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Vietnam Looks To Go Big on Transport Infrastructure

Investment in infrastructure is vital if Vietnam is to remain on the path to eventual high-income status.

By James Guild

Infrastructure is having a bit of a moment these days. The United States is currently debating a trillion-dollar infrastructure package, while Singapore recently announced it will raise billions of dollars on capital markets to shore up its national infrastructure. So it's no surprise that Vietnam, one of the fastest growing economies in the world, is also looking to go big on infrastructure. Last month the Transport Ministry announced its 2030 master plan for transport infrastructure that could be worth as much as $65 billion. It would include the construction of 5,000 kilometers of expressways, a deep water port in Hai Phong, high-speed rail routes running along major north-south arteries, and the completion of Long Thanh International Airport near Ho Chi Minh City.

Basically, Vietnam finds itself in a situation where the economy is growing quickly and the state is constantly trying to catch up and supply an adequate level of supporting infrastructure to keep growth humming along. In its simplest form, the Vietnamese economy is structured around investment, manufacturing, and exports. Investment flows to areas with particular factor endowments such as a large supply of labor, where value-added products are manufactured or processed and then exported. This is similar to the development models that propelled South Korea, Taiwan, and Singapore into high-income status. And so far, it's one that is working for Vietnam as the country has seen large capital inflows, fast per capita income gains, and a healthy current account surplus.

What is crucial to this development model, especially as it scales up, is transport infrastructure that can handle the rapidly increasing volume of trade. As manufacturing capacity increases, you need good roads and rail connections to move products around the country, and you need bigger airports and seaports to handle the increasing volume of imports and exports. South Korea's LG Display, for instance, has invested over $3 billion in manufacturing facilities in the northern city of Hai Phong, which is one reason why increasing the port's shipping capacity is a major priority in the 2030 master plan.

This is of course nothing new. What's changed is the scale and the funding strategies. The Vietnam National Transport Strategy Study commissioned by the government and released in 2000 contained similar recommendation that focused on developing the north-south corridor between Hanoi and Ho Chi Minh City and expanding international shipping ports. The report estimated the total cost between 2000 and 2010 to be $12.6 billion, much of which would come in the form of overseas development assistance. In 2010, a second report was commissioned, which estimated the minimum cost of national transport infrastructure between 2009 and 2020 to be $40.7 billion. This second report recommended a larger role for the private sector and less reliance on development assistance, which was meant to reflect Vietnam's improved economic circumstances.

The latest iteration of the master plan estimates the cost at $65 billion, and continues to push for more private sector solutions, with Minister of Transport Nguyen Van The suggesting the ministry "consider the option to issue government bonds for traffic infrastructure development and then collect toll fees to repay the state." This naturally leads to a question about whether its appropriate for the state to issue bonds which are then used to build privatized national infrastructure like expressways, but that is a discussion for another time. What is clear is that as the costs and the complexity of these infrastructure projects in Vietnam escalate, all of it propping up a larger and larger economic edifice, the institutional capacity of the state to handle these demands and deal with thorny issues like land disputes and long-term financing will increasingly be put to the test.

GUEST AUTHOR

James Guild

James Guild is an expert in trade, finance, and economic development in Southeast Asia