled workers has also been recognised. Such training has been particularly catered to the technology sector in order to enable strong growth in the digital economy. One notable training programme is the AC STEM Lab[40], supported by the United States Embassy and multinational technology companies including Facebook. While increasing the pool of skilled labour in Laos, such programmes also attract large conglomerates to its undervalued resources and diverse opportunities.

[38] Champa Meuanglao. (2017, May 1). On the table: building a startup community in Vientiane's first co-working space. Retrieved from https://champameuanglao.com/on-the-table-building-a-startup-community-in-vientianes-first-co-working-space/
[39] Investvine. (2019, May 8). Laos Set To Build Up A Startup Community. Retrieved from https://investvine.com/laos-set-to-build-up-a-startup-community/
[40] Lao News Agency. (2019, August, 26). U.S. Supports Tech Skills Training For Lao Youth. Retrieved from http://kpl.gov.la/En/Detail.aspx?id=47744

3. Funding and Investments

The limited investments in Laos has been attributed to the rather nascent stage of the startup scene in the country, where startup founders have little experience and resources. Angel investors thus often overlook the country in exchange for economic hubs in neighbouring countries, at the detriment of the startups in Laos.

Nevertheless, investors are starting to recognise the growth potential of the small country. In 2016, the Mekong Angel Investors Network (MAIN) created a new chapter in Laos, led by the Australian government and comprising investors from regions including Europe and Australia[41]. Although this signals positive change to the startup scene, more investment opportunities need to be created in Laos in order to retain and attract investors who will otherwise take off for more attractive deals in its neighbouring countries. Potential startups in Laos need to tap on their strengths which, unlike many startups in other countries, may not lie in the technology sector, at least not for now.

[41] Malcolm Turnbull. (2016, September 7). Opening remarks at the Launch of the Laos chapter of the Mekong Angel Investors Network. Retrieved from https://www.malcolmturnbull.com.au/media/opening-remarks-at-the-launch-of-the-laos-chapter-of-the-mekong-angel-inves

Potential Challenges

1. Lack of Sizeable Talent Pool

Laos' small population has, from the start, restricted its talent pool of knowledgeable and skilled workers. This is further dampened by the poor financial literacy and financial inclusion among its citizens. The unbanked population in Laos makes up more than 60% of its total population[42], as they mainly engage in informal financial services. As a result, they are largely unaware of the functioning of the financial markets and the proper processes needed to secure funding for their business.

The language barrier also poses an issue for local startups to secure foreign funding, whose founders may be unable to eloquently present their business plan to overseas investors in English[43] - the dominant language of businesses[44]. This thus reduces their ability to facilitate communications and build relationships with foreign investors whose primary means of communication could be in English. Consequently, there needs to be greater investments in human capital by the local government in order to attract long-term foreign investors to the country.

[42] BOL, GIZ, OECD, & ADBI. (2018). Conference on the Role of Financial Education and Consumer Protection in Supporting Financial Inclusion . Retrieved from http://www.oecd.org/finance/financial-education/Lao%20PDR%202018%20Summary%20Record.pdf
[43] OECD, & Economic Research Institute for ASEAN and East Asia. (2018, September 1). SME Policy Index: ASEAN 2018 Boosting Competitiveness and Inclusive Growth. Retrieved from https://books.google.com.sg/books?id=nHhsDwAAQBAJ&pg=PA299&lpg=PA299&dq=Few+startups+with+founders+who+can+pitch+in+English+laos&source=bl&ots=nPA-f5D6bC&sig=ACfU3U2BkOqytDBjeP9EYTRYHnOyOCtmOw&hl=en&sa=X&ved=2ahUKEwik3vmItLDpAhVJlEsFHdvdAtkQ6AEwAXoECAoQAQ#v=onepage&q=pitch%20convincingly%20in%20english&f=false
[44] Harvard Business Review. (2012, May). Global Business Speaks English. Retrieved from https://hbr.org/2012/05/global-business-speaks-english

2. Underdeveloped Technological Infrastructure

The underdeveloped technological infrastructure is exceptionally evident in two areas: (1) internet usage and (2) financial technology (Fintech) solutions.

The internet penetration rate in Laos is one of the lowest in ASEAN - a mere 39% in 2019[45]. This low take-up rate has hindered businesses from harnessing technology to maximise efficiency, and has reduced their ability to raise awareness of their business ideas through social media and networks. A stronger technological infrastructure is needed to support businesses through their conceptualisation and operational phases, and help them compete with similar companies in the global arena.

Fintech advancements in Laos are also scanty, signalling the lack of exploration into the field by individuals and small businesses. The financial services sector in the country is still in its infancy stage, with advancements mainly led by financial institutions. The state-owned commercial bank, Banque pour le Commerce Exterieur Lao (BCEL), partnered with CyberSource in 2013 to offer a secure online payment gateway for merchants and customers[46]. But such developments are few and far between, and may be deemed insufficient to keep Laos up with the pace of global technology advances, contributing to its large unbanked population as well.

[45] DataReportal. (2019, January 31). Digital 2019: Laos. Retrieved from https://datareportal.com/reports/digital-2019-laos?rq=digital%202019%3A%20laos
[46] Fintechnews Singapore. (2017, June 2). The State of Fintech in Laos. Retrieved from https://fintechnews.sg/9709/laos/fintech-laos/

Rising Sectors

1. Edtech

Edtech is one sector poised for growth, and whose growth has been accelerated in this COVID-19 landscape. Laos' neighbouring countries, including Vietnam and Thailand, have implemented several of such solutions including Topica and OpenDurian even before this pandemic. As the adult literacy rate in Laos remains the lowest among the CLMV countries at 58.3%[47], there definitely remains a gap in the education market that startups have the ability to fill although Laos' technological infrastructure and uptake needs to increase tremendously.

The need for localisation and customisation of this sector raises the barrier to entry to foreign companies, who may also overlook Laos' underserved market in favour of other larger markets. This represents a good opportunity for local startups as education solutions need to be tailored to local needs. Such needs are best understood by the locals, rather than foreign companies that may not have a good grasp of the market unless they have local staff on the ground. Locals who are looking to set up a business can definitely consider delving into this space with the lack of competition in Cambodia.

2. Agritech

Agriculture is still one of the main drivers of the Laotian economy although it is gradually contributing less to the economy over the years, making up 15.29% of its GDP in 2019[48]. Due to the unpredictability of the weather and other natural variables in the region, Agritech can mitigate the impacts of these variables and help farmers improve their productivity. The use of drones is a cost-efficient way to monitor the condition of crops over vast areas of land, yet this has hardly been implemented in Laos due to low uptake and regulatory restrictions[49]. Farmers in the country make up a large underserved group that startups can definitely target and aid in the process. Should startups be able to roll out solutions that are able to bypass these regulations and raise greater awareness of their benefits, they will definitely be able to reap the potential of the shift from traditional agricultural methods to digitalised ones.

[47] KrASIA. (2019, March 11). Edtech firms are filling crucial gaps in Southeast Asia. Retrieved from https://kr-asia.com/edtech-firms-are-filling-crucial-gaps-in-southeast-asia
[48] World Bank. (n.d.). Agriculture, forestry, and fishing, value added (% of GDP) - Lao PDR. Retrieved from https://data.worldbank.org/indicator/NV.AGR.TOTL.ZS?locations=LA
[49] ASEAN Today.(2019, February 1). Is ASEAN doing enough to harness agritech's potential?. Retrieved from https://www.aseantoday.com/2019/02/is-asean-doing-enough-to-harness-agritechs-potential/

Conclusion

Laos' small domestic market may be seen as an impediment to growth in the eyes of foreign investors, but its size should not be the ultimate obstacle to its growth. Laos can learn from the successes of small, developed nations like Singapore - whose population is even smaller - in terms of harnessing the full potential of its population through greater dedication of financial and physical resources to its human capital.

In order to further its pursuit for economic growth, Laos needs to contribute more towards startups who may have brilliant solutions to its long-standing problems and which are scalable in nature. Currently, the infrastructure and resources required to create a robust startup ecosystem in Laos are still lacking. There are few available incubators and accelerators that would otherwise immensely benefit the locals in terms of the capital and mentorship they require. Moreover, only 39% of the Laotian population had subscription to internet services as of 2019 [50]. A larger proportion of the population needs to have regular access to the internet in order for companies to reach out to them with new technological solutions. Only when these issues are addressed can the startup ecosystem truly flourish.

[50] DataReportal. (2019, January 31). Digital 2019: Laos. Retrieved from https://datareportal.com/reports/digital-2019-laos

Myanmar

Overview

As the largest country in mainland Southeast Asia, Myanmar is a country known for its long history and rich culture. The country stands to benefit from its large young population where 55% of its population is aged under 30[51], thus granting them access to a large talent pool who can enact various changes in the future and bring about stability to its social structure.

The country has experienced positive GDP growth every year for the past 30 years ever since its liberalisation[52], and it is expected to remain positive at 1.8% in spite of the pandemic's effect on the global economy[53]. Myanmar's economy has traditionally been centred around Agriculture, which hires 48.85% of its working population[54] and provides a stable contribution to the country's GDP[55], although this number is now on a decreasing trend. Its Industrials sector, consisting of manufacturing, mining and hydropower, is another key source of revenue for the country as it harnesses the benefits of its natural endowment.

[51] Oxford Business Group. (2019). Growth of incomes and Myanmar's young population drive demand for nonessential goods. Retrieved from https://oxfordbusinessgroup.com/overview/buyers%E2%80%99-market-expanding-young-population-and-rising-incomes-drive-demand-non-essential-goods
[52] GDP growth (annual %) - Myanmar. (n.d.). Retrieved from https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?display=graph&end=2018&locations=MM&start=1991
[53] Asian Development Bank. (n.d.). Economic indicators for Myanmar. Retrieved from https://www.adb.org/countries/myanmar/economy
[54] World Bank. (n.d.). Employment in agriculture (% of total employment) (modeled ILO estimate) - Myanmar. Retrieved from https://data.worldbank.org/indicator/SL.AGR.EMPL.ZS?locations=MM
[55] Food and Agriculture Organization of the United Nations. (n.d.). Myanmar at a glance. Retrieved from http://www.fao.org/myanmar/fao-in-myanmar/myanmar/en/#:~:text=Myanmar%20is%20an%20agricultural%20country,percent%20of%20the%20labour%20force.

Startup Community and Ecosystem

While the startup ecosystem is still in its early stages, it has made significant headway in generating acceptance of innovation and entrepreneurship within the community. Digitalisation has played a great role in expediting this progress, with the SIM penetration rate in Myanmar multiplying from 10% in 2013[56] to 105% in 2019[57]. Greater digital connectivity has enabled startups to connect with a larger target audience and expand their reach, contributing to the digital economy in return[58].

1. Co-working Spaces

The first co-working space established in Yangon was Phandeeyar[59]. Since its establishment, the importance of such cost-efficient spaces for freelancers and startups has been recognised. This has led to more co-working spaces being set up over the years to meet the demand for flexible work arrangements and locations. Another similar space is Seedspace Yangon, an entrepreneurship hub opened in 2019 which offers co-working spaces and boosts collaboration among startups and with external partners[60].

[56] Oxford Business Group. (2019). Growth of mobile and internet usage make Myanmar ICT more competitive. Retrieved from https://oxfordbusinessgroup.com/overview/tech-transformation-mobile-and-internet-usage-rise-sector-set-expand-and-become-more-competitive
[57] DataReportal. (2019, January 31). Digital 2019: Myanmar. Retrieved from https://datareportal.com/reports/digital-2019-myanmar?rq=digital%202019%3A%20myanmar
[58] Asian Nikkei Review. (2018, June 12). Startups thrive in Myanmar as smartphone usage skyrockets. Retrieved from https://asia.nikkei.com/Business/Startups-thrive-in-Myanmar-as-smartphone-usage-skyrockets
[59] Myanmar Times. (2019, June 24). The thriving co-working space industry. Retrieved from https://www.mmtimes.com/news/thriving-co-working-space-industry.html
[60] Seedstars. 2019, March 22). Yangon, Myanmar: Seedstars announces its first hub in Southeast Asia. Retrieved from https://www.seedstars.com/magazine/yangon-myanmar-seedstars-announces-its-first-hub-southeast-asia/

2. Mentorship and Training

Many incubators and accelerators have been established in the local community in order to support startups in their early phases. Incubators, such as Impact Hub Yangon and Kanaung Hub, organise workshops for entrepreneurs in order to realise their ideas. Accelerators, such as Phandeeyar Accelerator[61], help startups at a slightly later stage of development by organising various programmes and competitions to provide them with resources to further their growth. The GSMA Ecosystem Accelerator Innovation Fund also provides grants and equity-free funding to the startups selected for its annual programme[62]. Such programmes provide tangible benefits to startups who lack the resources and expertise to grow their innovative ideas, and are particularly important for the emerging economy.

Several facilities in Myanmar also dedicate themselves to the training and development of the population's skills in order to equip locals, especially youths, with the necessary knowledge and mindsets to launch a successful business. One example is the Myanmar Young Entrepreneurs Association (MYEA) which aims to empower youths to pursue entrepreneurship[63]. The Myanmar Women Entrepreneurs Association (MWEA), which promotes women entrepreneurship and gender inclusivity, recently established the Women's Entrepreneurship Development Center to further encourage women's pursuit of entrepreneurship through their ability to balance work and family[64]. It is commendable to note that organisations are putting in immense effort and resources to enhance the entrepreneurial ecosystem in the country while pursuing sustainable development goals at the same time. Some of these initiatives have been set up by foreign companies as part of their corporate social responsibility programme. For example, the Samsung Tech Institute launched by Samsung Myanmar in 2016 provides vocational training to high school students in various technology fields, exposing them to more career options and linking them up with networks of successful entrepreneurs.

[61] SMyanmar Times. (2019, September 19). A cradle of local tech innovation. Retrieved from https://www.mmtimes.com/news/cradle-local-tech-innovation.html
[62] GSMA. (2018, December 12). Announcing the third cohort of the GSMA Ecosystem Accelerator Innovation Fund. Retrieved from https://www.gsma.com/mobilefordevelopment/blog/announcing-the-third-cohort-of-the-gsma-ecosystem-accelerator-innovation-fund/
[63] ThaiBiz Myanmar. (2019, September 6). Myanmar Young Entrepreneur Association launched a new portal which is called MYEA Member Portal in order to create a world class entrepreneurial ecosystem in Myanmar. Retrieved from http://www.thaibizmyanmar.com/en/news/detail.php?ID=2523
[64] ThaiBiz Myanmar. (2019, May 14). Women Entrepreneur Association is planning to set up Women's Entrepreneurship Development Centre in Yangon with the aim to make women's lives better and provide the economic information in real time. Retrieved from http://www.thaibizmyanmar.com/en/news/detail.php?ID=2168

3. Funding and Investments

The amount of private investments in Myanmar has been expanding, in the form of private equity, venture capital, and angel investors. The number of private equity deals has been steadily increasing for the past five years, from just three deals in 2015 to 15 deals in 2019, although the size of the deals has largely varied especially in 2016 and 2018 which received mega-deals[65].

Several companies have led these private investments in Myanmar. Delta Capital Myanmar has been at the forefront of the scene since its establishment in 2013 with USD 120 million of assets under management, making it the largest asset manager in the country[66]. Its second fund has had a large focus on economic, social and governance (ESG) investments[67], taking advantage of the increasing popularity of impact investing in Southeast Asia[68]. Venture capital firms have also been reaping the benefits of investments in early-stage companies and startups. Seed Myanmar and EME Asia are two such companies that have concentrated their portfolio solely on Myanmar startups, as they believe in the startups' deep knowledge of the challenging local market and ability to leverage their networks.

Angel investors make up another group of private investors that has contributed to the accelerating growth of the economy by investing in seed stages of startups. These investments are often made through angel investment networks such as the MYEA Angel Network, or the ASEAN Angel Alliance. Myanmar is in a strong position to benefit from this group of investors as angel investors have begun eyeing the Southeast Asian region for growth opportunities[69].

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[65] Private Equity International. (2019, November 13). Myanmar pins hopes for nascent PE market on ESG. Retrieved from https://www.privateequityinternational.com/myanmar-pins-hopes-nascent-pe-market-esg/
[66] Delta Capital Myanmar. (n.d.). About Us. Retrieved from https://www.deltacapital.com/about-us/
[67] DealStreetAsia. (2019, November 27). Delta Capital Myanmar to focus on ESG investing with second fund. Retrieved from https://www.dealstreetasia.com/stories/delta-capital-myanmar-esg-164293/
[68] Nikkei Asian Review. (2019, November 23). Southeast Asian companies jump on impact investment bandwagon. Retrieved from https://asia.nikkei.com/Business/Business-trends/Southeast-Asian-companies-jump-on-impact-investment-bandwagon
[69] KrASIA. (2020, January 31). What angel investors look for in the SEA market, according to industry insider Jiaway Koh. Retrieved from https://kr-asia.com/founders-are-key-for-angel-investors-says-banseas-associate-director

Challenges

1. Slow Acceptance of International Trade

Myanmar's slow acceptance of international trade has largely been attributed to its large domestic market, the main source of its current economic growth. Its exports as a percentage of its GDP, at just 30.4% in 2019[70], is among the lower percentages in ASEAN, including landlocked Laos which arguably has less access to international economies due to its geographical positioning.

Trade is a factor crucial for economies to thrive and will prove to be beneficial in the long run. Given its strategic location, Myanmar should harness its geographical advantage to become a key exporting hub in the region. As the regulations surrounding exports become more relaxed and Special Economic Zones (SEZs) are established, there is greater incentive for both trade and investments. These developments signal that the importance of trade is gradually being recognised in Myanmar, with new bilateral projects and agreements being established regularly. The liberalisation of Myanmar's economy is quickening, and will soon achieve rapid growth should it be able to sustain its existing momentum and should local companies be able to gain greater traction in foreign markets.

[70] The World Bank. (n.d.). Exports of goods and services (% of GDP). Retrieved from https://data.worldbank.org/indicator/NE.EXP.GNFS.ZS

2. Political Instability

Politics in Myanmar has long been rife with corruption, control, and power. Being poorly ranked at 130 out of 180 countries on the 2019 Corruption Perceptions Index by Transparency International[71], Myanmar's relatively high levels of corruption could pose an obstacle towards attracting foreign direct investments (FDI) to the country, as investors question the legitimacy and transparency of the bureaucracy.

Though significant political headway was finally made in 2015 after half a century, the NLD has seen its support dwindle due to its poor relations with minority groups[72]. While initially revered as a public icon, Aung San Suu Kyi has been criticised for her dealings with the minority ethnic groups in the country. Internal clashes have intensified instead of ameliorating, even requiring interference from the International Court of Justice[73]. Fighting in the Shan and Kachin states, as well as the Rohingya crisis in the Rakhine state, have displaced minority groups and disrupted internal peace - a factor crucial to stimulating the country's tourism industry. It is likely that these conflicts will have an impact on other aspects of the economy too, including the inflow of FDI. For Myanmar to sustain strong economic support from the international community, it is imperative for it to continue working towards political stability through collaboration agreements between the NLD and the Tatmadaw, and with minority ethnic groups.

[71] Trading Economics. (n.d.). Myanmar Corruption Index. Retrieved from https://tradingeconomics.com/myanmar/corruption-index
[72] The Business Times. (2018, November 5). Aung San Suu Kyi's NLD party slapped down in by-elections. Retrieved from https://www.businesstimes.com.sg/government-economy/aung-san-suu-kyis-nld-party-slapped-down-in-by-elections
[73] The Guardian. (2019, December 12). Aung San Suu Kyi pleas with court to dismiss genocide claims. Retrieved from https://www.theguardian.com/world/2019/dec/12/myanmar-military-incapable-of-looking-into-abuses-court-told

Rising Sectors

1. Healthcare

The ongoing pandemic has reinforced the need for reliable healthcare services. Myanmar's health worker density of 1.49 health workers per 1,000 people[74] is well below the World Health Organization's recommendation of 2.3 health workers per 1,000 people[75], thus necessitating more resources to be allocated to the sector in order to compensate for its low healthcare coverage.

Several large pharmaceutical companies, including DKSH Group, have already entered into partnerships with the government to embark on programmes that aim to increase access to high-quality healthcare among the local population[76]. Likewise, there have been startups who are developing solutions to back-end issues in the healthcare sector such as poor custody of patients' medical records and personal data. Klenic Software Co. is one startup that has aimed to protect such information through digital solutions and Software as a Service (SaaS) technology[77], adding value to the support network. With a growing need for a strong healthcare system, startups can capture the opportunity and bridge the gap between the existing healthcare infrastructure and those not covered by the healthcare network.

[74] Asia IoT Business Platform. (2017, May 31). Tech-gather, we can find innovative solutions to improve Myanmar's healthcare quality. Retrieved from https://iotbusiness-platform.com/blog/tech-gather-we-can-find-innovative-solutions-to-improve-myanmars-healthcare-quality/
[75] World Health Organization. (n.d.). Density of community health workers (per 1 000 population). Retrieved from https://www.who.int/data/gho/indicator-metadata-registry/imr-details/85
[76] DKSH Group. Making healthcare accessible to all in Myanmar. Retrieved from https://www.dksh.com/global-en/insights/tl-hec-making-healthcare-accessible-to-all-in-myanmar
[77] Myanmar Times. (2019, June 20). Tech start-up offers solution for medical record-keeping. Retrieved from https://www.mmtimes.com/news/tech-start-offers-solution-medical-record-keeping.html

2. Financial Services

Myanmar's low financial inclusion has made Financial Services a rising sector. Currently, more than 70% of Myanmar's population remains unbanked[78], a far cry from the much lower 31% of unbanked global population recorded in 2018[79]. At the same time, the country has had a high smartphone penetration rate of 80%, signalling the potential to gain the population's acceptance of such under-explored services through the digital realm.

Several companies have tried to bridge this gap in Myanmar, including Wave Money, a joint venture between Telenor, Yoma Bank, and First Myanmar Investments, which allows for quick and secure electronic funds transfer across the country[80]. Myanmar's Central Bank has also piloted MMQR, which enables the use of QR code payments at local businesses and banks, bringing it a step closer to digitalising payments and becoming a cashless society[81]. Nevertheless, the outreach by existing providers needs to be greater - a gap which can be further narrowed by startups.

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[78] PaymentsJournal. (2019, April 29). Myanmar Drives Towards QR Codes With 74% Unbanked, This is a Large Step for Financial Inclusion. Retrieved from https://www.paymentsjournal.com/myanmar-drives-towards-qr-codes-with-74-unbanked/
[79] The World Bank. (2018, April 19). Financial Inclusion on the Rise, But Gaps Remain, Global Findex Database Shows. Retrieved from https://www.worldbank.org/en/news/press-release/2018/04/19/financial-inclusion-on-the-rise-but-gaps-remain-global-findex-database-shows
[80] Fintechnews Singapore. (2019, November 21). With 70% Unbanked Population, Myanmar Bets on Fintech to Improve Financial Inclusion. Retrieved from https://fintechnews.sg/35276/myanmar/myanmar-fintech-financial-inclusion/
[81] Deloitte. (2020, January). The Myanmar Consumer Survey. Retrieved from https://www2.deloitte.com/content/dam/Deloitte/sg/Documents/consumer-business/sea-cb-myanmar-consumer-survey-2020.pdf

Conclusion

With greater liberalisation of the economy and advancements in the political scene, Myanmar is now making its way to become an attractive destination for investors. The nascent startup scene in Myanmar is gaining a lot of attention not just within the domestic economy, but also among the international community. Currently, the economy has a greater focus on the development of early-stage businesses, and the community has benefited from startups who have developed solutions to solve local problems which they have personally experienced. As such early-stage startups grow and prove profitable, investors will be more willing to dedicate capital and resources to later-stage developments in the economy, enabling the ecosystem to flourish as a whole.

Vietnam

Overview

Vietnam has achieved immense success over the past three decades, experiencing rapid economic growth and establishing strong relationships with other countries. The introduction of the Doi Moi Policy in 1986 during the country's economic crisis shifted them from being a communist economy to a "socialist-oriented market economy" [82]. Consequently, their private sector has become a large contributing factor to their economy, and the country's GDP is projected to grow 2.8% this year in spite of the ongoing pandemic, ranking it the fifth in the world in terms of speed of growth[83].

Its strong growth can be attributed to its healthy relationships with large global economies as it strives towards achieving an open economy. The many foreign agreements signed by Vietnam have enabled its admission into the ASEAN Free Trade Area, World Trade Organization, and the recent EU-Vietnam Free Trade Agreement[84]. Such agreements have allowed the country to enjoy tax benefits, thus promoting the implementation of pro-business regulations and policies in order to attract foreign investment and facilitate trade.

[82] The ASEAN Post. (2018, August 27). Vietnam's reforms paying off. Retrieved from https://theaseanpost.com/article/vietnams-reforms-paying
[83] Hanoi Times. (2020, July 30). Vietnam forecast to be fifth fastest growing economy in 2020: World Bank. Retrieved from http://hanoitimes.vn/vietnam-forecast-to-be-fifth-fastest-growing-economy-in-2020-world-bank-313569.html
[84] AEC News Today. (2020, June 22). Why the EU-Vietnam Free Trade Agreement (EVFTA) is such a big deal. Retrieved from https://aecnewstoday.com/2020/why-the-eu-vietnam-free-trade-agreement-evfta-is-such-a-big-deal/

Startup Community and Ecosystem

As one of Southeast Asia's fastest growing economies, the startup ecosystem has been a great contributor to its dynamic nature. The country has been constantly improving its ranking on the Global Innovation Index, achieving 42nd place out of 129 countries in 2019 and exceeding expectations for its "Lower-middle Income" group[85].

1. Co-working Spaces

Vietnam is increasingly being dotted with startup facilities, especially startup hubs and co-working spaces. They are mostly found in Hanoi and Ho Chi Minh City in order to cover ground in both the North and South of the country. Familiar names in the field include WeWork, Dreamplex, and Toong. UPGen is also another local co-working space that has thrived over the past few years, opening its first workspace in 2016 and 17 more in the following years. In fact, it caters its space to both startups and corporations as it often dedicates around half of each space to an anchor tenant, who will then occupy a greater space as it grows larger over the years[86].

The growth of co-working spaces has been phenomenal, with the sector growing 55% annually from 2013 to 2018, pushing Vietnam into the top 50 global rankings in 2019 for coworking growth[87]. Such a business model has gained significant traction among the Vietnamese, where its youthful population has a strong entrepreneurial mindset and thirst for success. These facilities catered especially to startups and SMEs will provide them with greater flexibility and a conducive environment to exchange innovative ideas.

[85] Cornell University, INSEAD, & the World Intellectual Property Organization. (2019). The Global Innovation Index 2019: Creating Healthy Lives - The Future of Medical Innovation.
https://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2019.pdf
[86] AllWork. (2020, July 28). Scaling a coworking brand in Southeast Asia: A Q&A with Nam Do, co-founder of UPGen. Retrieved from
https://allwork.space/2020/07/scaling-a-coworking-brand-in-southeast-asia-a-qa-with-nam-do-co-founder-of-upgen/
[87] Vivid Invest. (2020, March 10). Vietnam's Coworking Boom. Retrieved from
https://www.vividinvest.com/2020/03/vietnams-coworking-boom/#:~:text=From%202013%20to%202018%2C%20the,the%20opening%20of%20new%20spaces.

2. Mentorship and Training

Mentorship to startups in Vietnam have mainly come in the form of accelerators and conferences. These involve different types of exposure, ranging from seminars to hands-on workshops and networking sessions. Techfest Vietnam is a prominent conference organised for the startup community which attracts thousands of attendees, enabling startups to expand their network and outreach[88].

A tremendous amount of support has been provided by the government in terms of building accelerators and forming partnerships with innovation hubs worldwide to encourage and grow entrepreneurship. One fresh example is Grab Ventures Ignite, Grab's newly launched accelerator programme under their "Grab for Good" development plan, which is partnering with Vietnam's National Innovation Center among other prestigious names[89]. Saigon Innovation Hub, a government-backed agency, has also facilitated a partnership with Quest Ventures and Enterprise Singapore as part of the Global Innovation Alliance (GIA) network which increases awareness of both countries' startup ecosystems through exchanges and market access programmes[90]. Such cross-border collaborations will definitely spur startups to explore new frontiers and boost innovation within the ecosystem.

[88] e27. (2020, January 9). Is Vietnam the new golden child of tech startups in SEA?. Retrieved from https://e27.co/why-vietnam-needs-to-embrace-technology-20200106/
[89] Fintechnews Vietnam. (2020, February 28). Grab Launches Early-Stage Startup Accelerator in Vietnam. Retrieved from https://fintechnews.sg/38034/vietnam/grab-launches-early-stage-startup-accelerator-in-vietnam/
[90] The Business Times. (2019, August 7). Govt support and young population set Vietnam's startup scene abuzz. Retrieved from https://www.businesstimes.com.sg/asean-business/govt-support-and-young-population-set-vietnams-startup-scene-abuzz

3. Funding and Investments

With many initiatives from both the public and private sectors, Vietnam's startup ecosystem is certainly experiencing rapid growth and attracting various types of investors. These include private equity firms and angel investors. In the case of angel investors, their investments are made via networks such as the Vietnam Angel Investor Network (iAngel) and Vietnam Angel Network (VAN), or perhaps even through the angel investment reality show Shark Tank Vietnam.

Private equity plays a pivotal role in advancing the innovation ecosystem in Vietnam. With a mix of domestic and foreign players respectively making up 36% and 64% of private equity investments[91]. In Vietnam, between 2017 and 2019, private equity firms had reaped USD 1.8 billion from 139 deals across the country[92]. They are now on par with Indonesia in terms of deal value and their growth is projected to accelerate in the years to come. Key players in private equity include Mekong Capital and Vietnam Investments Group.

There has also been a strong presence by venture capital firms in particular. IDG Ventures Vietnam (IDGVV) spearheaded the development of venture capital in Vietnam in 2004, with its 35 portfolio companies today including notable investments like VNG, Webtretho, and Vietnamworks[93]. Ever since, Vietnam has seen the entry of multiple funds from all over the world, especially in recent years. Silicon Valley-based venture capital fund 500 Startups began its Vietnam chapter in 2016 and was oversubscribed with a fund size of USD 14 million and 42 portfolio companies as of May 2019[94]. Regional venture capital firms such as Quest Ventures, Cento Ventures, and Monk's Hill Ventures have also been actively involved in investing in early-stage companies in Vietnam.

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[91] Private Equity International. (2019, July 10). Vietnamese private equity: A beginner's guide. Retrieved from https://www.privateequityinternational.com/vietnam-beginners-guide/
[92] Private Equity International. (2020). Covid-19 calms Vietnam's feeding frenzy. Retrieved from https://www.privateequityinternational.com/covid-19-calms-vietnams-feeding-frenzy/
[93] Preqin. (n.d.). IDG Ventures Vietnam. Retrieved from https://pro.preqin.com/fundmanager/13582/dealsAssets#Venture%20Deals%20Breakdown
[94] The Investor. (2019, May 17). What made 500 Startups invest in Vietnam. Retrieved from http://www.theinvestor.co.kr/view.php?ud=20190517000488

Challenges

1. Slow Regulatory Reforms

Vietnam's economy is fast-growing, yet its regulatory reforms seem to be lagging behind and are still unable to keep up with those of developed countries. Vietnam's ranking in the Ease of Doing Business under the World Bank's Doing Business Report has somewhat stagnated for the past few years, hovering around 68th place in 2017 and dropping to 70th place in 2019[95]. Its current economic prosperity is mostly attributed to past economic reforms such as the Doi Moi policy, and current reforms need to work in tandem to support this boom. New regulations need to be consistent and transparent to the masses[96]. It is imperative to continue providing assistance and greater protection for investors and taxpayers in order to entice them to local businesses[97].

[95] Trading Economics. (n.d.). Ease of Doing Business in Vietnam. Retrieved from https://tradingeconomics.com/vietnam/ease-of-doing-business
[96] Cekindo. (2019, June 12). What are the Challenges of Doing Business in Vietnam?. Retrieved from https://www.cekindo.vn/blog/doing-business-in-vietnam-challenges
[97] Viet Nam News. (2019, October 29). Regulatory reform a must to improve business conditions. Retrieved from https://vietnamnews.vn/economy/537581/regulatory-reform-a-must-to-improve-business-conditions.html

2. Poor Enforcement of Intellectual Property (IP) Rights

The enforcement of IP rights is crucial for an economy to continue developing and attracting investors. While more than 300 businesses in Vietnam have made their first moves in legalising softwares, thousands continue to stick with piracy softwares[98] - a red flag for poor enforcement and abuse of rights despite existing regulations[99]. Without strong protection of IP rights, businesses may be deterred from conducting research and development as their new solutions can easily be copied by competitors. This in turn results in a vicious cycle where innovation is hindered, causing the economy's growth to slow down and plateau. Fortunately, this has been recognised as a problem and the government has released a national Intellectual Property Strategy till 2030 as it works towards sustainable growth and development[100]. Government agencies need to be proactive when enforcing IP rights and also aim to build respect and awareness of the importance of such rights within the community[101].

[98] Open Gov. (2020, February 22). Businesses in Vietnam do away with pirated software. Retrieved from https://opengovasia.com/businesses-in-vietnam-do-away-with-pirated-software/
[99] TMF Group. (2019, February 15). Top challenges of doing business in Vietnam. Retrieved from https://www.tmf-group.com/en/news-insights/articles/2019/february/top-challenges-business-vietnam/
[100] Ministry of Science and Technology. (2020, May 14). Viet Nam's Intellectual Property Strategy until 2030: Driving force for development of intellectual property assets. Retrieved from https://www.most.gov.vn/en/news/753/viet-nam%E2%80%99s-intellectual-property-strategy-until-2030--driving-force-for-development-of-intellectual-property-assets.aspx
[101] Vietnam Law & Legal Forum Magazine. (2018, May 3). IPR protection and enforcement in Vietnam is not as strong as it should be. Retrieved from https://vietnamlawmagazine.vn/ipr-protection-and-enforcement-in-vietnam-is-not-as-strong-as-it-should-be-6217.html

Rising Sectors

1. Fintech

The Fintech sector in Vietnam is rapidly growing, with Vietnam's growing middle class contributing to an increase in internet usage and demand for such services. Vietnam's Fintech Startup Map 2019 shows the many companies in each Fintech segment, of which Payments and Peer-to-peer lending are the two largest segments[102].

However, a whopping 69% of its population remains unbanked[103]. Despite the many Fintech companies in Vietnam aiming to bridge this gap, there is evidently a still a need for more companies to serve the local population in the financial services field. The sector has been receiving strong support from investors, increasing its share of Southeast Asia's total Fintech investments from 0.4% in 2018 to 36% in 2019[104]. With the strong support from investors and with the government working towards building a cashless society[105], businesses who aim to venture into this sector are thus poised for growth.

[102] Fintechnews Vietnam. (2019, June 11). New Vietnam Fintech Startup Map Showcases Vietnam's Growing Fintech Landscape. Retrieved from https://fintechnews.sg/31122/vietnam/fintech-vietnam-startup-map-2019/
[103] Today. (2019, October 30). 4 in 10 Singaporean adults 'underbanked'; SE Asia ripe for picking by digital financial firms: Report. Retrieved from https://www.todayonline.com/singapore/4-10-singaporean-adults-underbanked-south-east-asia-ripe-picking-digital-financial-firms
[104] ASEAN Today. (2019, December 19). Vietnam's fintech industry growth is a model for Southeast Asia. Retrieved from https://www.aseantoday.com/2019/12/vietnams-fintech-industry-growth-is-a-model-for-southeast-asia/
[105] Viet Nam News. (2020, January 6). SBV sets cashless payments as top priority for 2020. Retrieved from https://vietnamnews.vn/economy/570713/sbv-sets-cashless-payments-as-top-priority-for-2020.html

2. E-commerce

With the rising smartphone and internet penetration rates in Vietnam, e-commerce is becoming an increasingly common mode of transaction among the local population. The Vietnamese e-commerce market amounted to USD 5 billion in 2019 and is projected to hit a staggering USD 23 billion in 2025, with a compound annual growth rate of 7.1% for its revenue[106]. This has put it as one of the fastest-growing internet economies in Southeast Asia alongside Indonesia[107], presenting a significant opportunity for online marketplaces and local merchants. While international companies such as Shopee and Lazada are large players in the Vietnamese market, local platforms including Thegioididong and Tiki are faring strongly as well by improving their value propositions to customers[108]. The government has also laid out an e-commerce development plan for the nation, focusing on the sector's growth while also keeping sustainability in sight[109]. Companies that are able to incorporate these goals in their business while keeping costs low and remaining competitive will eventually emerge out top.

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Conclusion

Vietnam is on an upward trajectory, showing no signs of faltering. Their startup ecosystem is at a relatively advanced stage as compared to Cambodia, Laos, and Myanmar, and the entrepreneurial mindset is being ingrained in a larger proportion of its population. Vietnam is constantly ahead of its neighbours, and its growth is even expected to overtake several developed economies in the region too.

With its strong human capital and governmental support, more local and foreign investors view it as a vibrant hub and emerging market that is worth exploring. Certainly, failures are inevitable along the way and businesses need time to harvest the fruits of their labour. However, opportunities await investors who are willing to invest in patient capital and who believe in the country's long-term prospects.