FINANCIAL TIMES
19-6-17

Vietnam needs private sector to help fund infrastructure

Government and development banks alone cannot pick up $480bn tab

by: Don Lam

That the Vietnamese prime minister, Nguyen Xuan Phuc, was the first Southeast Asian leader to meet President Donald Trump underscores how quickly Vietnam has grown to become one of the most exciting economies in the world.

It was just 30 years ago that the country, still recovering from decades of conflict, began implementing a far-reaching reform plan to open the economy and improve the lives of a populace that was among Asia's poorest.

As recently as 19 years ago, only half of Vietnam had electricity; today nearly the entire country is on the grid. Much of the funding for the electrification initiative came from the World Bank, and the initiative's success played an important role in Vietnam's transformation into a new manufacturing hub in the Asean region.

But the power generation sector, along with other infrastructure projects, require significant continued investment if Vietnam's development is to stay on track.

The infrastructure wish list is seemingly endless. Just 20 per cent of the country's national roads are paved, and a recently approved plan to build a 1,372km north-south highway by 2030 is estimated to cost $14bn.

Hanoi and Ho Chi Minh City have metro systems under construction, the initial lines of which are estimated to cost a combined $8bn. A new international airport outside of Ho Chi Minh City is expected to cost about $16bn.

Seaports are congested thanks to rising exports. Water and waste treatment systems are inadequate in the main cities as urbanisation continues apace. The Asian Development Bank has estimated that Vietnam's infrastructure needs will cost $480bn between now and 2030.

The irony is that Vietnam's rapid development comes at a cost. Having graduated to middle income status, Vietnam is no longer eligible for many of the low-cost loans it once qualified for as a lower income country, yet its infrastructure requirements continue to grow.

While its gross domestic product has grown at an average of 6 per cent per annum, and now totals approximately $204bn, Vietnam cannot obviously afford to fund all of these infrastructure projects itself. According to the ADB, Vietnam already spends 5.7 per cent of GDP on infrastructure — the highest figure in Southeast Asia and ahead of India — but still falls short of China's 6.8 per cent.

Enter the private sector. Public-private partnerships have grown in popularity, but the ADB notes that Vietnam significantly trails its regional peers in terms of the role played by PPPs in infrastructure (an estimated 10 per cent in Vietnam versus 30 per cent in India).

There are a handful of local companies that are involved in infrastructure projects, but notably missing are the international companies that can provide the capital and, nearly as important, the expertise for such endeavours. They remain skittish about participating in projects due to high risks, long-term payout schedules, site clearance and a range of other issues.

While ongoing reforms have made foreign investment easier, a great deal of additional work — particularly around transparency — needs to be done to help deliver the sort of returns international investors expect.

One vehicle we are looking at is an infrastructure reinvestment plan that would purchase, for example, operating power plants, and provide a stable return to investors while enabling the seller to use the proceeds to build a new plant.

This structure would enable foreign investors to fast track investment, as well as sidestep some of the other key risks of greenfield development and enable a local company to build new infrastructure.

There are signs, however, that international infrastructure investments are becoming more attractive. Among the many highlights of the prime minister's recent US visit was the signing of a $6bn deal with General Electric for a range of products and services, including a joint venture with PetroVietnam for the construction of two gas-fired power plants with a combined 1500MW capacity, and an 800MW wind power plant.

These projects will go a long way to making sure Vietnam is able to keep the lights on for companies that continue to build factories, and will be a welcome change for a country that continues to focus on cheaper coal-fired plants.

Vietnam is hardly unique — nearly every other country in the region faces infrastructure spending gaps. While the World Bank and ADB (and perhaps in the future, the Asian Infrastructure Investment Bank), plus countries such as Japan, Korea, and China continue to provide valuable support for Vietnamese infrastructure projects, it is time for the government and the private sector to find new, mutually beneficial ways to work together to build a stronger foundation for Vietnam's future growth and prosperity.

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