

# Economic Growth and FDI

## FDI and PPPs Experiences in Viet Nam

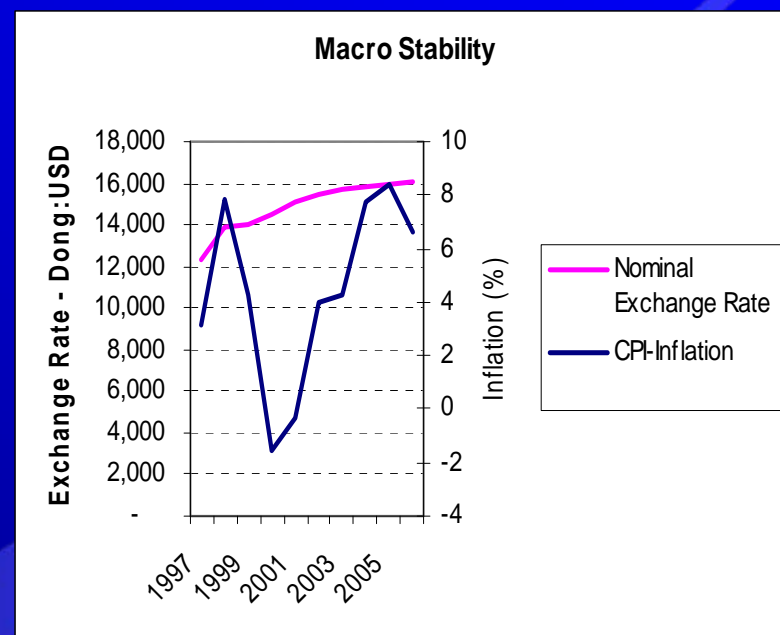
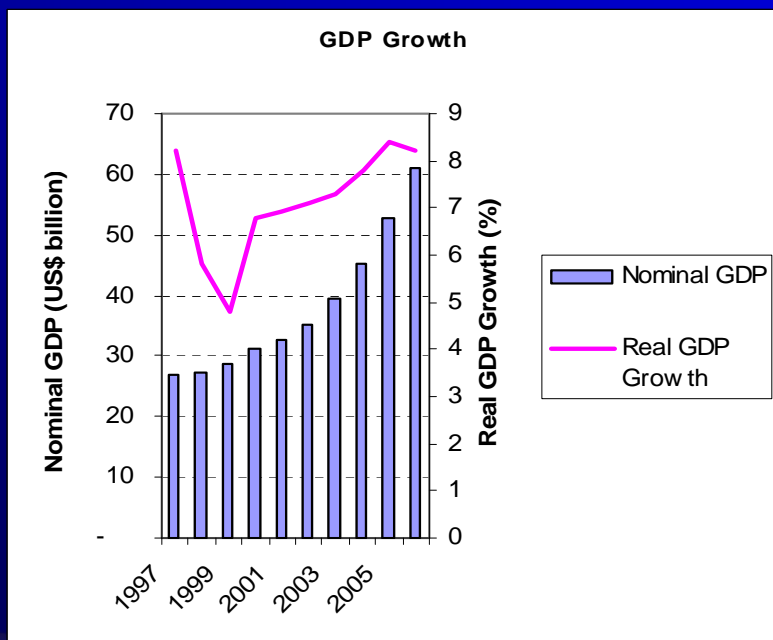
**Bob Finlayson**  
**Senior Evaluation Specialist (Private Sector)**  
**Asian Development Bank**

Enquiries: [bfinlayson@adb.org](mailto:bfinlayson@adb.org)

The views expressed in this paper are the views of the author and do not necessarily reflect the views or policies of the Asian Development Bank Institute (ADBI), the Asian Development Bank (ADB), its Board of Directors, or the governments they represent. ADBI does not guarantee the accuracy of the data included in this paper and accepts no responsibility for any consequences of their use. Terminology used may not necessarily be consistent with ADB official terms.

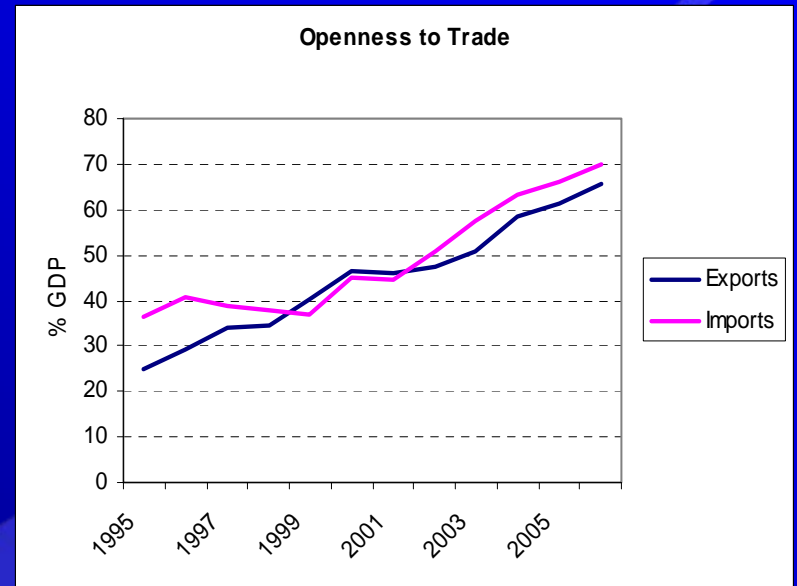
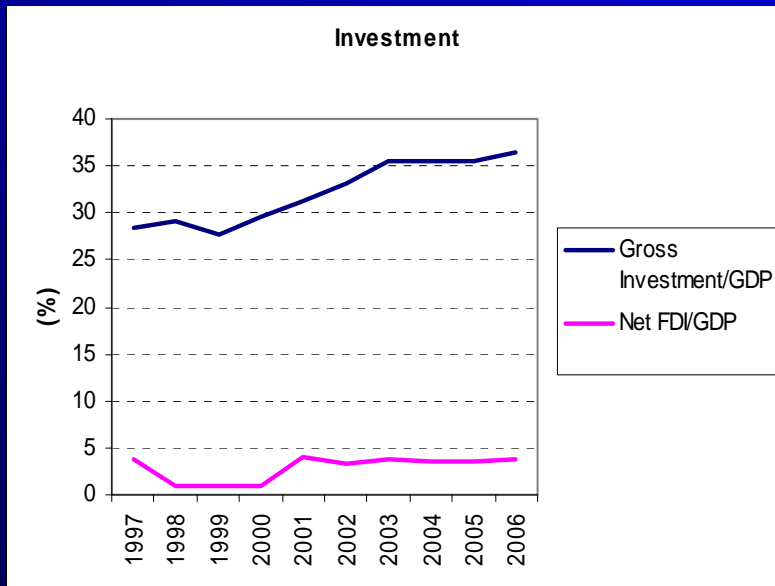


# Viet Nam has been growing rapidly over the last decade benefiting from the Doi Moi (economic renovation) policy introduced in 1986



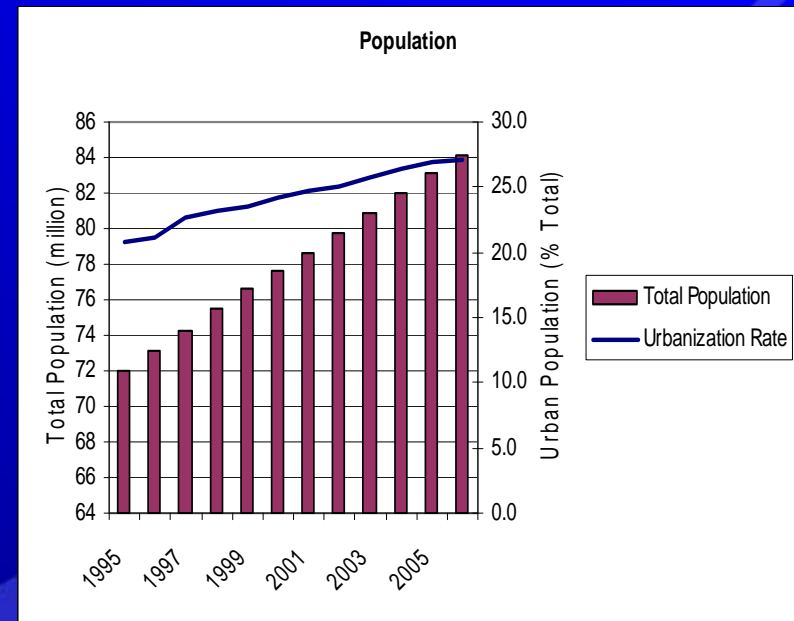
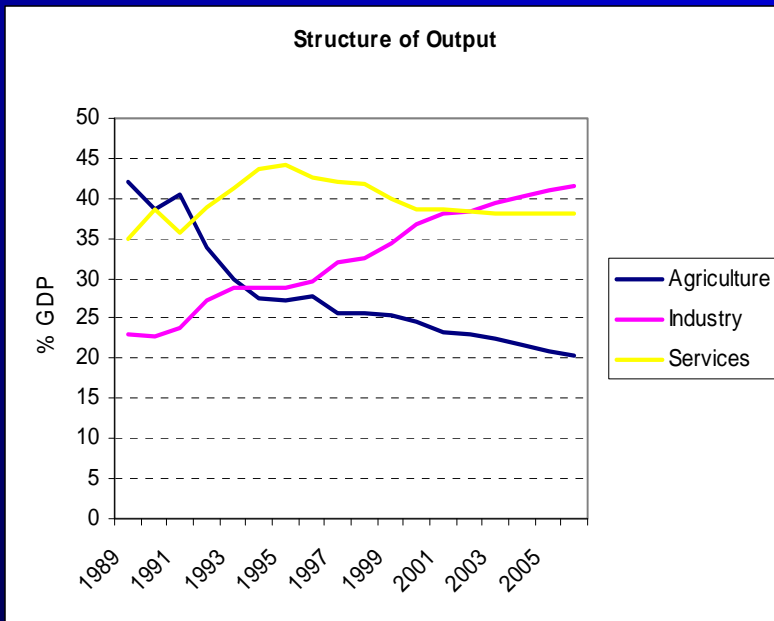
Source: *Key Indicators*, 2007, ADB

**Investment has been high, including net FDI at 4% of GDP. Viet Nam is a very open economy and it is likely to become even more so following WTO accession in 2007**



Source: *Key Indicators, 2007*, ADB

# Industrialization and urbanization rates are rising rapidly, even by Asian standards, and they are driving demand for infrastructure

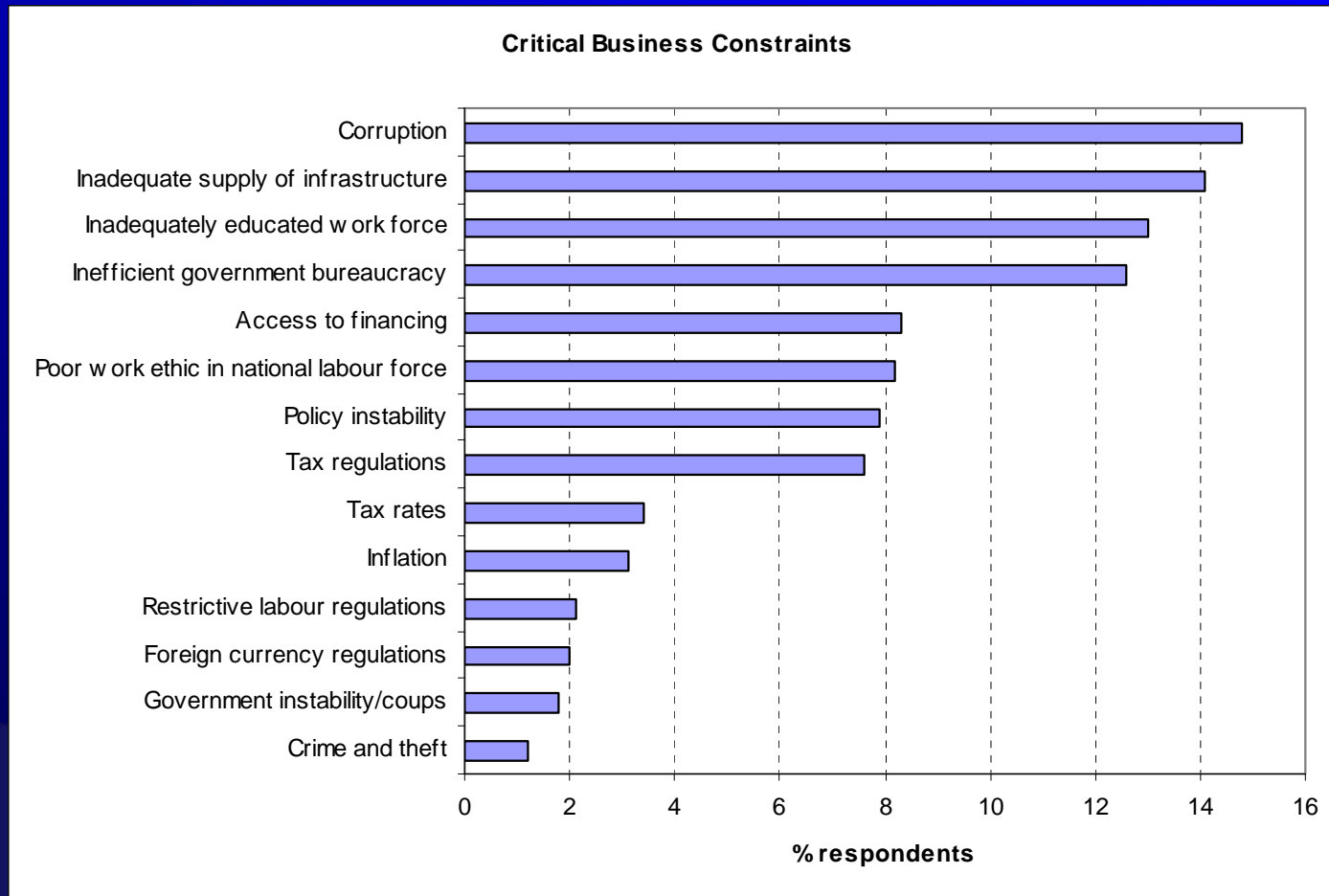


Source: *Key Indicators*, 2007, ADB

## Infrastructure investment is state led and rates as a percentage of GDP are high by international standards

- Infrastructure investment rate is approximately 10% of GDP per annum
- Investment in infrastructure has been sourced primarily via state-owned enterprises (SOEs)
- Investment programs for infrastructure are articulated in long term investment plans of 10-20 years
- Levels of infrastructure are improving and between 1990 and 2000, the road network increased by 104% and generating capacity by 180%

# Despite significant progress, investment is lagging and infrastructure is still one of the most important constraints for business



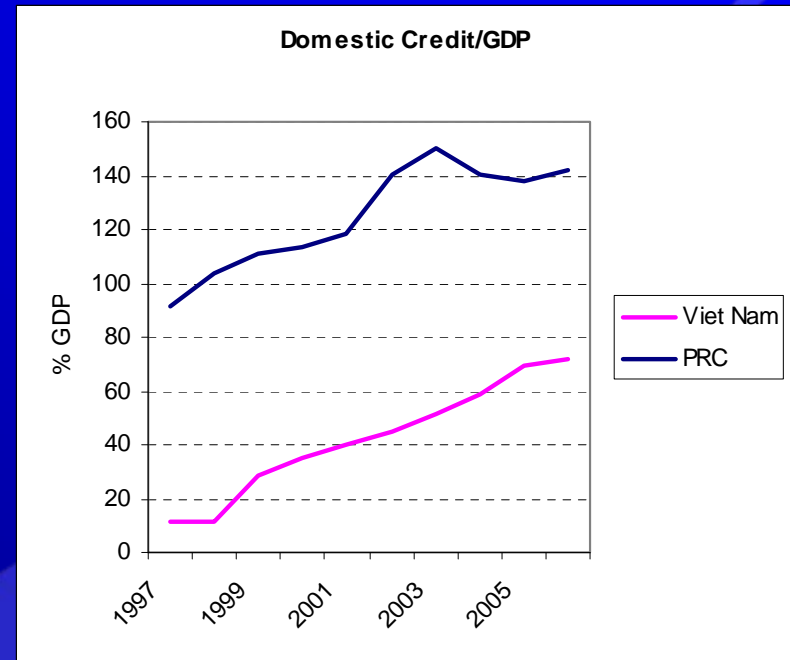
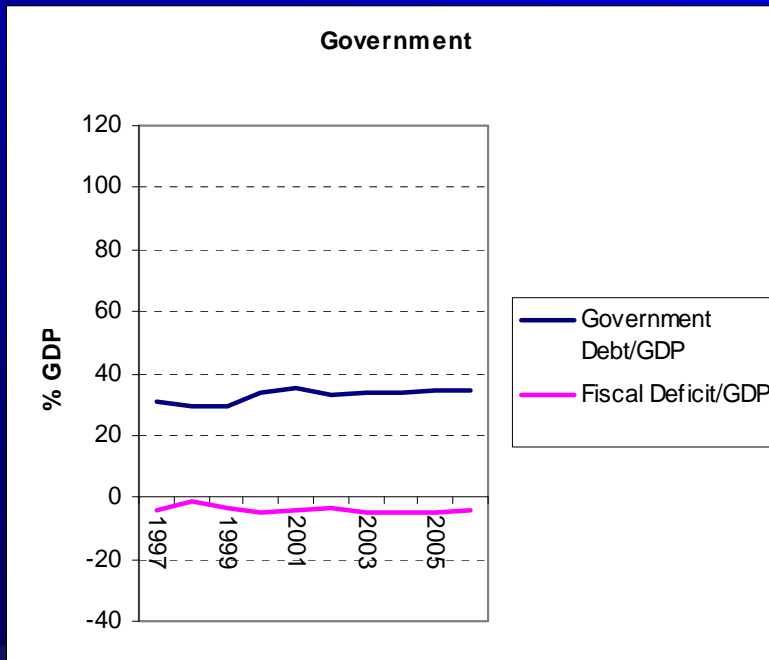
Source: *World Competitiveness Report, 2007*

## Viet Nam's infrastructure quality is low by East Asian and OECD standards

Indicators	Viet Nam	East Asia and Pacific Average	PRC	OECD Average
Gross National Income per capita, Atlas method (current US\$)	550	1,640	1,290	33,470
Access to electricity (% of population)	76	63	99	-
Electric power consumption (kilowatt hour per capita)	374	971	987	8,769
Improved water source (% of population with access)	73	74	77	99
Improved sanitation facilities (% of population with access)	41	58	44	-
Total telephone subscribers (per 100 inhabitants)	18	22	49	

Source: PPIAF

# Most infrastructure projects have been financed through SOEs which have been constrained by the stage of development of the primarily state owned banking sector



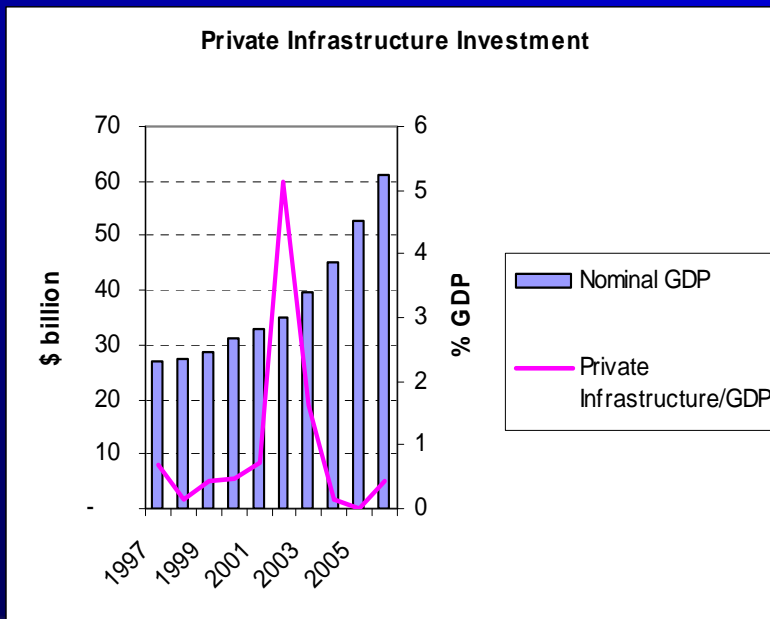
Source: IMF International Financial Statistics

The share market is only just starting to emerge and there is no corporate bond market

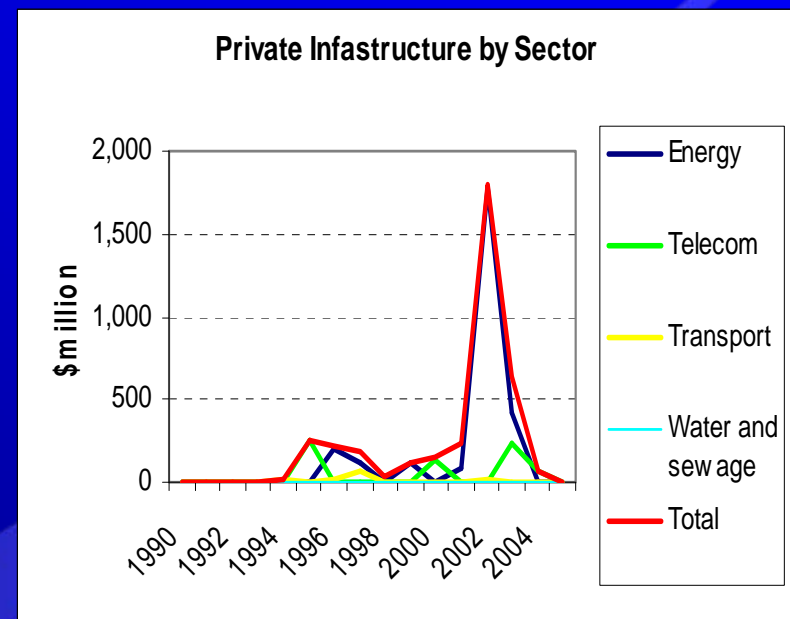
# Infrastructure development is highly centralized and dominated by the state, although the situation is changing in some sectors

- **Private sector** was only recognized legally in 2001
- **Privatization** has been limited and SOEs continue to monopolize infrastructure
- There is a **BOT law** but no centralized procurement agency
- **Vietnam Post and Telecommunications Corporation** has a 90% market share in telecoms, but it has recently become subject to mobile competition from other SOEs
- **Electricity of Viet Nam** operates a vertically integrated generator and distributor system, and there are plans to unbundle the sector and develop further private concessions
- There are plans to develop **city metro systems** for HCMC, Hanoi and Da Nang using concessions, but they are still under development
- There are **toll roads** present but they are administered by SOEs
- Most **sea ports and airports** are state owned
- **Decree 155** (2004) precludes private ports, roads, and water
- **Tariffs** for key commodities are administered

Reflecting the high level of state involvement, private investment in infrastructure was only \$260 million in 2006. The only significant private investments have been two Phu My power generating projects in 2002



Source: Key Indicators, PPIAF



Source: PPIAF

Private investment is primarily greenfield, augmenting capacity of vertically integrated state owned monopolies

## FDI is an important component of investment, but it is mainly concentrated in manufacturing on the coast in special economic zones

- Initially investment was only allowed through JVs, but **100% foreign companies** are now permitted
- Most FDI is **located in HCMC** and neighboring provinces
- FDI is primarily sourced from **neighboring countries** such as Taiwan, China and Japan
- Critical constraints on FDI include the inability foreign banks to take **mortgages on land** to secure loans and complex regulatory approval procedures
- Government has sought to address these issues by establishing a **Foreign Investment Agency** and creating more than a 100 industrial and export processing zones

**The Government has plans to develop PPPs, but they are only in the early stages of implementation. Possible reforms that could be considered by the Government include the following:**

- A **centralized PPP procurement agency** with a standardized legal framework, model contracts and a pipeline of projects
- Competitive market based **tariffs**
- **Power sector** reforms will need to avoid stranded costs and a truly independent regulator should be put in place
- **Transport** would benefit from an equivalent agency such as NHAI (India)
- **Water and local roads** would benefit from pooled municipal funds such as those developed in India and the Philippines
- **Finance and insurance** sectors are only in the early stages of reform and would benefit from further foreign private investment
- **Political risk and local currency financing** are key issues that will impact on concession design