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DOI:
10.1080/10357823.2014.958054

Document Version
Peer reviewed version

Link to publication record in King's Research Portal

Citation for published version (APA):
Klingler-Vidra, R. (2014). Building a Venture Capital Market in Vietnam: Diffusion of a Neoliberal Market Strategy to a Socialist State. *Asian Studies Review*, *38*(4), 582-600. https://doi.org/10.1080/10357823.2014.958054

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Building a Venture Capital Market in Vietnam: Diffusion of a Neoliberal Market Strategy to a Socialist State

ROBYN KLINGLER-VIDRA[*]

London School of Economics and Political Science

Abstract: *Vietnam's venture capital (VC) industry took shape in the late 1990s during a period of exceptional economic growth in the country and the development of its high-technology sector. High growth rates and technological advances have typically coincided with both strong VC market activity and state support of equity financing. This, however, has not been the case in Vietnam. In this article a policy diffusion framework is used to investigate the international and domestic origins of Vietnam's nascent VC policies, and how they became part of the agenda of the Communist Party of Vietnam (CPV) as credit-based, rather than equity-based, solutions. The article argues that Vietnam's heterodox approach to VC policy results from both external forces from donors and from domestic factors. In particular, Vietnamese policymakers have a preference for credit-based SME financing solutions and Vietnam's official development assistance providers diffuse expertise on loans, not equity investments, to the Socialist Republic. The only donors recommending VC and equity-based financing in Vietnam have gone "around the state" rather than through it by working directly with the private sector. As a result, Vietnam's SME financing initiatives have significantly diverged from international VC policy patterns.*

Keywords: venture capital markets, industrial policy, Vietnam, international organisations, financialisation, official development assistance

> The conditions are right for Vietnam to be the "next China" for technology venture capital investors.
>
> Patrick McGovern, IDG Ventures Founder and Chairman, in Fannin (2011, p. 67)

Introduction

Over the last twenty years Vietnam's economic trajectory has trended unequivocally upward. The Socialist Republic has balanced liberalisation and increased international participation with the maintenance of central planning and capital controls in what the Communist Party of Vietnam (CPV)

[*] *Correspondence Address*: R.Klingler@lse.ac.uk

calls a “Socialist market economy”. Vietnam’s growth rate has averaged more than 7 per cent annually since the 1990s, placing it in the same league as China and India as one of the world’s exceptional growth stories. Analysts are equally optimistic about Vietnam’s economic future. To this end, in 2010 the Economist Intelligence Unit ranked Vietnam as the world’s number two emerging market for investment opportunities, second only to China. The continued excitement about investing in Vietnam comes as its private sector grows, its middle class develops, foreign direct investment (FDI) increases, and the competitiveness of its technology sector advances (Nguyen, 2007). Although Vietnam retains its agrarian prowess as the world’s second largest exporter of both rice and coffee, its information and communications technology market (ICT) has been attracting international attention. ICT-sector FDI in Vietnam has grown over the last decade, as more than a dozen multinationals (MNCs), including Samsung, Nokia and Hewlett Packard, have opened factories to manufacture mobile phones, computer components and other technology goods (Hung, 2011). These are not insignificant facilities for the MNCs either; Intel Corporation’s largest plant globally – which opened in 2010 – is a USD 1 billion facility near Ho Chi Minh City, in the south of the country.

In stark contrast to this technology sector growth and the broader exuberance for the Vietnamese market’s potential, on an absolute and relative basis, Vietnam has one of the smallest venture capital (VC) markets in Asia. While financialisation has accompanied, or even propelled, the East Asian success stories (see the introduction to this special issue), equity financing for fast growing, high-technology small and medium-sized enterprises (SMEs) is underdeveloped in Vietnam (OECD, 2011, p. 7). Fast-paced economic growth, inward FDI flows, and growing technology industries, such as Vietnam’s, typically coincide with dynamic VC markets. China, as an example, has seen exponential growth in its VC market since 2000, with the country raising USD 10 billion in VC money in the first half of 2011 alone (AVCJ, 2011). In light of its phenomenal economic growth and the development of its technology sector, it is worth asking why the constitution of a VC market in Vietnam has lagged its peers. The slow growth of the VC market is often explained as resulting from the state’s historic control of the banking industry, restrictions on foreign investment, regulations limiting the industries in which private companies can compete, insufficient private company reporting requirements and the lack of a regulatory VC framework (Groh et al., 2011). Until the establishment of Vietnam’s first stock exchange in 2000, the lack of initial public offering (IPO) exit opportunities was also blamed for Vietnam’s undersized VC market (Sack and McKenzie, 1998; Zavatta, 2008). Another explanation is that the Vietnamese government has not incentivised VC market activity as some of its Southeast Asian peers have. As a result, the few VCs operating in Vietnam lament that the fledgling market has grown “despite the regulatory environment, not because of it” (Author interview, Hong Kong, 20 December 2011).

Given Vietnam’s Socialist market orientation, level of development and foreign MNC dominance of the technology sector, the country’s lack of government policy for VC may not be altogether puzzling. As one would have expected, Vietnamese policymakers never emphasised VC markets

during the 1990s, but during the last decade the CPV has expressed an interest in supporting SME financing. In fact, in 2006 the Ministry of Science and Technology (MoST) even announced plans for a USD 28 million Venture Capital Fund (VCF) that would disburse loans to Vietnamese high-technology SMEs (Intellasia, 2006; Zavatta, 2008). Such SME financing discussions first appeared in Vietnam's public policy language in 2003 as Prime Minister Decision 51 prioritised the promotion of generic domestic capital markets to support Vietnam's growing ICT industry. In this vein, the World Bank-organised multi-actor Consultative Group (CG)'s 2010 mid-year meeting concluded that a more developed capital market was needed for Vietnam's continued technology sector growth (Ministry of Finance, 2010). Policy efforts to enhance the capital available for SMEs further materialised as the Ministry for Planning and Investment (MPI)'s Agency for SME Development (ASMED) received approval for a SME Development Fund in April 2013. The SME Development Fund has a primarily ODA-funded budget of 2 trillion đồng (equivalent to approximately USD 96 million) via Prime Minister Decision 601/QĐ-TTg, 2013 (Talk Vietnam, 2012; Author email exchange with ASMED manager, 20 May 2013). Also, Vietnam's 2011–15 Five Year Plan for SME Development's priority is financing. Yet, to date the CPV has only implemented initiatives that support the provision of credit (not equity) financing to SMEs.

This article asks why VC policies have been slow to materialise, and why they have focused on direct SME loans rather than equity financing over the last decade. I argue that Vietnam's late, credit-based VC policy efforts are the result of both external and domestic factors: ODA donors have not recommended Western-style VC to Vietnamese policymakers, Vietnamese policymakers' incentive structures favour credit financing solutions, policymaking abilities for complex policy areas are poorly resourced, and interest groups (especially the VC market participants) have not sought government attention. Of their own volition, Vietnam's policymakers have requested help from the donor community on SME financing due to that sector's insufficient access to early-stage financing, burgeoning tech SMEs, desire to diversify away from its equitising SOEs (Nguyen et al., 2009), competition for capital, and its policymakers' interest in replicating the East Asian high-technology development successes. In response, donors are not suggesting equity-focused VC policy efforts, although their private sector partner organisations (such as the World Bank's International Finance Corporation – IFC – and infoDev) are providing equity-based solutions to private sector actors. The confluence of these international and domestic forces has resulted in Vietnamese ministers pursuing credit-based SME financing policies rather than equity-based VC policies at a time when their Southeast Asian peers have embraced orthodox VC policies.

This article proceeds as follows. The first section defines VC and gives a brief overview of the Vietnamese VC market today. The second section introduces a policy diffusion framework that helps to identify the mechanisms by which VC policies have been shaped in Vietnam. The third and fourth sections (respectively) detail the international factors and domestic context, including the policymaking process, norms, interest groups and economic conditions, that have impacted Vietnam's

VC policymaking. The article draws upon extensive primary material gathered from interviews with Vietnamese policymakers, donors and VC managers in Hanoi, Ho Chi Minh City, Hong Kong and Singapore between December 2011 and September 2012. It has also made extensive use of secondary material – including local news sources, government reports and communiqués and academic literature. The article concludes with an assessment of both international and domestic factors to determine which have had priority and a discussion of what this investigation can tell us about the drivers of financialisation strategies in Asia's late developers.

Venture Capital in Vietnam

Venture Capital (VC) is defined here as financial capital provided to SMEs with high growth potential in exchange for company equity.[1] VC is a subset of the alternative investment class of private equity (PE), which refers to investments in companies that are "unlisted" or not publicly traded. VC is high-risk and illiquid, with VC managers investing in start-ups for their potential to yield exceptional investment returns. In a portfolio of ten companies, for example, VC managers might expect just one company to be an outstanding performer, with others expected to fail or muddle along. In the United States, the VC market gained notoriety by investing in huge growth companies (e.g. Google and Facebook). By the late 1990s, the global VC market managed over USD 100 billion (Gompers and Lerner, 1999). Despite its growth, the VC industry is still relatively small in terms of assets under management (AuM); at the end of 2012 the global hedge fund industry had nearly USD 2 trillion AuM (BarclayHedge, 2012) and sovereign wealth funds (SWFs) managed more than USD 5 trillion (SWF Institute, 2012). While the size of VC assets managed is small in comparison, VC is said to have a big impact on national economies. The National VC Association (NVCA) in the US, for example, found that while the VC market accounted for only 0.2 per cent of American GDP, 21 per cent of companies (in GDP terms) have been backed by VC funds (NVCA, 2011).

Notably, VC has become an increasingly international market, with governments devising public policies in the expectation of creating a local "Silicon Valley". Public policies for supporting VC include three primary elements. The first is government funding, with states either investing in privately managed VC funds or providing initial investment to VC managers via a funds of VC funds (FoVCF) structure. A FoVCF is a pool of capital invested into VC funds, rather than a fund that invests directly in startups. Tax treatment comprises the second element of public policy deemed crucial in the formation of VC. Here, tax policy includes the way in which VC profits are categorised for tax purposes – either as capital gains, income, corporate or tax exempt – as well as incentives on offer for investors (e.g. tax credits). The third element of VC policy relates to legal and regulatory frameworks, including regulations on foreign investor participation and the adoption of VC structures such as the Anglo-American limited partnership (LP) or the Japanese company structure. Importantly,

states have utilised a combination of these VC policy instruments (funding, taxation and regulation) to build and oversee private VC markets.

To this end, today nearly 90 per cent of the OECD, Group of 20 (G-20) and Asian Tiger countries have launched public initiatives aimed at growing equity-based VC market activity (Klingler-Vidra, 2014). This international spread of VC policies began in the late 1970s, when governments and international organisations (IOs) began identifying an insufficient amount of investment capital available for high-technology SMEs as a roadblock to building their local Silicon Valley. Filling the “equity gap” for early-stage companies has also been identified as enhancing economic activity and innovation (OECD, 1996). IOs, particularly the OECD and the World Bank, have promulgated VC policy advice (see OECD, 2003). In addition, states have learned from and emulated each other’s VC policies. For example, Singaporean policymakers, recognising the success of the US Silicon Valley, “placed particular emphasis on the development of a venture capital industry in Singapore to boost the development of technology start-ups and entrepreneurship” (Bruton et al., 2002, p. 199).

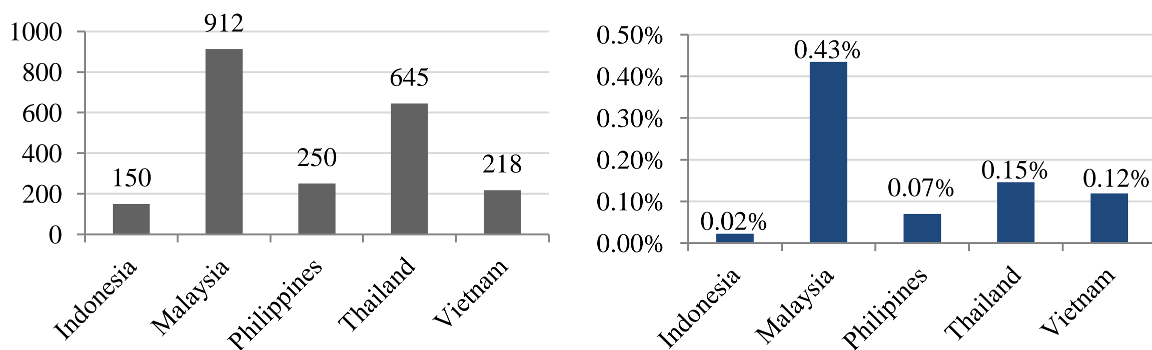
Among Vietnam’s Southeast Asian peers, Malaysia was an early standout in VC with nearly USD 1 billion in VC AuM by 2003 (AVCJ, 2005). Part of Malaysia’s success in developing its equity-based VC market is attributed to policies that established a regulatory framework and provided public funding for the asset class. For example, the Malaysia Venture Capital Management Berhad (MAVCAP), a government FoVCF, was established in 2001 by the Ministry of Finance to support both the Malaysian ICT sector and the domestic VC industry (Malaysia Venture Capital Management Berhad, 2012). Indonesia, though a slow starter in VC fundraising, has recently received significant attention as “the next China” in light of its demographic and economic trends (AVCJ, 2011, p. 5). VC managers’ excitement about Indonesian VC investment comes after the Indonesian government began supporting VC domestically in 1988. The first VC policy initiative in Indonesia was Presidential Decree No. 61, which defined what a VC firm is and how it is overseen (Business Review, 2010). More recently, the Minister of Finance issued Regulation No. 18/PMK.010/2012 regarding Venture Capital Companies (ABNR Law, 2012). Thus, Southeast Asian states have supported VC markets via combinations of the three globally orthodox VC policy elements. Figures 1 and 2 illustrate the flow of VC money into Southeast Asian funds. In doing so, they highlight the modest amount of VC activity in the high-growth Vietnamese economy.

<< ***Figure 1 here*** >>

Figure 1*: Vietnam and Peers VC market AuM (in USD million):*

<< ***Figure 2 here*** >>

Figure 2*: Vietnam and Peers VC market AuM (as per cent of GDP):*



Source: AVCJ (2005); Note regarding Figure 2 per cent of GDP calculations: GDP for each country was as follows: Indonesia's USD 666 billion, Malaysia's USD 210 billion, Philippines USD 356 billion, Thailand 429 billion, Vietnam's USD 183 billion.

The VC industry in Vietnam remains underdeveloped, although green shoots of a Vietnamese VC market were concurrent with economic liberalisation in the 1990s. At the onset of the Asian financial crisis, most of the eight VC firms in Vietnam, which managed approximately USD 400 million and were all foreign, left the market (Zavatta, 2008). A new batch of VC firms started to operate in the early 2000s, yet the number of players and investments have remained modest. Vietnam's small VC market has oscillated between peak AuM of USD 318 million in 1999 and just over USD 150 million (AVCJ, 2005; Alt Assets, 2011). At present, there are four PE/VC firms operating in Vietnam with approximately USD 150 million under management; they are IDG Ventures Vietnam, DFJ VinaVentures, Dragon Capital, and Mekong Capital (AltAssets, 2011; Chen, 2010).

National funds to support the technology sector and SME financing have been initiated by the MoST (the 2006 VCF), the Science, Technology and Environment Committee via their 2007 discussion of a USD 30 million fund for high-technology SMEs (Zavatta, 2008) and the MPI (the 2013 SME Development Fund). These funds have been designed for SMEs directly in the form of loans, not equity investments. According to Prime Minister Decision 601/QĐ-TTg (dated 17 April 2013), the SME Development Fund offers "preferential interest rate loans at an interest rate 90% cheaper than financial markets" rather than equity investments in SMEs (Author Email Exchange with ASMED manager, 20 May 2013). Similarly, in Resolution No. 22/NQ-CP on 5 May 2010, which details the plans for implementing Government Decree No. 56/2009/ ND-CP on supporting the development of SMEs, there was no mention of "venture capital" or "equity". Instead, an entire section (II) of the Resolution is dedicated to the "accessibility of credit capital sources". The resolution dictates the following actions for the MPI in implementing SME financing support

> negotiating, receiving or arranging official development assistance (ODA) sources to provide technical assistance and enhance capabilities for credit institutions to expand their credit to small-or-medium-sized enterprises … and submitting to the Prime Minister a report on the application of credit mechanisms and policies … and proposing measures to boost the development of products and services suitable to small- and medium-sized enterprises, such as factoring and financing leasing (Socialist Republic of Vietnam, 2010).

The SME Development Fund (also called the Enterprise Development Fund) carries on the tradition of focusing on credit solutions as the Fund consists of low interest rate loans rather than equity investments.

Vietnam has not adopted the LP, or an alternative, legal structure explicitly for VC fund managers. Rather than regulations for VC managers, licences for VC managers to operate have come via one-off deals with government ministers, as in the case of IDG Ventures Vietnam. In IDG's agreement with the MoST minister in exchange for their licence they agreed to

> help to market and promote the Hoa Lac Hi-Tech Park outside Vietnam and provide advice and support to the Ministry as it plans construction and operation of a High-Tech Conference and Exposition Centre in Hoa Lac Hi-Tech Park (IDG Ventures Vietnam, 2007).

The IDG agreement exemplifies the individual, inconsistent nature of policymakers' involvement with the VC market, rather than their transparent offering of VC industry-wide incentives or access. Limitations on foreign ownership of local companies and capital controls remain, despite 2007 WTO accession, impeding VC managers' ability to buy and sell shares in Vietnamese start-ups (Freeman and Le, 2007; Do, 2008; Freeman, 2004). In addition, VC profits continue to be taxed at the general corporate tax rate of 25 per cent – although the VC managers operating in Vietnam are domiciled offshore so the Vietnamese tax rate does not affect them. In sum, VC has entered into the awareness of policymakers in Vietnam, particularly those responsible for SME support policies, but VC policy measures remain demonstrably elusive – especially those akin to the global trend of offering regulatory, tax and funding policies to support early-stage equity financing.

A Policy Diffusion Framework for Understanding VC Policies in Vietnam

In this section a policy diffusion framework is employed to detail the international and domestic drivers contributing to the nature of VC policy in Vietnam. Policy diffusion analytical tools have been

deployed in international political economy (IPE) circles, as scholars looked at the relationship between increased capital mobility and the attempts by states to attract and retain capital. Findings, such as those presented by Simmons and Elkins (2004), speak to the constraining impact that the diffusion of policy ideas had on policymakers, resulting in a convergence towards neoliberal market policies. Over time, policy diffusion, institutional isomorphism (DiMaggio and Powell, 1983) and policy transfer (Dolowitz and Marsh, 2000) research has expanded beyond focusing upon economic competition and learning mechanisms. Now, policy diffusion includes realist (coercion) and liberal (competition), as well as rationalist (learning) and constructivist (emulation) strands, contributing to identifying the primary drivers behind policy outcomes. Policy diffusion research has tended to prioritise the investigation of which states are looked to (whether geographically proximate, culturally similar, etc), instead of assessing the impact of the domestic context on policy diffusion (Lenschow, et al., 2005). Scholars have, however, called for greater "inside-out" investigation of domestic factors on diffusion, or transmutation, outcomes (see Painter, 2005; Yeo and Painter, 2011). This line of research has also uncovered how the multiplicity of source models (see Falkner and Gupta, 2009) or the domestic context (see Weyland, 2006; Yeo and Painter, 2011) may lead to divergent, rather than convergent, policy outcomes. In an extension of the work of these authors, this article employs a policy diffusion framework that *gives equal priority to domestic and international factors* in its investigation of the sources of Vietnam's unique VC policy approach.

The analytical framework of policy diffusion used by Simmons, Dobbin and Garrett (2008) harnesses the S-shaped curve of innovation (Rogers, 1995) to explain why, how and when policies are diffused. The framework offers all four policy diffusion mechanisms listed above, encompassing rationalist and constructivist ontologies: coercion, competition, learning and emulation. On the one hand, the learning and emulation mechanisms are the more proactive variety, as they involve, in different ways, a state choosing to replicate a policy utilised elsewhere. On the other hand, economic competition and coercion are more reactive in nature. Policymakers are pushed to deploy policies because it is necessary from a competitive perspective, or as the result of a relatively more powerful actor (either state or IO) forcing policy change.

Learning and emulation involve domestic policymakers seeking external policy options and evidence. Learning occurs when policymakers evaluate and then choose elements of policies that have been successfully deployed elsewhere (Berry and Baybeck, 2005; Busch and Jorgens, 2005). Learning also occurs as policymakers design policies for new issue areas with which they are not familiar. Whereas policy learning has the policymakers focused on evidence, policy emulation is a mechanism in which policymakers imitate other government policies in an effort to appear similar (Shipan and Volden, 2008). Imitation is juxtaposed to policy learning in which policymakers are interested in understanding the precise design, deployment and measurement of policies. Emulation implies that policymakers worked to appear to be similar to other states, either "the leader" (e.g. the US in the global VC market) or "successful peers" (e.g. East Asian states), without engaging in in-depth

research. To ascertain whether learning or the “me too” emulation mechanism is at work, researchers examine the extent to which policymakers researched alternative policies and had evidence of policy outcomes before employing local prescriptions.

Economic competition and coercion, while quite different from one another, are characterised by their shared focus on external forces shaping domestic policy choice sets. Power asymmetries are essential to coercion, just as the need for international capital is essential to competition. Economic competition may occur when states compete to attract and retain capital, whether FDI or portfolio investments. As Simmons and Elkins (2004) argued, the adoption of policies in competing states changes the competitive landscape. Economic competition has been investigated by determining the policymakers’ concern that capital would be redirected elsewhere (e.g. Berry and Baybeck, 2005). Coercion is characterised by conditions being placed on policymakers by outside actors. Coercion may involve a relatively more powerful state implementing trade sanctions against another state to force the adoption of its desired policy. Coercion could also occur when an IO requires economic reforms as a condition for funding or membership.

At the crux of this article’s investigation is whether Vietnam’s current heterodox VC policy form is the result of domestic or exogenous forces. The external evidence is expected to come from the IOs and other states coercing VC policy prescriptions on Vietnam, either through IO funding conditionality, IO membership rules, or international competitive pressures. On the domestic front, the article examines the impact of economic management norms and Vietnam’s economic structure on VC policymaking. In reality, the external and internal are more interrelated than presented here, as the two arenas may shape each other. Despite this oversimplification, the analytical delineation enables an examination of the external and internal sources of Vietnam’s heterodox VC policy outcome.

International Factors

Have international actors and pressures shaped the credit-focused nature of VC policies in Vietnam? Vietnam’s vibrant donor community, which includes more than 50 IOs and states, has promulgated capital market development advice to the Vietnamese government (see World Bank, 2012). This advice carries weight in Vietnam, as the Socialist Republic continues to be one of the world’s largest recipients of ODA (Thoburn, 2009), with one third of the CPV’s public budget coming from ODA (Aid Effectiveness, 2012). In addition, trade agreements since the 1990s have established Vietnam’s economic links, notably ASEAN and the Framework Agreement on Economic Cooperation with the European Union in 1995, APEC in 1998, the US bilateral trade agreement in 2000 and WTO accession in 2007. Vietnam has been increasingly competing in the global economy ever since.

In tandem with these interactions, reports and advice on SME financing and capital market development have come from several donors and trade partners. The external actors who have been most active in advising CPV ministers on SME financing have been the Japanese, the World Bank,

the UN, the ADB and APEC (Author interview, Hanoi, 21 August 2012). The World Bank-led CG forum helped to introduce SME financing to the MPI's policy agenda in the early 2000s but has not suggested equity-financing policies. The UN, in a 2007 report on SME financing in Vietnam, recommended that the state not intervene:

> this report proposes that there is relatively little that ASMED can (or should) usefully do, at least in a direct fashion, to improve SMEs' access to finance (Freeman and Le, 2007, p. 7).

Sentiment about the applicability of VC policy to Vietnam, as expressed by the Director of the SME working group of a regional IO, was that the Socialist Republic is "not developed enough for sophisticated capital markets such as VC" (Author interview, Singapore, 24 September 2012). Rather than advise CPV policymakers directly, a recent APEC report commented that "as Vietnam is a late-comer, it needs to thoroughly analyse the policies applied by other countries in order to be able to compete with them in attracting venture capital" (Chen, 2010). Thus, donor assessments have suggested that Vietnamese policymakers refrain from enacting equity-based policy to improve the SME financing environment or from conducting research themselves. Instead, donors have continued to allocate loans to Vietnamese SMEs via government hands. As a result, even the ODA-funded SME Development Fund deliberations focused on "low interest rate loans directly to SMEs", rather than on equity-based allocations to VCs or start-ups (Author interview, Hanoi, 21 August 2012).

The IOs' private sector development partnerships in Vietnam, on the other hand, have provided equity investments and equity financing policy advice. In this way, the only equity-financing efforts in Vietnam have come in the form of donors' partners working "around the state" (Carroll, 2012) rather than through it. As an example, the World Bank Group's IFC was a seed investor for the Ho Chi Minh City-based VC manager Mekong Capital at its launch in 2001 (Author interview, Ho Chi Minh City, 22 August 2012). The IFC's Mekong Private Sector Development Facility invested in Mekong's VC fund as it aimed to create sustainable, for-profit businesses in Vietnam. In addition, in 2008 InfoDev published a report on the opportunities and challenges associated with financing high-tech SMEs in Vietnam. The report suggested that greater support for equity financing would be beneficial for the market (Zavatta, 2008). More recently, InfoDev has funded private SME accelerators, including the Start Network and TOPICA in Ho Chi Minh City (Author interview, Ho Chi Minh City, 23 August 2012). So, while loan-based methods continue to be designed for the state, innovative equity-financing efforts have been directed to Vietnam's private sector actors.

It was hoped that Vietnam's 2007 WTO accession would improve the environment for VC investment, but to date it has had a limited impact. Technology, a favourite industry for VC investors, was named in the Socialist Republic's WTO Schedule of Specific Commitments in Services as a sector where foreigners can buy up to 100 per cent of company equity (WTO, 2006). Vietnam's

domestic regulations (e.g. Decree 139/2007/ND-CP) have nevertheless continued to refine what is included in these commitments such that foreign investors' access to ownership in unlisted Vietnamese companies remains limited, even in "committed" sectors (Tran, 2012). Interviews with Vietnamese entrepreneurs and VC managers similarly echoed that the broad implementation of WTO commitments is still lacking due to government decrees (Author interviews, Ho Chi Minh City, 22, 23 and 24 August 2012). Issues identified in a 2007 UNIDO report on SME financing in Vietnam similarly included VC funds' inability to invest in more than 30 per cent of an unlisted private company's equity (and 49 per cent of a public company's ownership) (Freeman and Le, 2007). Managers at three of the four VC firms operating in Vietnam lamented that the environment for investing in Vietnamese companies has not become transparent or predictable as a result of the 2007 WTO accession. With that said, VC managers expect that the 2014 phase of adherence to commitments will open foreign investment beyond the 30 per cent equity cap across more sectors (Author interviews, Ho Chi Minh City, 22 and 23 August 2012). It is hoped that future investors' access will not be subject to the provincial Departments of Planning and Investment (DPIs') differing interpretations of Decrees and WTO commitments when the new phase begins (Canadian Trade Commissioner, 2011). Taken together, we find that WTO rules have not coerced sweeping regulatory changes for VC investments in Vietnam.

Private foreign actors have played a role in bringing VC into the Socialist Republic, as Vietnam's VC managers are either foreigners or returning expats. In the late 1990s it was returning Vietnamese who had studied in the United States, as well as foreigners, who introduced the VC asset class to Vietnam. Of the four VC managers operating in Vietnam today, at least half spent a significant amount of time working and studying in the United States, and founders of two of the firms are foreign. IDG Ventures' Managing Director is Henry Nguyen, who spent significant time in the United States. Henry was an Associate at Goldman Sachs in New York, completed his BA at Harvard University and earned his MD and MBA from Northwestern University. Mekong Capital's founder and Managing Director, Chris Freund, is an American with significant experience in Asia, and nearly 20 years of investment experience in Vietnam. The Managing Director of DFJ VinaCapital Partners' VC investment portfolio is Than Trong Phuc, who worked at Intel for 23 years. Phuc joined Intel in Santa Clara, CA, in 1986 and relocated to Vietnam by leading Intel Vietnam beginning in 1999. In addition, Dragon Capital's senior management team is composed of two types: foreigners with significant investment experience in emerging Asia, and Vietnamese with academic, and professional, experience in Europe or the United States.

Finally, CPV policymakers have taken capital market policy inspiration, as well as advice, from other states. Vietnam has studied its "economically successful Asian neighbours" given the CPV's coupling of capitalist economic management with single-party leadership (Turley and Selden, 1993, pp. 3–4). In this vein, the Vietnamese Foreign Ministry and diplomatic missions "collect economic and technical information" and share it with national economic ministries and regional authorities (Vu,

2003, p. 48). As an example, Prime Minister's Decision No. 151 established the State Capital Investment Corporation (SCIC) to manage the capital from SOE equitisations in 2005, naming Singapore's Temasek Holdings as the model (World Bank, 2006, p. 20). In addition, the Japanese keiretsu – the term given to Japanese companies with shared ownership and related business lines – helped inspire Vietnamese SOEs' conglomerate structures in the 1990s (Perkins and Vu, 2009, p. 32). In fact, Japan was identified as the country most central to Vietnamese SME policymakers' learning from abroad as Japan most proactively sends "experts to provide technical assistance to the ASMED team" (Author interview, Hanoi, 21 August 2012). Japan, even more than other Asian states that use loans rather than only equity instruments as VC, was slow to adopt an internationally compatible VC regulatory structure and government funding (Kenney et al., 2002). Japanese advice on SME support in Vietnam has been focused on credit-based solutions, akin to its VC market at home.

Domestic Factors

Domestic factors have had enabling and constraining impacts on VC market-building policy efforts. In Vietnam, as in some of its Asian neighbours, the state has controlled a deliberate market transition. Starting with the *doi moi* (renovation) reforms in 1986, and followed by a new Constitution in the 1990s and Enterprise Laws in the 2000s, the Vietnamese market has inched forward in its Socialist market economy transition (Forsberg and Kokko, 2007, p. 1; JICA, 2003, p. 4). Beginning with *doi moi*, but then increasingly in the new millennium, the state's role has slowly shifted from that of a financier with central authority over credit allocation decisions via the state-owned banks (Perkins and Vu, 2009) to that of a market facilitator that empowers FDI through the creation of initiatives such as enterprise zones, industrial zones and export processing zones (Painter, 2005; Thoburn, 2009). Even the *doi moi* reforms are said to have been driven not by the collapse of the Soviet Union or a great ideological shift, but instead by the government's response to a severe domestic economic recession (Phan, 2003, p. 24) and the playing out of rival state-business interests (Gainsborough, 2002). Neoliberal policies have not been uniformly understood to be a retreat of the Vietnamese state, but instead a new form of the state's interventionism that allows the state to extract value from firms such as its equitised SOEs (Gainsborough, 2009). Thus, Vietnamese policymakers, though "dependent on capital inflows to feed growth" are "not a mendicant" before their donors (Painter, 2005, p. 277). In sum, Vietnamese policymakers contend that their march towards neoliberal economic management has been done at the behest of the CPV and not the cajoling of the IMF[2] or World Bank. So, Vietnamese policymakers have agency over policy outcomes. But what drives their policy decisions?

Domestic economic forces have increased the relevance of VC policies to Vietnamese policymakers. The ICT industry has recently taken off in Vietnam, as evidenced by the massive facility investments by ICT MNCs and growing tech SME activity. Beginning in around 2004, Vietnam emerged with mobile gaming and search start-ups that have drawn investment from foreign

MNCs and VCs for their cloning of successful business models elsewhere for the Vietnamese market (Fannin, 2011, p. 13). Given the dependence of VC markets on the existence of technology entrepreneurship, VC markets have become relevant to Vietnam as the domestic technology capacity has advanced in the last decade. Thus, a functionalist argument could be made that VC markets were not relevant to Vietnam before the twenty-first century. The pragmatic CPV policymakers only started discussing VC policy as they became aware of VC's relevance to the Socialist Republic. Although the late development of ICT entrepreneurship in Vietnam can explain the late timing of VC policy interest, it does not explain the credit form of Vietnam's nascent VC policies.

Vietnam's existing VC managers have not sought out government support for their industry, instead they prefer to stay "off the radar" of the CPV and away from unruly "red tape" (Author interviews, Ho Chi Minh City, 22 and 24 August 2012). The sentiment that government involvement is to be avoided rather than sought out is consistent with other scholars' empirical findings that operating within reach of the Vietnamese state was "frequently predatory" (Gainsborough, 2009, p. 268). VC managers interviewed in Ho Chi Minh City did not believe that they would benefit from government involvement in their industry, and instead felt that the "informal advantages" they had from operating in a non-transparent market could be substantial. Moreover, they expressed sentiment that (corrupt) state actors would only become involved when they wanted to extract payments. This article would be remiss if it did not mention that one of the VC managers, Henry Nguyen of IDG Ventures, is the son-in-law of Prime Minister Nguyen Tan Dung (Fannin, 2011, p. 67). Mr Nguyen, despite his academic accolades in the United States and his technical background, may represent the type of private sector actor able to succeed in Vietnam as a result of close personal relations with state officials. Sentiment among private participants in the Vietnamese market and academics alike is that such effective "sponsorships" from well-placed CPV members are essential to their "competitive advantage" (Author interviews, Ho Chi Minh City, 23 and 24 August 2012; Painter, 2005, p. 269). The example of the high-growth company VNG (formerly VinaGame) was given in several interviews as a successful business that lost its government sponsor or became too successful for the government to not want to partake in its profits.[3] Sentiment was that VNG's public listing was precluded by government enquiries into its business (Author interviews, Ho Chi Minh City, 22, 23 and 24 August 2012).

The credit-centric nature of the Vietnamese financial sector and the importance of securing ODA loans have contributed to the state's reluctance about equity-based financing. Vietnam's finance sector is overwhelmingly bank, not capital market, based. In fact, financial services in Vietnam were wholly run by five state-owned banks through 2000 when the state started liberalising the banking sector. The banks had complete control over the allocation of credit – which largely went to SOEs – thus depriving private companies' access to financing to grow their businesses. Notably, there has been acknowledgment that bank-provided credit is not sufficient for growing SMEs. The official WTO accession report stated that "only 32.4 per cent of SMEs have qualified for formal bank loans",

so alternative financing had to be sought for them to be competitive (Ministry of Industry and Trade, 2007, p. 220). Although ASMED policymakers demonstrated their awareness of the need for alternative financing forms, including VC markets, they did not consider equity-based investments for the SME Development Fund (Author interviews, Hanoi, 21 August 2012; Author email exchange, 20 May 2013). Instead, these policymakers, in line with Resolution 56, demonstrated their preference for securing ODA-funded credit-based financing solutions. As the MPI is centrally responsible for managing relationships with Vietnam's donors,[5] their securing of large funding initiatives, such as the SME Development Fund, helps them to "demonstrate success" (Author interview, Hanoi, 21 August 2012). The securing of further ODA money, rather than considering the products and services that may best serve Vietnam's next stage of development, is domestic policymakers' priority. As a result, policymakers have not sought out possible equity-based solutions for developing Vietnam's technopreneurship. The bank instead of capital market (e.g. credit instead of equity) orientation in Vietnam is consistent with the situation in other East Asian states (Whitley, 1992). However, even in highly bank-centric economies, such as Hong Kong and Singapore, the state adopted VC policies in the 1990s. In credit-based Japan it took the state until the new millennium to improve the regulatory environment for equity investors in an effort to aid SME growth and innovation via equity investments.

Related to the bank-centric character of the economy, Vietnamese policymakers, as well as entrepreneurs, are driven by the norm that bank loans are the primary way to raise money. As an illustration of the mistrust of equity financing, an early-stage equity investor shared a story of a Vietnamese entrepreneur who took the cheque he received from an equity investor and bought a brand new USD 200,000 BMW (Author interview, Ho Chi Minh City, 24 August 2012). An equity investment, as understood by the entrepreneur, was "money for nothing" since he did not have to make payments on a loan and had no collateral that could be called upon. A similar sentiment was expressed in another interview, in which a successful Vietnamese entrepreneur was described as someone who had "raised money from an investor, rather than an entrepreneur who successfully exited via an IPO or trade sale" (Author interview, Ho Chi Minh City, 23 August 2012). The persistence of a predisposition towards credit-lending, and the newness of the concept of equity-based financing in Vietnam, have meant that domestic policymakers do not yet think in terms of equity policy solutions.

Vietnam's "decentralised, fragmented and sometimes incoherent" (Painter, 2005, p. 267) domestic policymaking institutions also help to explain the slow deployment of the initial VC policy efforts. Vietnam's policymakers struggle to convert ideas for complex policy areas into implemented policies (Ohno, 2009). This is due to ministerial coordination, capacity and information problems (see OECD, 2011, p.10; Vu, 2003). Scholars such as Martin Gainsborough have found that policy implementation in SOE equitisation has been "slow and incremental" (2002, p. 390). The VC industry's oversight exemplifies the decentralised and uncoordinated nature of Vietnamese policymaking that contributes

to these slow policy outcomes. The VC market is overseen at the national level by the MoST. However, funding and policy coordination for SMEs, including SME financing, is managed by the MPI's ASMED and the budget comes from the State Bank and the Ministry of Finance (Author interview, Hanoi, 20 August 2012). The complex and uncoordinated nature of policymaking helps to explain why the SME Development Fund only received approval in April 2013, even though the ASMED team had prepared the draft for the Prime Minister's Office review in 2011.

The extent to which Vietnamese policymakers have been able to study equity-based VC policy options is also questionable. ASMED managers described "Google Scholar" as "a key source of information", and said that their research benefited from the proactive information brought to them from Japanese experts and the semi-annual APEC SME working group meetings (Author interviews, Hanoi, 21 August 2012). Although the APEC forum was mentioned as a critical resource, the extent to which the Vietnamese ASMED delegates actively engaged in the APEC meetings was questioned in subsequent interviews with other participants in the SME workshops. Participants described the Vietnamese representatives' involvement as "limited and passive", given their "inability to communicate effectively" (Author interview, Singapore, 24 September 2012). Given the limited resources of the ASMED team and its reliance on Japanese expertise, we begin to understand why equity-based VC policy information has not been sought out by Vietnamese policymakers.

Conclusion

Vietnamese policymakers are not merely at the mercy of their donors' priorities. Long before external forces pushed Vietnamese policymakers towards a neoliberal transition, Vietnam initiated institutional reforms and liberalisation programs, beginning with *doi moi* reforms in 1986. The CPV's ability to push back on donors stems from their exceptional economic success since market opening in the late 1980s. Donors have been found to accept adapted implementations of their initiatives (as well as institutionalised corruption) due to their desire to remain associated with the Vietnamese development success story (Carroll, 2012). But, in the VC policy area, what should we make of the relative weights of the external and domestic sources of Vietnam's credit-based SME financing policies to date? Has Vietnam been coerced into or away from equity-based VC policy? Or, has the credit preference of Vietnamese policymakers steered ODA towards loans for SMEs?

International donors have had an impact on Vietnamese SME policymakers' agenda setting and policy choices through their funding and technical assistance. By and large, although Vietnam's donor community has discussed VC, it has not recommended, let alone pushed, equity-focused VC policies for Vietnam. WTO membership rules have not forced open investment access for the foreign-domiciled VC funds operating in Vietnam or encouraged VC-specific policies. Nor have donors, through their policy advice (e.g. the UNIDO report) and forums (e.g. the World Bank CG), encouraged the state to deploy equity-based financing for SMEs. Donors have recommended that

Vietnam learn from other states, particularly East Asian success stories, to build its technology sector and capital markets, but they have not instructed Vietnamese policymakers to replicate the VC models. Instead, the IOs' support of VC markets has gone around the state, as the private sector development partners (the IFC and InfoDev) have made equity investments directly in private VCs and SME accelerators. External private actors, particularly returning Vietnamese, have also brought in knowledge of VC markets. They have preferred to operate in the opaque regulatory environment as it offers a competitive advantage. The result is that private actors possess knowledge about the VC industry, but policies for an equity-based VC industry have not been pushed on the Socialist Republic's policymakers.

To this end, Vietnamese policymakers continue to create policies focused on loans, as they are not compelled by domestic pressures to act in the VC industry arena. Moreover, prevailing norms favour credit-based solutions, incentivising the maximising of ODA funding and dovetailing with limited institutional capacity to proactively learn about such complex, niche capital markets. Domestic policymakers have elicited SME financing advice from donors, but financial and technical assistance has focused on credit-based solutions rather than equity investments. Vietnamese SME policymakers have not sent missions to other states to learn about their VC policy experiences and have instead harnessed "desktop research" focused on tools such as Google Scholar. The limited expertise as a result of the poor environment for policy learning has reinforced MPI policymakers' reliance on donors to help them formulate SME financing policies. The poorly resourced departments responsible for SME financing policies face problems similar to scholarly findings about poor public administration reform more broadly (see Acuña-Alfaro, 2009).

Both external and domestic factors have played a role in directing Vietnamese policymakers away from traditional equity-based VC policies in favour of credit financing solutions. As a result, although VC markets have been introduced into policymakers' agendas, policy efforts aimed at improving equity-based SME financing have not yet materialised and Vietnam's nascent VC policies are diverging from the international norm of equity-based solutions. Donors were not found to coerce Vietnam to adopt VC policy recommendations as has been the case with other states, and in fact recommended the avoidance of supply-side, complex policies in some cases. Domestically, the growth of high-technology SME activity and its contribution to the Vietnamese economy has led to the state's interest in SME financing, but has not propelled equity-based policies. Vietnam's normative bias towards credit-based schemes, limited policymaking capacity (especially in complex arenas), and donors' continued promotion of the use of loans for SME financial support have combined to shape the credit-financing nature of VC policies in Vietnam.

The diffusion of VC policies has been happening globally, including across the Southeast Asian states of Malaysia, Indonesia and Thailand. Late developers, such as Vietnam and its Southeast Asian peers, are examining these various paths and adapting the strategies to their domestic contexts. To this end, Malaysia and Indonesia have embraced VC market policies through government FoVCFs and

VC-specific regulations, but such equity-based VC policy steps have not materialised in Vietnam. It is implied by the analysis in this article that unless there is a normative shift among Vietnamese policymakers and their ODA consultants in favour of supporting equity-based financing, or until Vietnamese policymakers are better able to independently learn about and implement policies for complex capital markets, the diffusion of VC ideas will continue to translate into a divergent, credit-based outcome in Hanoi.

Notes

1. VC, as a subset of private equity, refers to a capital investment in exchange for company equity, but debt instruments can also be used as the collateral for the capital. In Western markets, particularly in the US, investment in exchange for interest-bearing loans is known as "venture lending" rather than VC. But, in some Asian markets, especially Japan, VC is also structured as credit-based investment transactions.
2. The IMF discontinued its financing programs to Vietnam as conditionality regarding transparency into government accounting and spending was not granted in 2004. This lack of transparency was also found by Transparency International in its low ranking of Vietnam (Perkins and Vu, 2009).
3. Vietnam's industrial policymaking process lacks transparency and has institutionalised corruption, which has been noted as a fundamental impediment to further development of Vietnam's economy (see Le, 2010; Gainsborough, 2003).

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