VIETNAM - 2018
INFRASTRUCTURE
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Market Overview:

Following the political and economic reforms of Đổi Mới in 1986, Vietnam has become one of the fastest growing economies in the world - and continues to grow. In 2017, the GDP growth in Vietnam was 6.8%, the highest rate in the last ten years. Currently, 70% of the population is under 35 years of age, and with its population dramatically increasing from 60 to 95 million people between 1986-2017 (and expecting to grow further to 120 million in 2050), the number of investors attracted by its cost-effective workforce is expected to increase further. The emergence of a middle class - expected to reach 26% of the population by 2026 - and an increased relocation to the urban areas (an estimated 50% of the population is expected to be living in urban areas by 2040 vs 30% today) has caused interest in the development of housing and infrastructure projects.

The role of the Private Sector:

Business Monitor International estimated that the current construction industry value in 2017 was at $11.1 billion. This figure is substantially below the World Bank’s estimated $16 billion annual investment needed for infrastructure development. The government has been making a significant effort to increase foreign investment into the sector and themselves have spent the highest amount on infrastructure as a Percentage of GDP, in South East Asia (5.7% of GDP) since 2014. Additionally, a list of 127 infrastructure projects for development was issued in the run up to 2020. These will require foreign direct investment (FDI). Hence, the government passed a decree in 2015 which created a unified legal framework to promote private investment in infrastructure. The decree replaced unimplemented regulations for pilot Public-Private Partnership (PPP) projects, and, according to a World Bank report, “the PPP Decree is an important reboot for PPPs”. The government has also been addressing the issue of transparency in its efforts to secure increasing private investment- amending the Construction Law in 2014 to improve clarity in the granting of permits, as well as increasing the efficiency of quality control. In 2013 the new law on bidding was designed to address deficiencies in the bidding procedure by increasing transparency and reducing the inequality between foreign and domestic contractors. PPPs will be vital to...

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1 Vietnam Overview, World Bank, Last Updated: Oct 5, 2018
3 Industry Trend Analysis - Highway Cancellation Highlights Persistent PPP Risks, Business Monitor International, 2018
5 Ibid
increasing funding from the private sector, in addition to providing technological expertise for highervalue projects in power and transport. Though at present the further progress is still required for the implementation of PPP projects.

**Construction:**
Due to the increasing urban population, further residential building in urban areas will be important and will consequently require a number of infrastructure projects to support these new developments. The increased population is expected to need an additional 374,000 units of housing per year. Over the past 10 years, the growth rate of private investment into construction has been higher than the growth in government investment. Since 2015, the private sector has overtaken the government in accounting for the largest component of total investment into the country’s construction sector. In 2016, there were 120 construction firms on the Hanoi and Ho Chi Minh city exchanges, equivalent to 19% of listed businesses, in addition to foreign manufacturers who are also establishing production facilities in the country, which has led to a related demand for industrial properties such as industrial parks, warehouses and logistics facilities. Foreign real estate firms such as Singapore-based CapitaLand and Mapletree have been making significant investment in this sector, with CapitaLand currently working on its 8th residential project. The growth of industrial and civil construction and engineering was at about 6.6% between 2015 and 2017.

**Transport:**
The main governmental body responsible for overseeing the road, rail, inland waterway, sea and air transport systems is the Ministry of Transport (MoT). It is responsible for creating policies and regulations; managing state-owned infrastructure; and supervising driver training, transportation traffic safety, environmental protection and international cooperation. Some of the National entities operating under the MoT umbrella include the Directorate for Roads of Vietnam, the Vietnam Inland Waterways Administration and the Vietnam Maritime Administration. Transport specific development plans are consolidated in the Transportation Development Strategy 2020. In February 2015 the government disseminated Decree 15 on PPPs - a significant legal regulation with the goal to strengthen transportation development in the country. This included new contract types and increasing the scope of sectors available for PPP development.

Infrastructure projects will account for the majority of new construction activity over the next five to ten years, as the government has begun initiating several road, rail, airport and power projects, aiming to

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6 Industry Trend Analysis - Highway Cancellation Highlights Persistent PPP Risks, Business Monitor International, 2018
9 Key View-Vietnam- Q3 2018, Business Monitor International, 2018
12 Ibid
13 Ibid
improve Vietnam's logistical limitations\textsuperscript{14}. Infrastructure has been a major concern for many domestic and foreign manufacturers, whose profits are significantly affected by congested and inefficient roads and ports. IHS Market reported that in 2017 delivery times increased to the greatest extent in the survey’s history, and manufacturing costs consequently raised as a result\textsuperscript{15}. Vietnam’s cement industry has been particularly affected, with 58 factories with a total capacity of 88 million tonnes/year - nearly 6 times the total amount of factories in Thailand and nearly double the capacity. However, cement exports were constrained by inefficient ports and transport logistics; with exports of cement falling by 7.1% in tonnes and 16% in value in 2016\textsuperscript{16}.

Roads

Although affected by delays, the construction of the HCMC metro line once completed is expected to increase residential and office development outside the city centre, as well as reduce traffic congestion.

Accounting for the majority of passenger and freight movements, the country’s road network is in need of investment. In 2016, MOT reported that throughout the country’s 28,000 km of roads, only 18,000km were high quality paved national roads and only 26,000 paved or semi-paved provincial roads\textsuperscript{17}. Under the government’s Transport Strategy 2020, two important road developments are planned. A detailed master plan for the $17.9 billion North-South Expressway on the east of the country will take place\textsuperscript{18}, dividing the 1,811km project into sixteen sections and setting a 13-year schedule for implementation between 2010-2023\textsuperscript{19}. The North-South Expressway, closely located to the National Highway, will run from Hanoi to Can Tho. According to the Ministry of Transport, 650km of it will be built in 2017-2020 under the PPP model. Additionally, a 2,300-2,700km of new highway construction and upgrades between 2015-2020 have been announced by MoT\textsuperscript{20}.

Aviation:

Vietnam possesses one of the fastest growing aviation markets in the region, growing by 17.4% in the last decade\textsuperscript{21} and expecting 14.2% average annual growth between 2015-2020 estimated by the Civil Aviation Administration of Vietnam (CAAV). CAAV, reports to MoT and manages and Vietnam’s aviation sector. In 2017, Vietnam Airlines, the country’s national airline, made a $71.6 million profit - nearly six times the amount recorded in 2015, and contributed $219.2 million to the state budget\textsuperscript{22}. CAAV also reported that the aviation freight market grew by an average of 14.9% (2010-2015), with a forecasted expansion of 12.8% between 2015-2020. This rapid growth in the country’s aviation sector has seen an annual passenger growth averaging 14.9% (2010-2015). There has also been the emergence of low-cost carriers,

\textsuperscript{14} Key View-Vietnam- Q3 2018, Business Monitor International, 2018
\textsuperscript{15} The Report - Vietnam 2017, Oxford Business Group, 2017
\textsuperscript{16} Ibid
\textsuperscript{17} Ibid
\textsuperscript{18} Vietnam bridge, road and highway development projects, World Highways, 2018
\textsuperscript{19} The Report - Vietnam 2017, Oxford Business Group, 2017
\textsuperscript{20} North-South highway plan adjusted, Vietnam News, February 14\textsuperscript{th} 2017
\textsuperscript{21} Vietnam’s Aviation Industry Continues its Growth Momentum, Vietnam Briefing, June 1\textsuperscript{st} 2018
\textsuperscript{22} The Report - Vietnam 2017, Oxford Business Group, 2017
such as Jetstar Pacific Airlines and Vietjet Air. Vietnam’s recent signing of ASEAN Open Skies Agreement is expected to further strengthen this growth. A problem from this rapid growth is its strain on the airport infrastructure. Fleet upgrades are able to meet rising demand, however the issue of capacity constraints of the infrastructure will continue to challenge the aviation network, with more than 15% of flights delayed throughout the first half of 2016. In an effort to alleviate this problem, the government formally approved the greenfield air project of Long Thanh International Airport in Dong Nai Province, approximately 45km away from HCMC. The new airport is predicted to serve 90% of international flights and 20% of domestic flights, and in addition to reduce pressure on Tan Son Nhat International Airport (TSNIA) in HCMC. It also holds potential to become a major transport centre and gateway into South East Asia.

**Rail:**
The rail sector is also expected to benefit from increasing investment. The 2002 approved master plan for rail transportation indicated the capacity to reach 25% of freight and 20% of passenger movements by 2020. However, only 3% of annual transport investment is spent on railroads, in comparison to nearly 90% for roads. The government is currently looking at constructing a high-speed rail line linking capital city of Hanoi to Ho Chi Minh City (HCMC). This would dramatically improve the flow of goods and passengers as well as significantly reduce travel times. The North-South rail project aims to boost travel times by increasing speeds to 90km/hour for passenger services and 60km/hour for freight services over the next four years. Eventually, the rail line will aim for an increased 160km/hour and 200 km/hour by 2030.

**Ports:**

Vietnam has 3,200km of coastline with 114 seaports and a geographically strategic location. The general statistics office (GSO) states that maritime and inland waterway freight volumes rose from 205.8 million tonnes in 2010 to 260.2 million tonnes in 2015. According to BMI, volumes are expected to further expand by 7.5% in 2018, and by 6.6% in 2019. The opening of Tan Cang - Cai Mep Terminal (TCIT) in 2011, the first port in the country able to handle 15,000 TEU vessels, was particularly significant in improving the capability of Vietnam’s marine and freight sector. Cat Lai port remains a port of preference due to its proximity to Binh Duong, Ba Ria-Vung Tau, Dong Nai, and Ho Chi Minh City. The government has approved a Master Plan for seaport system development, which will require $20 billion to build new seaports and upgrade existing ones by 2020.

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23 Ho, A., Vietnam’s domestic airline industry takes off, Financial Times, October 11th 2017
24 ASEAN Open Skies Policy To Be Implemented in 2015, ASEAN Briefing, January 2nd 2015
26 Ibid
27 Vietnam Hopes to Start $50bn Project to Build High-Speed North-South Railway in 2020, Saigoneer, January 26th 2018
29 Port Infrastructure in Vietnam, Vietnam Briefing, May 9th 2918
Opportunities:

Vietnam is one of the fastest growing economies in the world. The country has witnessed a GDP growth rate of 6.8%, a record high FDI of $35.88 billion and trade figures reaching an extremely high $400 billion during the last year\(^\text{30}\). Vietnam already spends 5.7 per cent of GDP on infrastructure - the highest in Southeast Asia and ahead of India\(^\text{31}\). Despite concerns about industry and infrastructure, Vietnam stands relatively strong in comparison to its regional competitors\(^\text{32}\). Labour costs in Vietnam’s construction/industry sector are also low compared to other countries in the region, with the General Statistic Office reporting an average of $179 a month from between 2011 and 2016\(^\text{33}\).

Vietnam’s trade agreements also provide an improved opportunity for investment. Once effective, the Comprehensive Progressive Trans-Pacific Partnership agreement will have an impact on sectors related to construction, such as industrial parks, warehouses and logistics as these will attract increased funds from FDIs\(^\text{34}\). Other agreements include the Europe Vietnam Free Trade Agreement EVFTA – which is planned to be ratified in 2018.

Vietnam has set a goal of half of its economic output being generated by the private sector within two years, giving a clear indication of the country’s determination to make private enterprises the main driver of its economy. Recent changes to government regulations have resulted in the private sector being well positioned to grasp a larger share of private investment in the next few years. Some changes include a unified legal framework promoting private investment in infrastructure, amendments of the Construction Law (2014) to improve transparency in granting permits and increase the efficiency of quality control, and implementation of the law on bidding (2013) to address unequal deficiencies in the bidding procedure.

International infrastructure investments are becoming more attractive. During the Prime Minister’s visit to the US in 2017, the signing of a $6 billion deal with General Electric for a range of products and services took place, as well as a joint venture with PetroVietnam for the building of two gas-fired power plants with a combined 1500MW capacity, and an 800MW wind power plant\(^\text{35}\). Strong growth forecasts are maintained for Vietnam’s construction industry, with real growth to average 7.0% annually between 2018 and 2027\(^\text{36}\).

Weaknesses:
Despite Vietnam’s rapidly growing economy and infrastructure market, potential investors in PPPs will continue to be deterred by its considerably high regulatory environment. This risk was recently demonstrated in the government’s decision to cancel the $750 million Dau Giay - Phan Thiet Express way, which would have been the first transport PPP project in the country, due to potential investors withdrawing their bids because of financing uncertainties.

Vietnam’s PPP laws do not include loan guarantees which are required by multilateral financing institutions such as the World Bank. Because of PPPs’ project returns typically being measured in decades, investors are wary of economic environments which possess uneven regulations or unbalanced legal institutions. Vietnam’s further enhancement of PPP regulations will be vital for the success of the programme.

Further reform is also needed for Vietnam’s current land property laws. Many of the laws fail to provide any clear guidance on issues regarding the legal nature and rights of land ownership and usage, and which are additionally missing procedures for land distribution and transfers.

There have been recent protests concerning plans for the new Special Economic Zones (SEZs). These protests could lead to delays and revisions of projects. There has also been issues for infrastructure projects due to disputes around land and environmental rights.

The rising levels of air and water pollution, and the environmental impact of coal-fired power plants, which is a vital component of Vietnam’s power supply is also attracting public concern.

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37 Industry Trend Analysis - Increased Political Awareness To Increase Infrastructure Scrutiny, Business Monitor International, 2018
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