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## **Background Report:**

### **Vietnam's Military Telecommunications General Corporation Renamed Military Industry and Telecoms Group**

**Carlyle A. Thayer**

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On 12 January the Government issued Decree No. 05/2018/ND-CP to restructure the Military Telecommunications General Corporation (commonly referred to as Viettel or Viettel Group) and to rename it as the Military Industry and Telecoms Group.

This Background Report contains extracts from Carlyle A. Thayer, "The Political Economy of Military-Run Enterprises in Vietnam," in Paul Chambers and Napisa Waitoolkiat, eds., *Khaki Capital: The Political Economy of the Military in Southeast Asia* (Copenhagen: Nordic Institute of Asian Studies Press, 2017), 130-160.

#### **Introduction**

In 1989, following Vietnam's withdrawal from Cambodia entire Army Corps and Divisions were converted into General Corporations under the Ministry of National Defence. They were given legal status equivalent to civilian enterprise. They competed in the market place and formed joint ventures with foreign investors. The most outstanding example is Viettel, a telecom company that provides mobile phones around the world. Efforts to divest the Ministry of National Defence of all commercial enterprises in 2007 foundered when the Global Economic Crisis impacted on Vietnam and Vietnam's Gross Domestic Product (GDP) growth slumped.

#### **Background**

In May 1994, Prime Minister Vo Van Kiet ended the telecommunications monopoly exercised by the Directorate General of Posts and Telecommunications. The Ministry of National Defence was now permitted to offer services in this sector.<sup>1</sup> The Military Electronics Telecommunications Company (METC) entered into a joint venture with the American company NewTel to manufacture telephones, fax machines, pagers and consumer electronic products such as circuit boards for CD players.<sup>2</sup> In 1998, the Military Telecommunications General Corporation (Viettel) was approved as Vietnam's fifth internet service provider.<sup>3</sup>

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<sup>1</sup>Reuters, 29 May 1994; Associated Press, *The Nation*, 1 June 1994; and Reuters, 9 July 1995.

<sup>2</sup>Huong Lam, 'Defence Ministry enters telecom fray,' *Vietnam Investment Review*, 22-28 July 1996, p. 15.

<sup>3</sup>Reuters, 3 November 1998.

In January 2007, the VCP Central Committee adopted a resolution at its fourth plenum directing the army, police and regime-sponsored mass organisations to divest themselves of all commercial enterprises that they currently owned and operated. Divestiture of these enterprises was an extremely sensitive issue because the Vietnam People's Army (VPA) would lose an important source of income. The fourth plenum's resolution specified, however, that the VPA could retain ownership and control over companies that were directly related to national defence and security.

The process of handing over ownership was due to begin before the end of 2007 and conclude by 2012.<sup>4</sup> In December 2007, Defence Minister General Phung Quang Thanh stated that his ministry would hand over around 140 military-owned commercial enterprises to the state by 2012 and 'focus on training and building up a regular modern army.'<sup>5</sup> Both Viettel and the Military Commercial Joint Stock Bank were slated to be handed over.

In 2008, the National Assembly adopted the Ordinance on Defence Industry that provided the legal basis for the transfer of military-run businesses and set out the principles and legal framework for national defence industries to be retained by the Ministry of National Defence. Plans to divest the Defence Ministry of its business enterprises appeared to gather steam in April 2008 when the Prime Minister issued instructions for the divestiture of one hundred and thirteen military-owned enterprises.<sup>6</sup> While the initiative led to the divestment, restructuring or breakup of small military businesses, it allowed the VPA and the Defence Ministry to hold on to their most precious asset, Viettel, and nine other major general corporations.

In late 2009, Vietnam released a Defence White Paper that for the first time listed ten major general corporations owned by the Ministry of National Defence (see Table 1 below). This list confirmed that neither Viettel nor the Military Commercial Joint Stock Bank had been privatised. In addition, the Defence White Paper noted, 'there are 98 VPA businesses at present operating in various fields of the economy, such as flight services, seaport services, telecommunications, and ship-building industry. Their export commodity and service turnover is every increasing.'<sup>7</sup>

### **Case Study - Military Telecommunication General Corporation (Viettel)**

The Military Telecommunications General Corporation was originally founded on 1 June 1989 and is wholly owned and operated by the Ministry of National Defence. Today the Vietnam Military Telecommunications Group is the parent company of the

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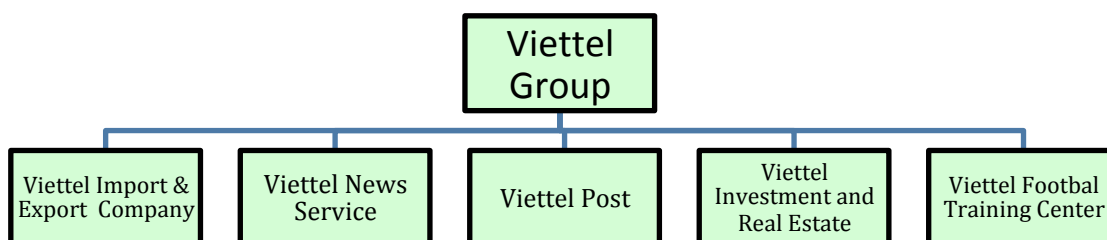
<sup>4</sup> 'Decree on reorganization of defence businesses,' *Quan Doi Nhan Dan*, 19 December 2007; Xinhua dispatch from Hanoi, 19 December 2007; Tuyet Nhung, 'Vietnam's army to hand over business enterprises,' *Thanh Nien News*, 20 December 2007; and 'Military enterprises await restructuring,' *Viet Nam News* reproduced in VietNamNet Bridge, 4 April 2008.

<sup>5</sup> *Quan Doi Nhan Dan*, 19 December 2007.

<sup>6</sup> *Viet Nam News*, 4 April 2008.

<sup>7</sup> Socialist Republic of Vietnam, Ministry of National Defence, *Vietnam National Defence* (Hanoi: December 2009), p. 69. On seaports see: 'Song Thu corporation hailed for business achievements,' *People's Army Daily Online*, 17 April 2014. The Song Thu Corporation is under the General Department of Defence Industry.

Viettel Group (Tập doan Vien thong Quan doi) that was founded in 2004. The Viettel Group comprises a number of companies including Vietnam Distribution (also Viettel Import and Export Co.), Viettel New Service Development, Viettel Post, Viettel Investment and Real Estate, Viettel International Investment and Viettel Football Training Center (see chart below).



After its establishment Viettel quickly became Vietnam's largest mobile network operator. In early 2010, Viettel introduced 3G services including video call, mobile broadband 3G, TV mobile, video-on-demand, and online music.<sup>8</sup> In late 2012, Viettel severed its ties with Chian's Huawei and began producing mobile phones on its own.<sup>9</sup> In 2012 it was estimated that based on revenues Viettel had a market share in Vietnam of 40.6 per cent and 58.9 million customers.<sup>10</sup> The following year, Viettel began production of military-grade radio equipment for the VPA.<sup>11</sup> In 2014, the company announced that it would begin producing unmanned aerial vehicles or UAVs.<sup>12</sup>

Viettel also expanded its commercial operations outside Vietnam and now claims to have 285 million customers in ten countries including Cambodia, Laos, Haiti, Mozambique, Peru, Cameroon, Tanzania and Timor-Leste.<sup>13</sup> Viettel has since begun operations in Myanmar.

In May 2014, Senior Lieutenant General Le Huu Duc, Deputy Minister of National Defence, chaired a conference to review the financial work of Viettel in 2013. According to a press report,

[Viettel] determined the level of spending, regulations on using budget to promptly ensure capital for production and investment in projects. *Its turnover, profit and contributions to the State budget exceeded set targets* [emphasis added].

<sup>8</sup>'Viettel officially launches 3G network,' *The Saigon Times*, 26 March 2010.

<sup>9</sup>'Viettel joins phone productin group,' *The Saigon Times*, 2 November 2012.

<sup>10</sup>'Nam 2012 kho khan cua cac mang di dong nho (2012 a year of difficulties for small mobile networks),' *Gafin.vn*, 3 January 2013.

<sup>11</sup><https://web.archive.org/web/20130722183419/http://vietstock.vn/PrintView.aspx?ArticleID=305414> and <http://www.webcitation.org/6PDoTc3u3>.

<sup>12</sup> <https://web.archive.org/web/20140430134814/http://english.vietnamnet.vn/fms/science-it/96281/viettel-develops-unmanned-military-aircraft.html> and <http://www.webcitation.org/6PDoednHo>.

<sup>13</sup> On Timor-Leste see, 'Viettel brand brings services to Timor Leste's villages,' *People's Army Daily Online*, 19 September 2014,

General Duc highly valued Viettel's achievements in doing business and social welfare, and improving its employees' living standards.

He asked the unit to continue to effectively implement production activities and regulations on financial economic management and financial disclosure, fight against corruption and extravagance, and maintain its sustainable growth rate.<sup>14</sup>

**Table 1 - Major Military-Owned General Corporations 2009**

Name of Corporation	Founding Date	Main Headquarters
<b>Truong Son Construction General Corporation</b>	19.5.59	Hanoi
<b>Military Petrol General Corporation</b>	30.9.65	Cau Giay, Hanoi
<b>General Corporation No. 28</b>	9.5.75	Ho Chi Minh City
<b>Thanh An General Corporation</b>	11.6.82	Dong Da, Hanoi
<b>General Corporation No. 15</b>	20.2.85	Pleiku, Gia Lai province
<b>Tan Cang General Corporation</b>	15.3.89	Ho Chi Minh City
<b>Flight Services General Corporation</b>	1.6.89	Dong Da, Hanoi
<b>Viettel – Military Telecommunications General Corporation</b>	1.6.89	Ba Dinh, Hanoi
<b>Military Bank (Military Commercial Joint Stock Bank)</b>	4.11.94	Ba Dinh, Hanoi
<b>Northeast General Corporation</b>	24.12.94	Ha Long, Quang Vinh province

Source: Socialist Republic of Vietnam, Ministry of National Defence, *Vietnam National Defence* (Hanoi: December 2009).

In 2014 Viettel employed 80,000 persons worldwide.<sup>15</sup> It reported total revenue of VND 96.650 trillion or US \$9.36bn and a net profit of VND 2 trillion or US \$0.11bn.<sup>16</sup> But Viettel also released figures claiming that in 2014 it earned total revenue of VND 197,000 billion (a growth rate over 20 per cent over the previous year) and a profit of VND 42,000 billion before tax (a growth rate of 15 per cent).<sup>17</sup> In 2014, of one thousand state-owned enterprises, Viettel was the largest contributor to the state budget with remittances totaling VND 15,000 billion.

On 27 January 2015 the Ministry of National Defence held a conference to review the performance of military-owned enterprises in 2014 and their business targets for 2015. According to a press report, the conference was told that military-owned business companies accrued total revenue of VND 292 trillion, a profit of VND 46 trillion and contributed VND 41 trillion to the state budget (or 14 per cent of total

<sup>14</sup> 'Viettel urged to well implement financial work,' *People's Army Newspaper Online*, 24 May 2014.

<sup>15</sup> 'Military group strives for VND 230 trillion in 2015,' 25 January 2015.

<sup>16</sup> 'Three telecom giants earn over VND330 trillion in 2014,' *VietNamNet*, 26 December 2014.

<sup>17</sup> 'VIETTEL 2014: Spectacular Growth,' 26 January 2015. <http://viettel.com.vn/61-83-2-2451-VIETTEL-2014-Spectacular-growth.html>.

revenue). These figures represented a year-on-year increase of 18, 15 and 12 per cent, respectively. Viettel was the most successful military-run enterprise, while the Military Bank expanded to become one of Vietnam's largest commercial banks.<sup>18</sup>

Military-owned enterprises expended some of their funds on charity, welfare, and building two hundred houses for families of wounded or deceased soldiers.

The conference signaled out for praise the Saigon Newport Group (one of Vietnam's leading ports), Lung Lo Construction Group, Corporation No. 319, Corporation No. 789, Dong Bac Company, Housing and Urban Development Corporation, and the Aviation Construction Company.

Finally, it was noted that during 2014 military-owned enterprises that were totally state-funded were reorganised and restructured to make them more efficient. These enterprises conducted commercial activities in four hundred and twenty-one fields.

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<sup>18</sup> 'Defence businesses urged to give top priority to country's interest,' *People's Army Newspaper Online*, 27 January 2015.