

Interview: Douglas Clayton on investing in Vietnam

By Palash R. Ghosh | September 2, 2010 4:04 PM EDT

Douglas Clayton, chief executive officer of private equity fund manager Leopard Capital, focuses on investing in the 'frontier markets.' He has already established funds that invest in Cambodia and Laos, and is also planning new fund ventures in Bangladesh and Sri Lanka. Based in Phnom Penh, Cambodia, Mr. Clayton's company website is www.leopardasia.com. He has lived in Cambodia since 2007.

IB Times speaks to Clayton about Vietnam as a potential investment theme.

IBT: How familiar are you with Vietnam?

CLAYTON: I have been a frequent visitor to Vietnam since 1987 and have seen quite remarkable changes. My company Leopard Capital is now examining the possibility of launching a private equity fund there to invest in Small and Medium Enterprises (SMEs).

IBT: Do you consider Vietnam a “frontier market” or an “emerging market”? What distinguishes one from the other?

CLAYTON: Vietnam still has most of the characteristics of a frontier economy: low income, incomplete infrastructure, contract enforcement challenges, inexperienced human resources, etc. Its stock market is volatile, illiquid, and has low correlation with other markets. In this environment you can make a fortune or get wiped out.

IBT: How does Vietnam's Communist government deal with economic issues? Are they hands-off or do they exert tight control? How do the stock exchanges function under a Marxist regime?

CLAYTON: It can be described as a market economy with a large state role, in that [some] sectors are wide open while others are tightly controlled. The stock exchange operates outside of the political sphere of Marxist dogma, to some degree, like in [China](#).

IBT: Are most investors of Vietnamese stocks domestic, or are foreigners also participating?

CLAYTON: The market is open to all, but as in many developing countries there is a 49 percent limit on foreign ownership of companies. Foreign investors tend to be investment funds that buy and hold, whereas locals tend to trade more actively and dominate the market turnover.

IBT: Are the Vietnamese stock exchanges liquid and well-regulated?

CLAYTON: The market's liquidity fluctuates in line with trends. A strict regulatory framework is in place but enforcement is another story, and insider trading and disclosure problems are regular features. This is typical of frontier stock markets.

IBT: There are something like 600 companies that trade on Vietnamese stock exchanges. Are most of these small-cap illiquid names? Or are there some substantial companies in there as well?

CLAYTON: Listed companies range from billion-dollar blue chips to ten-million-dollar small-caps. There's about 50 companies with market caps of over \$100 million.

IBT: The Vietnamese economy is growing rapidly (estimated 6-7 percent [GDP](#) growth this year). But is this translating into people having disposable income and spending it on consumer goods? Or is it still a largely poor country?

CLAYTON: Per capita [GDP](#) has risen to around \$1,000, but it is much higher in the cities, where you can see the growth of the middle and upper classes. In just 25 years many urban people have gone from traveling on a bicycle to a motorbike to a car, and from relaxing at sidewalk tea stalls to stylish coffee shops. It has been fascinating to watch, but the widening income gap could create social pressures.

IBT: What are the biggest industries in Vietnam?

CLAYTON: The key sectors are oil and gas, garments, food and fish processing, light manufacturing like garments, shoes, and furniture, building materials, and property development – which is like the national sport.

IBT: What are the most promising areas of future growth in the Vietnamese economy?

CLAYTON: We favor sectors that address the growing domestic market, such as consumer goods, retailing, logistics, financial services, health care, and education. The best opportunities are in smaller and mid-sized, family-owned companies which exemplify the spirit of Asian enterprise more than government connections.

IBT: Is Vietnam less developed or more developed than its nearest neighbors?

CLAYTON: To me, Vietnam feels like it is 20 years behind Thailand, but 10 years ahead of Cambodia. They are all climbing the same mountain but started at different times.

IBT: Who are Vietnam's biggest trading partners?

CLAYTON: Their major trading partners are the U.S., E.U., ASEAN (The Association of Southeast Asian Nations), [Japan](#), and [China](#).

IBT: Is China playing a big role in developing Vietnam's economy?

CLAYTON: China is not the major investor in Vietnam's business sector, perhaps because the two countries are competing in many of the same sectors. But where China is likely to help most is in upgrading Vietnam's transportation infrastructure such as the railroad line, where both countries stand to benefit.

IBT: Why does Vietnam have such a high trade deficit? Is this normal for a developing country, or is it a cause of concern?

CLAYTON: Like most developing countries Vietnam still exports mostly low value-added goods, and imports the higher value-added things it can't yet make. In order to climb the value curve companies have to import expensive machinery which will take years to pay for itself. But everyone sees the potential to expand, and invests in a surge, creating a big imbalance.

IBT: The Vietnamese currency (dong) is declining. This is good for their exports, no? Or are they worried about it?

CLAYTON: The currency's depreciation helps over the medium-term on exports but hurts in the short-term on imports of machinery and raw materials, so it tends to worsen trade deficits at first and stimulate inflation. Not to mention, it is not very helpful to existing foreign direct investment (FDI) and foreign portfolio investments.

IBT: Are the Vietnamese people well-educated?

CLAYTON: Even during its darkest years Vietnam maintained its education system, so today the country has a 94 percent literacy rate, one of the highest in Southeast Asia. But only 28 percent of the labor force has completed high school, which can be improved upon in the years to come, as the population is still youthful.

IBT: Does Vietnam get a lot of tourists?

CLAYTON: Tourism is a growth industry in Vietnam but with 4-5 million arrivals a year that's still only one-third of what Thailand gets. I think Vietnam will catch up in one or two decades because it is next door to China, which will become the world's biggest source of tourists for Asian countries.

IBT: Do Vietnamese emigrants in US/Canada/[Australia](#) send remittances back home in big numbers? Is this money being used to invest in the country's economic future?

CLAYTON: Overseas Vietnamese have done pretty well in their new countries and sent home \$7.2 billion in 2008 and around \$6 billion last year, even during the financial crisis. This money flows into education, consumption, real estate, and new business formation.

IBT: Can you foresee Vietnam becoming a true economic power like [South Korea](#) or Taiwan someday?

CLAYTON: Vietnam is around four decades behind [South Korea](#) and Taiwan and two decades behind

China, but may be on a similar trajectory because its people share that passion for self-advancement. Vietnam also has a lot of things going for it which will make following the track easier now, such as having these richer countries in its neighborhood.