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# National Assessment Report: Viet Nam

July 2019

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# **ASIAN DEVELOPMENT BANK**

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## **Abbreviations**

ADB – Asian Development Bank  
AFTA – ASEAN Free Trade Area  
ASEAN – Association of Southeast Asian Nations  
BEZ – Border Economic Zone  
BOT – Build – Operate - Transfer  
BRI – Belt and Road Initiative  
CBEZ – Cross Border Economic Zone  
CDB – China Development Bank  
CHEXIM – China Export Import Bank  
CPTPP - Comprehensive and Progressive Agreement for Trans-Pacific Partnership  
CPVCC – Communist Party of Viet Nam Central Committee  
CMSC – The Committee for Management of State Capital  
EU - European Union  
EVFTA – EU-Viet Nam Free Trade Agreement  
FEZ – Focal Economic Zones  
FDI - Foreign Direct Investment  
FTA – Free Trade Agreement  
FTZ – Free Trade Zone  
GAP - Gender Action Plan  
GDP - Gross Domestic Product  
GMS – Greater Mekong Subregion  
GSO – General Statistics Office  
GVC - Global value chain  
HCMC - Ho Chi Minh City  
ICT – information and communication technology  
JICA - The Japan International Cooperation Agency  
LMC – Lancang – Mekong Co-operation  
LPI – Logistics Performance Index  
MPAC – ASEAN Master Plan on ASEAN Connectivity  
MC – Ministry of Construction  
MFN – Most-favored-nation  
MOC – Ministry of Commerce  
MOF – Ministry of Finance  
MOFA – Ministry of Foreign Affairs  
MOIT – Ministry of Industry and Trade  
MOU – Memorandum of understanding  
MT – Ministry of Transportation  
NDRC - National Development and Reform Commission  
NSCP – North-South Corridor Plan  
OECD – Organization for Economic Cooperation and Development  
PPP – Public Private Partnership  
PRC – People’s Republic of China

RCEP – Regional Comprehensive Economic Partnership  
RCI – Regional Cooperation and Integration  
SDGs – Sustainable Development Goals  
SEC – The Southern Economic Corridor  
SEDP - Socio-Economic Development Plan  
SME – Small and Medium-sized Enterprise  
SOE – State Owned Enterprise  
TA – Technical Assistance  
TCOB – Two Corridors, One Economic Belt  
TFP - Total-factor Productivity  
USA - The United States of America  
VAT – Value-added Tax  
VEPR – Viet Nam Institute for Economic and Policy Research  
VND – Viet Nam dong  
WB – The World Bank  
WEF – World Economic Forum  
WIPO - World Intellectual Property Organization  
WTO – World Trade Organization

## I. Introduction

1. The 21st century Maritime Silk Road and the Silk Road Economic Belt (BRI), proposed by President Xi Jinping in autumn 2013, concentrates on improving and creating new business lines, business links and business opportunities for China. By October 1977, the BRI has officially been incorporated into the Chinese Communist Party Charter (amended) as one of China's political task.
2. China has called for its neighbors' participation, especially those who have been involved in the 21st century Maritime Silk Road since 2013 (including Viet Nam). However, like in many other countries, the implementation of BRI-specific projects in Viet Nam has not seen much progress. The perceptions of the BRI are relatively consistent among senior leaders, with the coordination between ministries and local government, yet information is not as widely available to the public.
3. Five years since the BRI was first proposed and three years since Viet Nam first affirmed its support as well as its active participation in the BRI, the two countries have signed an MOU and started cooperation in some areas, including infrastructure (railways, roads), trade connections (cross-border economic cooperation zone), investment (production capacity cooperation project), finance (planning for AIIB loan) and policy linkage. In particular, it has conducted an urban railway infrastructure project that connects four cross-border traffic routes and appealed for AIIB loans for two projects in the South. The two countries have also planned four economic cooperation zones across the border that involve two of China's provinces and four of Viet Nam's.
4. However, Viet Nam seems to be relatively cautious with the cooperation projects related to China, as can be seen through the prioritization of existing projects, and attempts to keep the pace of China's initiatives within the government's control. Ways in which the government balances pressures from China in implementing the BRI while also taking advantage of the BRI in expanding and maintaining the internal authority include: (i) Selecting economic projects to be included in the BRI framework; (ii) Selecting ongoing past projects with China to implement the BRI; (iii) Implementing the BRI within a defined geographic scope; (iv) Lessening communication on BRI.
5. The Policy and Advisory Technical Assistance (TA) Study of the Belt and Road Initiative was approved on 22 June 2016 and is financed under the TA Special Fund. It is designed to support the Development Research Center (DRC) of the

State Council's knowledge work on the Belt and Road Initiative (BRI) – in particular, it explores linkages with existing regional cooperation and integration initiatives and facilitates regional policy dialogue with mainland countries of the Greater Mekong Subregion (GMS). The TA engages six national consultants from selected mainland Southeast Asian countries to prepare country specific research papers. These inputs will serve to (i) present an analysis of stakeholder interests across the PRC–Mainland Southeast Asia Economic Corridor, (ii) advise on alignment of the BRI with national development strategies to optimize its use as an investment tool for accelerated regional economic growth, and (iii) build a broader understanding of the BRI's potential, opportunities, and risks and recommendations for management of these risks in the mainland Southeast Asia region. Ultimately, these inputs will help place the BRI within the overall regional cooperation and integration landscape, with an improved design of the PRC–Mainland Southeast Asia economic corridor as a pilot case.

6. The reporting process was initiated in June 2018 and projects were discussed during various sector discussion. This country report was conducted in November 2018. The report are summarized in the following sections, with detailed reporting tables published in the annexes.

## II. Initial Conditions

### A. Viet Nam National Economy Overview

7. Since Viet Nam carried out economic reformation in thirty years ago, the country has witnessed rapid speeds of development. By way of illustration, throughout the period from 1991 – 2010, Viet Nam’s GDP increased by approximately 7% on average<sup>1</sup>. Additionally, the percentage of people with income levels below the poverty line as defined by the World Bank declined from 20.8% in 2010 to 9.8% in 2016, or roughly 8.6% when calculating using the PPP method<sup>2</sup>. The robust growth has, better still, increased the national saving from 3% in 1990 to 30% at present, which is buttress the economic growth in Viet Nam. The country has thus gradually transformed from one of the world poorest countries to a lower middle-income nation<sup>3</sup>.
8. The success of Viet Nam’s economy is fueled by measures and policies implemented under national and regional cooperation such as (i) unleashing the power of the private sector (ii) reducing intervention by state-owned enterprises and effectively distributing capitals and resources between SOEs and the private sector (iii) integrating the economy (iv) facilitating FDI capital to promote exporting activities.
9. This success in economic development was driven by continuous administrative reformation and the rapid international economic integration.
10. Domestic private enterprises are even more alarming. Driven by reforms to first legalize and then facilitate private enterprise, the private sector has grown exponentially after the late 1980s<sup>4</sup>. But its growing presence has been marked by lower levels of productivity, so much so that there is little daylight between the productivity of labor and that of assets in the domestic private and SOE sectors.
11. The role and contribution of SOEs to the development of Viet Nam economy during the period of Planned Economy before Renovation (1986) and after that should be objectively recognized. State owned enterprises account for about one-third of all business assets, one quarter of output, and one-eighth of employment in

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<sup>1</sup> Calculated from Viet Nam GSO’s data

<sup>2</sup> The World Bank (2017), *Climbing the Ladder: Poverty Reduction and Shared Prosperity in Vietnam*, pp.7

<sup>3</sup> Ministry of Planning and Investment of Vietnam, The World Bank (2016), *Vietnam 2035 - Toward Prosperity, Creativity, Equity, and Democracy*, pp.59

<sup>4</sup> Ministry of Planning and Investment of Vietnam, The World Bank (2016), *Vietnam 2035 - Toward Prosperity, Creativity, Equity, and Democracy*, pp.20



enterprise sector. As such their performance matters for the overall growth potential of the economy. Currently, at least some of the SOE enjoy preferential access to capital and may also benefit from favorable regulatory frameworks and enforcement which in turn prevents private firms from market entry or growth. The weakness of SOEs system causes lots of difficulties to the whole economy due to the close relationship between SOEs and banks as well as between SOEs and public investments. This is also the reason why the restructuring of the whole economy which focuses on three aspects - mentioned at the 3rd Meeting of the 11th Communist Party of Viet Nam Central Committee (CPVCC) (October, 06th – 10th, 2011) becomes urgent<sup>1</sup>. The government adopted plans in 2012 to restructure the roughly 1,200 remaining, fully state-owned SOEs. To avoid the need to provide budget financing to SOEs, the government intends to use dedicated enterprise restructuring funds that accumulates proceeds of asset sales to be used to finance the cost of restructuring, including capitalization and investment in restructured SOEs. Progress on equitization (divesture of state assets) that was picked up in 2014, while reaching 143 SOEs implementation fell slightly short of the government’s ambitious annual target of 200 SOEs<sup>2</sup>. Progress slowed down somewhat during 2015 and only 29 SOEs were equitized in the first quarter, suggesting that the annual target of 289 SOEs may not be feasible this year<sup>3</sup>. In addition to complex procedural requirements, implementation of equitization is also hampered by subdued demand for some of the assets, especially for non-controlling shares in SOEs<sup>4</sup>. In September 2018, the government set up a committee to oversee around US\$220 billion worth of government assets in enterprises, as part of an effort to boost equitization. The Committee for Management of State Capital (CMSC), known as the “super committee”, will manage 19 State-owned economic groups and corporations. According to consolidated financial statements by December 31, 2017, the total value of State equity at these 19 groups and corporations reached more than VND1 quadrillion (US\$43 billion) and the total value of assets was VND2.3 quadrillion (US\$99 billion). According to the 2018 decree guiding its establishment, the committee is responsible for managing State capital at the enterprises where

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<sup>1</sup> Pham Sy Thanh (2012), “Heading to a real restructuring route for SOEs system”, in the book by Nguyen Duc Thanh (chief author), (2012), *Vietnam Annual Economic Report 2012: Facing the challenges of structural reform*, Hanoi National University Press

<sup>2</sup> The World Bank (2015), *Taking Stock – An Update on Vietnam’s Recent Economic Developments: Special Focus on Labor Market - Building Modern Labor Market Regulations and Institutions in Vietnam*, July, pp.23

<sup>3</sup> The World Bank (2015), *Taking Stock – An Update on Vietnam’s Recent Economic Developments: Special Focus on Labor Market - Building Modern Labor Market Regulations and Institutions in Vietnam*, July, pp.23

<sup>4</sup> The World Bank (2015), *Taking Stock – An Update on Vietnam’s Recent Economic Developments: Special Focus on Labor Market - Building Modern Labor Market Regulations and Institutions in Vietnam*, July, pp.23

the State holds a 100% stake and at joint stock companies and limited liability companies with multiple members where the State have invested its capital<sup>1</sup>.

- 12.** Along the same lines as the transformation in SOE sector, the dramatically acceleration of FDI in economic structure is also an engine for economic development. In Viet Nam, FDI enterprises, coming from 100 different countries, accounted for more than 70% in 214 billion USD of trading value in 2017. This value is equivalent to 95% of GDP, centupling since 1990<sup>2</sup>. Moreover, during the past ten years (from 2007 – 2017), the sum of committed FDI capital that was disbursed into Viet Nam reached 47.8%, the equivalent of 134 billion USD. These positive indicators are the result of a sustained effort to reform the legal system. Vietnamese governments implemented Foreign investment law, revamped pricing law, exchange rate policy and property rights, in order to form a legal barrier and bolster international economic activities in Viet Nam<sup>3</sup>.
- 13.** Besides, the participation in bilateral and plurilateral free trade agreement has sustained the momentum for the acceleration of international integration in Viet Nam. This progress is marked by significant milestones since Viet Nam's launch of the economic reformation commonly called Doi Moi. Firstly, Viet Nam participated in the ASEAN Free Trade Agreement (AFTA – which was in effect in June, 1996), and subsequently successfully signed U.S.-Viet Nam Bilateral Trade Agreement (which went into force in 2001). In particular, after a series of discussions and negotiations in 2007, Viet Nam officially became the WTO's 150th member, an event that marketed the turn of Viet Nam's economy to a new chapter<sup>4</sup>. Furthermore, Viet Nam participated the other bilateral and multilateral trade agreements. Namely, the country took part in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), ratified EU-Viet Nam Free Trade Agreement (EVFTA) and joined in negotiating panels under Regional Comprehensive Economic Partnership (RCEP).
- 14.** The in-depth integration has had profound impacts on Viet Nam's economic and social scenes. By participating in international economic activities, Viet Nam not only increases its access to cutting-edge technology resource but also strengthens the incorporation of international standards into legal systems and state

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<sup>1</sup> Nhan Dan Online (2018), "Committee for Management of State Capital debuts", October 1, available <http://en.nhandan.org.vn/business/economy/item/6669402-committee-for-management-of-state-capital-debuts.html>

<sup>2</sup> Viet Nam's GSO data (2017)

<sup>3</sup> Viet Nam's GSO data (2017)

<sup>4</sup> Ministry of Planning and Investment of Vietnam, The World Bank (2016), *Vietnam 2035 - Toward Prosperity, Creativity, Equity, and Democracy*, pp.12

management. Consequently, in regards to international investors, the market barriers have gradually been eliminated.

15. The next section will further discuss the changes in specific sectors in Viet Nam.

## **A. Leading Sectors**

### **1. Industry**

#### Sector Performance, Problems, and Opportunities

16. By 2035, 60 years after Reunification, Viet Nam aspires to become a modern, industrialized economy. The many achievements since the launch of the Đổi Mới reforms have certainly contributed to the country's ambitious goals. The Ninth Party Congress adopted the phrase "socialist-oriented market economy" as the official way to describe Vietnam's economic system in April 2001, codified in the 2013 revision of the constitution. The 2011–2020 Socio-Economic Development Strategy set forth the objective of becoming "a basic industrialized country with the foundation of a modern and industrial country by 2020."

17. Major milestones:

- The proportion of industrial manufacturing.
- The increasing of technical complexity of industrial products.
- Government took action to relax conditions on entry into Viet Nam's market with respect to business from FDI and private sector. The government introduced the 1999 Corporate Law to simplify the administrative procedures and allow business in sectors that were previously restricted to only SOEs. The 1999 Corporate Law represented a breakthrough in the business legal environment of Vietnam and encouraged official corporate registration with competent authorities. However, the 1999 corporate law experienced several limitations, and was accordingly replaced by the 2005 corporate law. Also in 2005, Vietnam's government implemented the Investment Law, which contained overlapping terms with the 2005 Corporate Law. Considering that these overlaps would force firms to shoulder unnecessary papers and business conditions, Vietnamese lawmakers quickly amended these problems in the 2014 Corporate Law. This most recent law that directly regulates business activities in Vietnam has proven its efficiency and compliance with international practices.

**Box 1. Some notable terms related to Vietnam’s corporate law**

**1993:** The 1993 Land Law increased land tenure to 20 years (50 years for perennial crops) and gave households the right to exchange, transfer, lease, inherit, and mortgage land-use rights. Lending to rural households was encouraged. SOE equitization started. Barriers to lending by the Asian Development Bank, International Monetary Fund, and World Bank to Vietnam were lifted.

**1997–99:** Value-added tax (VAT) and Corporate Income Tax were introduced.

**1999:** The Enterprise Law consolidated the Company Law and Law on Sole Proprietorships, and greatly simplified procedures to set up new enterprises.

**2004:** The institutional framework to promote competition was established: the Competition Law, the Vietnam Competition Administration Department, and the Vietnam Competition Council.

**2005:** The legal framework for all investors was unified with the promulgation of the Common Investment Law and Enterprise Law. Policies on state economic groups were launched.

**2013:** The Master Plan on Economic Restructuring was launched, initially focusing on banks, SOEs, and public investment.

**2014–15:** The New Enterprise and Investment Law provided the foundations

**Source:** MPI, The World Bank (2018)<sup>1</sup>

- It is undeniable that Viet Nam’s investment environment is becoming more and more open. 2005 Investment Law was superseded by 2014 Investment Law in order to better comply with international practices and meet the requirements of major FTAs such as EVFTA, CPTPP. The amendment of Law on Investment, which transformed from positive list into negative list, is a great improvement. In addition to the others efforts of Viet Nameese government to reform administrative procedure in recent years, World Bank ranked Viet Nam rank 68th out of 190 in business environment index in 2017. This 14 ranks increase from 2016 was Vietnam’s most remarkable improvement in this index since 2008. In comparison with other countries in ASEAN, Viet Nam witnessed the most improvement in its business environment.

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<sup>1</sup> Ministry of Planning and Investment of Vietnam, The World Bank (2016), *Vietnam 2035 - Toward Prosperity, Creativity, Equity, and Democracy*, pp.80 – 81

## 18. Major limitations

- The productivity slowly inches up. As calculated by Nguyen Duc Thanh and his partners in 2018, the national productivity of Vietnam hardly improved from 1993 to 2015. In 1993, Vietnamese workers' productivity was roughly 3620 USD/labour, this number increased to US\$9210/labour in 2015, nearly 2.5 times higher<sup>1</sup>. Meanwhile, during this same period, productivity accelerated 6.3 times in China, 14 times in Singapore and Japan. Besides, the average productivity growth in Viet Nam from 1993 – 2015 reached 4.93% (Table 1). Albeit showing a declining trend in the foreseeable future, this is a pretty high speed of growth compared to other countries in the region.

**Table 1. The average productivity growth in Viet Nam**

	1993-1998	1998-2006	2006-2011	2011-2015	1993-2015
<b>North East Asia</b>					
Japan	1.06	0.19	-0.89	1.39	0.51
Korea	4.54	3.54	3.16	1.27	3.38
China	8.94	8.51	10.6	7.52	8.86
<b>ASEAN</b>					
Singapore	3.02	3.08	1.21	1.42	2.76
Thailand	2.95	2.79	1.98	3.04	3.05
Philippines	1.87	1.52	2.35	4.38	2.50
Malaysia	2.66	1.83	0.85	1.69	2.04
Indonesia	1.63	1.18	3.28	4.25	2.86
Campuchia	1.85	4.01	2.88	4.48	3.41
<b>Viet Nam</b>	5.80	3.81	3.41	4.49	4.39

**Source:** Nguyen Duc Thanh, Ohno Kenichi ed. (2018)<sup>2</sup>

<sup>1</sup> Nguyen Duc Thanh, Ohno Kenichi (ed.) (2018), *Viet Nam Annual Economic Report 2018: Understand the Labor Market to Increase Productivity*, VNU., Publishing House, Hanoi, pp.145

<sup>2</sup> Nguyen Duc Thanh, Ohno Kenichi, Pham Thi Huong (2018), “Characteristics of Labor Productivity in Viet Nam in the Process of International Economic Integration”, in the book Nguyen Duc Thanh, Ohno Kenichi (ed.) (2018), *Viet Nam Annual Economic Report 2018: Understand the Labor Market to Increase Productivity*, VNU., Publishing House, Hanoi, pp.144-145

The fact that the FDI sector made a great contribution to the productivity growth in Viet Nam is a positive indicator. The increasing in productivity, for the period from 2006 – 2017, greatly depends on TFP as opposed to capital intensity. Specifically, the contribution of TFP to productivity growth in 2006 – 2012 and 2012 – 2016 were 39.52% and 58% respectively<sup>1</sup>. Thus, Viet Nam should encourage economic integration and attract more FDI capital so as to develop a system of supporting industries.

- Industrial manufacturing significantly depends on the operation of FDI business. Currently, FDI sector made up approximately 20% of total production and 70% of manufacturing, contributed to 60% of total export for Viet Nam<sup>2</sup>.
- Vietnam is participating in a lower level of the global value chain (GVC). Despite the 16 percentage points increase in proportion of FDI enterprises in exporting structure from 2005 – 2017, the proportion of added-value generated by FDI enterprises inclined only 3 – 4 percentage points<sup>3</sup>. These numbers indicated that manufacturing activities under this sector mostly concerned processing.
- In spite of the recent improvements, most indicators evaluating business environment in Viet Nam cannot meet the average levels present in ASEAN 4 countries, let alone ASEAN 6. According to the Global Competitiveness Report published by World Economic Forum (WEF), Vietnam jumped 4 ranks since 2015 (from 56th rank to 60th rank), landing the country behind most members in ASEAN. Similarly, Vietnam declined 7 ranks since 2015 in the Global Innovation Index calculated by World Intellectual Property Organization (WIPO). WIPO scored Vietnam 35.4/100 points, which was equivalent to rank 59th out of 128 examined countries. However, Vietnam witnessed the improvement in Electronic Government index surveyed by

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<sup>1</sup> Nguyen Duc Thanh, Ohno Kenichi, Pham Thi Huong (2018), “Characteristics of Labor Productivity in Viet Nam in the Process of International Economic Integration”, in the book Nguyen Duc Thanh, Ohno Kenichi (ed.,) (2018), *Viet Nam Annual Economic Report 2018: Understand the Labor Market to Increase Productivity*, VNU., Publishing House, Hanoi, pp.133

<sup>2</sup> Tran Tho Dat, To Trung Thanh, Bui Trinh, Hoang Thi Chinh Thon (2018), “Viet Nam’s Economy in 2017 and Prospects for 2018” in the book Tran Tho Dat, To Trung Thanh (ed) (2018), *Viet Nam Annual Economic Review 2017: Removing Obstacles to the Development of Enterprises*, NEU Publishing House, Hanoi, pp.60 – 61

<sup>3</sup> Tran Tho Dat, To Trung Thanh, Bui Trinh, Hoang Thi Chinh Thon (2018), “Viet Nam’s Economy in 2017 and Prospects for 2018” in the book Tran Tho Dat, To Trung Thanh (ed) (2018), *Viet Nam Annual Economic Review 2017: Removing Obstacles to the Development of Enterprises*, NEU Publishing House, Hanoi, pp.61

United Nations. Here, the country ranked 89<sup>th</sup>, which is 10 rank higher than its rank in 2014.

### Government's Sector Strategy

19. Vietnamese government clearly pointed out the importance of three major policies, namely stimulating productivity growth, improving the role of Vietnam in GVC and bettering the business environment. For instance, in 2017, Vietnam implemented Resolutions 19 that sought to “further carrying out missions and measures to improve the business environment and enhance national competitiveness in 2017 and toward 2020.”

## **2. Transport**

### Sector Performance, Problems, and Opportunities

20. Viet Nam has recorded substantial increases in public investment in infrastructure. The country puts great emphasis on transport infrastructure connections with China and the other countries in Southeast Asian region. Under the cooperative initiative in the Greater Mekong Sub-region (GMS), Viet Nam has allocated capital into major transport corridors. There are nine corridors in the Greater Mekong sub-region, four of which pass through Viet Nam via what are referred to as secondary inland international gateways. Probably the most important is the Eastern Corridor which connects (through road and rail) Kunming (PRC) to Ha-Noi and HCMC before terminating in Ca-Mau in the Mekong Delta. This corridor has a branch connecting Nanning (PRC) with Hai-Phong and Hanoi. The Lao-Cai border crossing point to Yunnan (PRC) handles approximately one million tons and is known to be the most active land border crossing point in Viet Nam<sup>1</sup>.
21. Among domestic modes of transport, land, water and air transport accounted for 60%, 20% and 10% respectively of the gross weight of goods handled. The other 10% of goods are carried by railroad and domestic river system<sup>2</sup>. With regards to exporting activity, 90% of exported goods are transported by sea, only 10% by on-road vehicles and hardly any by rail<sup>3</sup>.

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<sup>1</sup> The World Bank (2013), *Trade Facilitation, Value Creation and Competitiveness: Policy Implications for Vietnam's Economic Growth*, July, Hanoi, pp.44

<sup>2</sup> The World Bank (2013), *Trade Facilitation, Value Creation and Competitiveness: Policy Implications for Vietnam's Economic Growth*, July, Hanoi, pp.49

<sup>3</sup> The World Bank (2013), *Trade Facilitation, Value Creation and Competitiveness: Policy Implications for Vietnam's Economic Growth*, July, Hanoi, pp.49

22. Generally speaking, the development of transporting infrastructure in Vietnam is faced with several problems, including:

- The capacity of capital is unable to meet the burgeoning demand. Between 2016 – 2020, the demand for capital for traffic infrastructure projects managed by the Ministry of Transport will be more than VND 1,000 tril. (US\$40-45 billion). At the same time, the state budget will only provide 28% of this amount (only 7% according to the 2016-2020 public investment plan According to the Global Infrastructure Outlook, the current annual investment increases in Vietnam’s infrastructure is equal to 4% of GDP. This number is expected to jump to 6% of GDP annually in 2040<sup>1</sup>. Thus, Vietnam’s need for infrastructure investment between 2016 and 2040 amounts to US\$605 billion, with the sectors of electricity and roads specifically accounting for 43.8% and 22.1% of this need respectively<sup>2</sup>. Notably, the gap between investment needs and current trends of investment is a staggering US\$102 billion. Currently, the main source of capital for infrastructure development comes from ODA, comprising about 63%. However, it would be difficult for this figure to increase in the future since Viet Nam is now a middle-income country<sup>3</sup>.
- The investment regime in Viet Nam is still bestowing more favour on the public investment component, which was regarded by World Bank as “unaffordable, inefficient and, therefore, unsustainable”<sup>4</sup>.
- Generally speaking, the investments in infrastructure in Viet Nam are faced with a “fragile ceiling” that is concerns about the acceleration of government debt. The average budget deficit in the 2011-2016 period was 5.8% of GDP, much higher than the rate of 2.2% of GDP seen in the 2006-2010 period. Preliminary data showed that the budget deficit in 2016 was still very high, at 6.5% of GDP. According to the government reports, the total public debt (including sovereign debt, guaranteed public sector debt and local government debt) was 63.7% of GDP in 2016, 10% higher than it was in

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<sup>1</sup> Global Infrastructure Hub (2017), *Global Infrastructure Outlook - Infrastructure investment needs - 50 countries, 7 sectors to 2040*, pp.33

<sup>2</sup> Global Infrastructure Hub (2017), *Global Infrastructure Outlook - Infrastructure investment needs - 50 countries, 7 sectors to 2040*, pp.83

<sup>3</sup> See more <http://vccinews.vn/news/14215/tim-nguon-von-cho-phat-trien-ha-tang-giao-thong.html>

<sup>4</sup> The World Bank (2011), *Vietnam Development Report 2012: Market Economy for a Middle-income Vietnam*, December, Hanoi, pp.54



2010. A study of VEPR (2016) <sup>1</sup> showed that by the end of 2014, Viet Nam's public debt was about 60.3% GDP. The World Bank's 2016 economic update report for Viet Nam showed that public debt was expected to reach US\$117 billion by the end of 2015, more than double the 2011 level<sup>2</sup>. In particular, sovereign debt accounted for 50.3% GDP, exceeding the threshold of 50% set by the National Assembly. Also in this report, the World Bank forecasted that Viet Nam's public debt/GDP could possibly reach 64.9% GDP by 2018. Given these challenges, although the need for infrastructure investment for Viet Nam's development is large, the government should not pursue huge projects in order to ensure balance between budget deficit and foreign borrowing, since these projects require large amounts of capital, have slow capital turnover and have indirect impact on financial income growth.

- Projects require expensive overheads with low profitability.
- There is discrepancy between building infrastructure and completing transportation.
- There does not exist inter-regional infrastructural connectivity that can serve to optimize domestic investment packages. Despite improvements in transport infrastructure connectivity, the Greater Mekong Sub-region (GMS) corridors are not major trade routes for Viet Nam<sup>3</sup>. In 2017, it was reported that only 6.8 percent of the total value of exports was with GMS countries and most of the exports were probably by sea with only a small portion traveling by land<sup>4</sup>.
- There is not yet an efficient and effective transport corridor linking the two dynamic primary clusters of economic development, the Ha-Noi – Hai-Phong cluster and the HCMC cluster. The existing road (NH1) remains congested despite improvements and the expressway is still not under construction. The railway infrastructure needs major rehabilitation and

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<sup>1</sup> VEPR (2016), "Characteristics of Vietnamese Public Debt", *VEPR Policy Discussion Note*, No.PD-03, February 18, available at <http://vepr.org.vn/upload/533/20160218/PD%2003%20-%20Eng%20-%20Final.pdf>

<sup>2</sup> The World Bank (2016), *Taking Stock : An Update on Vietnam's Recent Economic Developments*, Hanoi

<sup>3</sup> The World Bank (2013), *Trade Facilitation, Value Creation and Competitiveness: Policy Implications for Vietnam's Economic Growth*, July, Hanoi, pp. 44

<sup>4</sup> Author's calculation from Viet Nam GSO 2017 data. GMS countries including: Vietnam, Laos, Myanmar, Thailand, Cambodia, Yunnan (PRC) and Guangxi (PRC)

modernization to support effective freight movements between the North and the South<sup>1</sup>.

- These increases notwithstanding, its trade-related infrastructure has not maintained pace with the growth of its exports. From a trade competitiveness perspective, Viet Nam's growth potential is being constrained severely by weak transport infrastructure and services<sup>2</sup>.

**23.** The major opportunities of developing infrastructure in Viet Nam has been spurred by the vision of Vietnamese government as well as the acceleration of international initiatives introduced by developed countries.

- The investment and development of infrastructure play an integral part in national Socio-Economic Development Plan (SEDP). Clearly stated in SEDP 2016 – 2020, the government committed to pushing for strategic breakthrough in the building of infrastructure so as to sustain the momentum for sustainable and inclusive economic growth. Apart from completing the construction of highways, namely, Hanoi - Lao Cai; Ho Chi Minh City - Long Thanh - Dau Giay; Ben Luc - Long Thanh; Da Nang - Quang Ngai; Hanoi - Thai Nguyen; Ha Noi - Hai Phong; Cau Gie - Ninh Binh and broadening Highway 1, Ho Chi Minh Highway running through the Central Highland, Vietnam also ensured the first phase of the Long Thanh international airport construction would begin and complete on time as stated in Resolution no. 94/2015/QH13 dated June 25th, 2015 of the National Assembly<sup>3</sup>.
- To tackle the deficit of capital for infrastructure, Government carried out PPP. Government made effort to alleviate the capital deficit for infrastructural projects by carrying out PPP. BOT projects, despite the debates surrounding them, to some extent, proved its efficiency. It thus encouraged government to rethink about the investment regime.
- The diversification of capital supply. Aside from borrowing capital from municipal lenders such as WB, ADB, JICA, the presence of AIIB, for which Viet Nam is one of the founding countries, provided a tremendous capital to meet the demand for constructing infrastructure in Viet Nam. March 2017,

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<sup>1</sup> The World Bank (2013), *Trade Facilitation, Value Creation and Competitiveness: Policy Implications for Vietnam's Economic Growth*, July, Hanoi, pp. 44

<sup>2</sup> The World Bank (2013), *Trade Facilitation, Value Creation and Competitiveness: Policy Implications for Vietnam's Economic Growth*, July, Hanoi, pp. 41

<sup>3</sup> Government of Viet Nam (2016), *Resolution No.142/2016/QH13, National Assembly approval of 2016–2020 Social-Economic Development Plan*, Ha Noi, pp.4

when meeting with AIIB President in Hanoi, the Prime Minister of Viet Nam said that Viet Nam is combining ODA and trade loans to develop infrastructure and access to special capital resources. The low cost of AIIB, without government guarantee, is precious. The demand for infrastructure development in Viet Nam is very high. The Viet Nameese government attaches great importance to the cooperation between AIIB and Viet Nam<sup>1</sup>. Apart from China, Japan also introduced an initiative called “Quality Infrastructure Partnership” in June, 2016. Accordingly, Japan will allocate up to US\$100 billion and appeal for other partners such as EU, USA to invest up to US\$50 – 100 billion in funds for the construction of high quality infrastructure.

### Government’s Sector Strategy

- 24.** The government’s national planning strategy SEDP reflects for each 5-year planning period. The SEDP 2016–2020 emphasis will continue to push for strategic breakthroughs in (i) building the infrastructure system in sync with modern buildings, (ii) enhancing the quality of socio-economic infrastructure planning, (iii) ensuring the overall efficiency and systemic aspects of planning, especially the transportation, electricity distribution, water distribution, irrigation, information, media, education, health care, and environment systems, (iv) continuing the constructions of roads, highways, the Northern - Southern railroad and upgrade the current railroad system, in-land and coastal waterway network, and (v) continuing to prioritize funds for transportation infrastructure projects in low-income areas<sup>2</sup>.
- 25.** It highlighted for the first time the national importance of transport in promoting economic growth, poverty reduction, safety enhancement, environmental protection, and human resource development. It envisioned a transport system that would promote competitiveness, integration and inclusion, and sustainability and safety<sup>3</sup>. The SEDP 2016–2020 also highlighted for the first time the national importance of mobilization of investment resources to build a system of socio-economic infrastructure achieved important results. Vietnam has reviewed and supplemented planned infrastructure development with a long-term vision and

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<sup>1</sup> VOV (2017), “Vietnam expects AIIB to approve investment project in 2017”, March 7, available at <https://vov.vn/chinh-tri/viet-nam-hy-vong-aiib-co-du-an-dau-tu-trong-nam-2017-600526.vov>

<sup>2</sup> Government of Viet Nam (2016), *Resolution No.142/2016/QH13, National Assembly approval of 2016–2020 Social-Economic Development Plan*, Ha Noi, pp.3 – 4

<sup>3</sup> Government of Viet Nam (2016), *Resolution No.142/2016/QH13, National Assembly approval of 2016–2020 Social-Economic Development Plan*, Ha Noi, pp.3 – 4

diversified methods and sources of investment capital. Transport infrastructure has mostly concerned investments in roads, railways, airways, and waterways, ensuring better connectivity on a both a national and international scale<sup>1</sup>.

### 3. *ICT/Connectivity*

26. One of the most essential foundations for the attainment of economic milestones in Vietnam is “integrational thinking”. This open thinking, in conjunction with a critical political geography, Vietnam is quickly shaping both “physical” and “soft” connectivity. If the physical connectivity involves infrastructure, soft connectivity concerns institutional connectivity and logistic systems.

#### Sector Performance, Problems, and Opportunities

27. Institutional connectivity. By participating in multilateral discussion forums and signing FTAs, Viet Nam quickly reformed institution and increase its compliance with the outside. Up until December, 2017, Viet Nam has entered into 12 FTAs, finished negotiating rounds of 1 FTA and commenced negotiating 3 others. This clearly reflects the great degree of economic integration in Viet Nam. Recent trade deals include the ASEAN FTA (ATIGA), FTAs between ASEAN and Japan, India, Australia – New Zealand, the Republic of Korea, and China as well as FTAs between Viet Nam and Korea, Japan, Chile and the Eurasian Economic Union. Yet another that provides insight into the level of integration in Vietnamese economy is the degree of openness in said economy. This index in Viet Nam was equivalent to 200% of GDP, in comparison to only 40% of GDP in China. This simple comparison reveals the rapid pace of transformation in the two Communist countries, who initially pursued closed economy policies. There are other benefits that Viet Nam could receive as a result of institutional connectivity, such as:

- Stimulating and accelerating domestic reforms in many areas, such as competition, services (including financial services, telecommunications, and temporary entry of service providers), customs, e-commerce, environment, government procurement, intellectual property, investment, labor standards, legal issues, market access for goods, rules of origin, non-tariff measures, trade remedies etc.
- Delivering commitments under the FTAs, thereby promoting transparency and supporting the creation of modern institutions in Vietnam.

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<sup>1</sup> Government of Viet Nam (2016), *Resolution No.142/2016/QH13, National Assembly approval of 2016–2020 Social-Economic Development Plan*, Ha Noi, pp.32

- 28.** In terms of setting up logistics systems, several facts should be presented. Total logistics costs in Viet Nam are estimated to be 20 percent of GDP<sup>1</sup>. Viet Nam has about 600 and 800 logistics service providers with about 1,000 working solely as freight forwarders. A large number are small enterprises with limited staff (15 to 30). Many of the freight forwarders limit their activities to customs clearing and simple shipment orders. There is intense competition between these small operations as they are only capable of getting a small share of the market (20 percent). Viet Nam's logistics service providers generally offer low-cost and low-quality services, and cannot yet compete with their international counterparts<sup>2</sup>. Most of them are small-sized with limited access to capital and lack adequately trained human resources. After 2014, when Vietnam complied with the provisions of the WTO on liberalizing the logistics industry, international logistics companies had the right to register 100 percent owned share companies<sup>3</sup>.
- 29.** Over the past decade, Viet Nam has steadily improved its score in the World Bank's Logistics Performance Index (LPI), outperforming both its region and income group. However, with a score of 2.98 out of a maximum of 5.0 in 2016, Viet Nam still has potential to improve its performance<sup>4</sup>.
- 30.** Viet Nam's consistent policy of openness and exported growth has paid off. The economic reforms undertaken since the late 1980s helped spur growth and reduced poverty. Viet Nam reached the highest trade-to-GDP ratio in the developing world at 190 percent (2017), well above what is predicted for its income level. The country's exports have consistently outperformed world export growth over the past decade. However, the incompetence of logistic system poses some hindrance in increasing export quality.
- 31.** The breakdown of the monetary costs to import shows that logistics costs (domestic transport and port handling) account for 65 percent of the total cost, exceeding regulatory costs (documentary compliance outside the border, customs and non-customs compliance at the border, which account for 35 percent<sup>5</sup>.

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<sup>1</sup> The World Bank (2013), *Trade Facilitation, Value Creation and Competitiveness: Policy Implications for Vietnam's Economic Growth*, July, Hanoi, pp.55

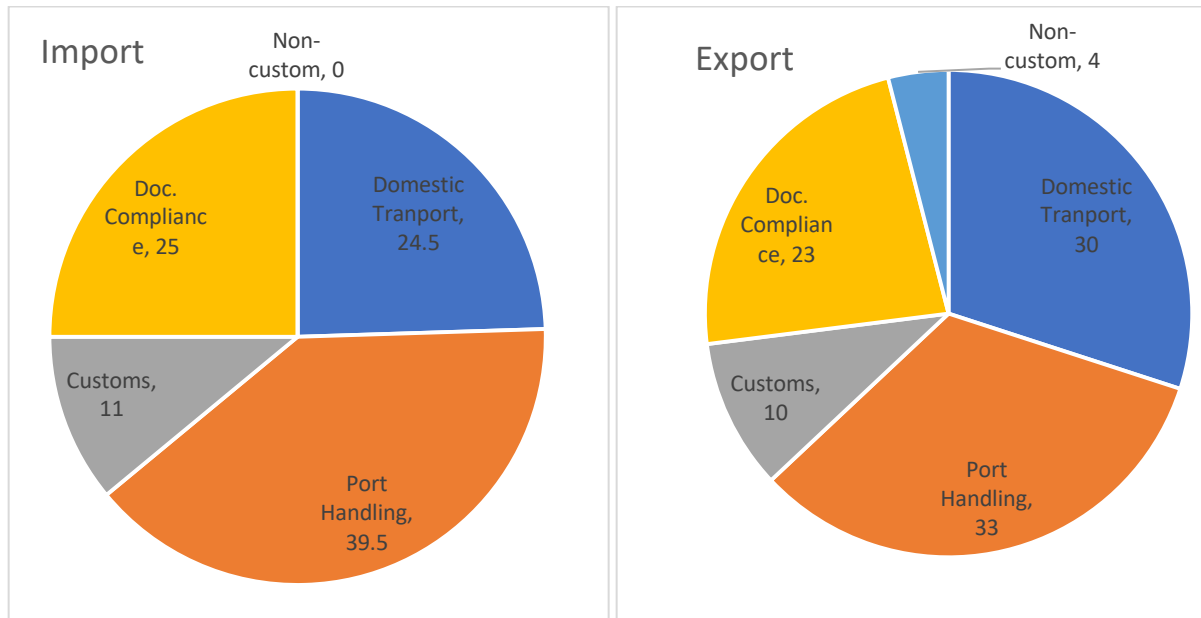
<sup>2</sup> The World Bank (2018), *Taking Stock – An Update on Vietnam's Recent Economic Developments: Special Focus Reform Priorities for Reducing Trade Costs and Enhancing Competitiveness in Vietnam*, June, pp.50

<sup>3</sup> The World Bank (2013), *Trade Facilitation, Value Creation and Competitiveness: Policy Implications for Vietnam's Economic Growth*, July, Hanoi, pp. 55

<sup>4</sup> The World Bank (2018), *Taking Stock – An Update on Vietnam's Recent Economic Developments: Special Focus Reform Priorities for Reducing Trade Costs and Enhancing Competitiveness in Vietnam*, June, pp.36

<sup>5</sup> The World Bank (2018), *Taking Stock – An Update on Vietnam's Recent Economic Developments: Special Focus Reform Priorities for Reducing Trade Costs and Enhancing Competitiveness in Vietnam*, June, pp.41

**Figure. Cost to Import - Export Breakdown (%)**



**Source:** The World Bank (2018)

Government’s Sector Strategy

**32.** With respect to comprehensive and in-depth economic integration, Viet Nam puts a great and constant effort into negotiating new FTAs and encouraging the ratification and implementation of signed FTAs. By virtue of these intensive endeavor, in 2018, EU Commission presented EVFTA for signature and conclusion. It is expected that EVFTA will receive consent from the EU Parliament in late 2018, then it can be ratified and implemented in the beginning of 2019). Better still, on 12<sup>nd</sup> November, 2018, Viet Nam’s Parliament officially ratified CPTPP and its documents. Also in November, 2018, in the second RCEP Summit, Viet Nam reaffirmed its determination to successfully conclude the RCEP in 2019<sup>1</sup>.

**33.** With respect to develop a modern logistics system. In February, 2017, Viet Nameese government issued Decision No. 200/QĐ-TTg on approving the “Action plan for improvement of competitiveness and development of Viet Nam’s logistics services” with 6 key tasks:

- Complete policies, legal framework and logistics service;

<sup>1</sup> Tuoi Tre Online (2018), “Adopt a joint statement of ASEAN and partner countries on RCEP”, November 15, available at <https://tuoitre.vn/thong-qua-tuyen-bo-chung-cua-asean-va-cac-nuoc-doi-tac-ve-rcep-20181115090630069.htm>

- Improve logistic infrastructural ability;
- Improve corporate ability and service quality;
- Develop the logistics service market;
- Develop in all terms of quantity, scale and qualification of personnel;
- Raise awareness about the important role of logistics service with the national economic growth.

34. Subsequently, in July, 2018, government issued Directive No. 21/CT-TTg on promoting measures to cut down logistic overheads and enhancing the efficiency of transporting connection. Directive No. 21/CT-TTg elaborated on key tasks in Decision No. 200/CT-TTg and assigned specific missions for ministries, namely:

- Ministry of Industry and Trade put focuses on revamping logistic infrastructure associated with e-commerce.
- Ministry of Planning and Investment put emphasizes on attracting investment in projects to construct Tier I logistic centers in order to enhance the connectivity between Viet Nam and foreign partners.
- Ministry of Finance conducts research into setting up tax and fee policies to facilitate the operation of omni-mode of transport suppliers.

### ***Trade facilitation***

#### Sector Performance, Problems, and Opportunities

35. Viet Nam is a country with a very high degree of economic openness, equivalent to 200% of GDP. The nondomestic transactions taking place in Viet Nam, represented by the scale of trading activities, reached 400 billion USD in 2017<sup>1</sup>, with average growth rate of 14% for the past 10 years<sup>2</sup>. In 2017, again, Viet Nam had more than 200 trade partners, and as a result had 51 trading markets that consisted of 28 exporting markets and 23 importing markets with over 1 billion USD in trading value combined<sup>3</sup>. As a result, exporting activity became a stimulus

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<sup>1</sup> Viet Nam GSO 2017 data

<sup>2</sup> MOIT (2018), *Vietnam Export and Import Report 2017*, MOIT Publishing House, Hanoi, available at <http://moit.gov.vn/documents/36315/0/bc+xnk+2017.pdf/894ffcf3-8663-4ee5-ab74-635e330ebb06>

<sup>3</sup> MOIT (2018), *Vietnam Export and Import Report 2017*, MOIT Publishing House, Hanoi, available at <http://moit.gov.vn/documents/36315/0/bc+xnk+2017.pdf/894ffcf3-8663-4ee5-ab74-635e330ebb06>

for economic growth and boosted both the national income and the technological levels of industries that work with exported goods.

**36.** Among major trading partners, China played a critical role with Viet Nameese economy. Trade with China accounted for 22 percent of Viet Nam's total, up from 10 percent in 2000. In 2017, the scale of two-way trade between Viet Nam and China reached 93.69 billion USD, 21.79 billion USD more than that in 2016<sup>1</sup>. Thus, obviously, China is being the largest trading partner of Viet Nam, Viet Nam is a major trading partner of China, at least among countries in ASEAN.

**37.** In Viet Nam – China trading relationship, border trade plays an essential part. Public investment and trade are growth drivers for not only localities with favorable conditions, but also localities that share a border with China. Hence, it is easy to understand why these localities have been active in requesting the approval of the central government for economic cooperation with China like the border economic zone model or BRI. Trading activities through border economic zones of the northern border localities have contributed significantly to the trade turnover of the whole economy. According to the Northern Border Provinces Statistics Office, the total export turnover (for all markets) of the localities increased from US\$2.97 billion in 2010 to US\$3.65 billion in 2015, with an average growth rate of 4.2% per year for the 2011-2015 period. Quang Ninh, Lang Son and Lao Cai had the highest export values<sup>2</sup>.

**38.** Concerning cross border trade between Viet Nam and China, statistics on border trade between Viet Nameese and Chinese localities (according to the Ministry of Industry and Trade) showed strong growth in activities between the two sides. The total value of goods passing the Viet Nam-China border has grown by an average of 32% over the past ten years, accounting for 31.25% of total bilateral trade volume in the same period. At the moment, the Chinese market accounts for a large proportion of Viet Nam's agricultural exports, including cassava (90%), rice (40%), and rubber (50%). Statistics from the Border and Mountain Trade Department (Ministry of Industry and Trade) show that the proportion of border trade between the two countries' trade accounted for about 30 percent of bilateral trade.

**39.** For the above reason, the central government declared that close development of economic cooperation and maintenance of a stable environment with China is a

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<sup>1</sup> Viet Nam Custom Data

<sup>2</sup> Viet Nam Custom Data



form of public goods that would be important to the border localities, thereby generating policy consensus and the support from local authorities for other central policies. The leaders of Guangxi, Yunnan or Guangdong have regularly met with the leaders of Viet Nam<sup>1</sup>.

**40.** Despite its crucial role to the economic development in Viet Nam, exporting activities is faced with many obstacles requiring more and more efforts from competent authorities. Trade facilitation is critical to improving a country's competitiveness. Its goal is to make supply chains more efficient and to reduce the costs, red tape and bottlenecks faced by traders. Trade facilitation targets both the "software" and "hardware" of trade. "Software" refers to the reengineering of systems and procedures, the institutional development of trade-related agencies, and the increase in professionalism of logistics service providers. "Hardware", on the other hand, deals with infrastructure such as roads, ports, cargo handling facilities and ICT systems<sup>2</sup>. As mentioned above, the insufficiency of infrastructure is a hurdle for the trade facilitation. Especially, in the case of Viet Nam, infrastructural investments must be accompanied by infrastructural connectivity and the development of logistics service.

**41.** Cutting trade costs through tariff reduction, though highly successful in Viet Nam over the past two and half decades, but has reached its limit. The most-favored-nation (MFN) average tariff for Viet Nam has been reduced to 0-5 percent for almost all tariff lines and commodities at targeted markets, contributing to reduced trade costs enormously<sup>3</sup>. However, further success in reducing trade costs clearly cannot solely rely only on tariff reductions any longer, but instead needs to focus on lowering costs associated with non-tariff measures and logistics. Viet Nam's trade competitiveness in terms of time to trade remains behind peer economies in the region, particularly when compared with the average of the ASEAN-4 (including Singapore, Malaysia, Thailand, and the Philippines). While it also lags behind the ASEAN-4 average, Viet Nam's trade competitiveness in terms of its monetary cost to trade is better than its competitiveness in terms of time cost to trade<sup>4</sup>.

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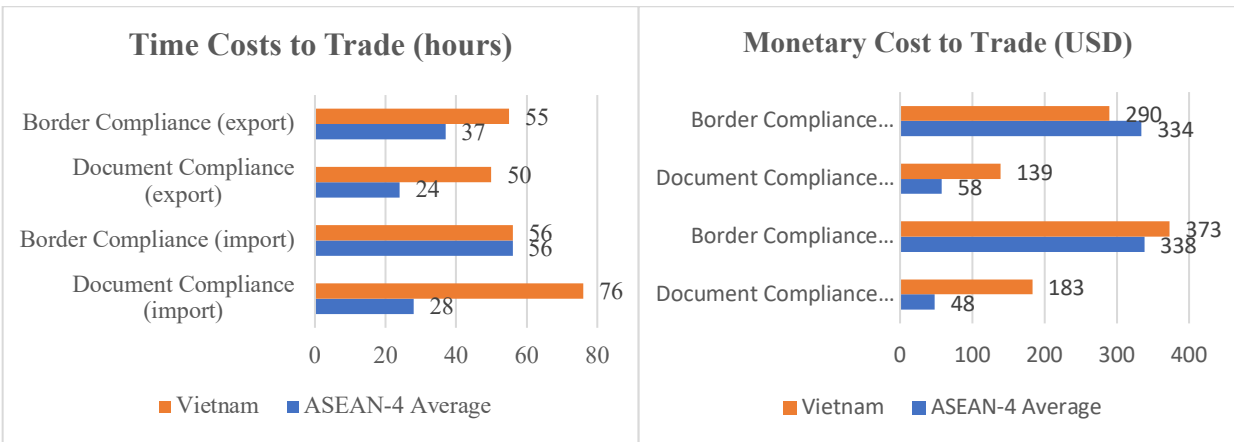
<sup>1</sup> VGP News (2017), "The Prime Minister wishes to promote cooperation in four border provinces of Vietnam with Guangxi and China", February 10, available at <http://baochinhphu.vn/Tin-noi-bat/Thu-tuong-mong-muon-thuc-day-hop-tac-4-tinh-bien-gioi-VN-voi-Quang-Tay-Trung-Quoc/298451.vgp>

<sup>2</sup> The World Bank (2018), *Taking Stock – An Update on Vietnam's Recent Economic Developments: Special Focus Reform Priorities for Reducing Trade Costs and Enhancing Competitiveness in Vietnam*, June, pp.36

<sup>3</sup> The World Bank (2018), *Taking Stock – An Update on Vietnam's Recent Economic Developments: Special Focus Reform Priorities for Reducing Trade Costs and Enhancing Competitiveness in Vietnam*, June, pp.37 – 38

<sup>4</sup> The World Bank (2018), *Taking Stock – An Update on Vietnam's Recent Economic Developments: Special Focus Reform Priorities for Reducing Trade Costs and Enhancing Competitiveness in Vietnam*, June, pp.39

**Figure. Time cost and monetary cost to trade**



Source: World Bank (2018)<sup>1</sup>

### Government's Sector Strategy

**42.** To further facilitate trading, Vietnamese government should focus on the measures below:

- Building a legal framework to effectively establish standards and facilitate trading activity: Viet Nam government should put more emphasis on custom procedures.
- Trading infrastructure and quality of international connectivity: Focusing on cooperating mechanisms with China (via BRI) and ASEAN (via available initiatives as GMS, ASEAN Master Plan 2025)
- Regulations of logistic service, logistic suppliers and consumers. The Government of Viet Nam, through a series of Resolutions in 192, has mandated a progressive improvement of the business environment and competitiveness to reach the level of ASEAN-4 average by 2020. All of these resolutions have been consistently aimed at reducing costs of doing business, including trade costs through improved the index on trade across borders. Top Government leaders have been emphasizing the need to undertake bold reform actions to meet these targets<sup>3</sup>.

<sup>1</sup> The World Bank (2018), *Taking Stock – An Update on Vietnam's Recent Economic Developments: Special Focus Reform Priorities for Reducing Trade Costs and Enhancing Competitiveness in Vietnam*, June, pp.39

<sup>2</sup> There are five Resolutions 19/NQ-CP issued by the Government on March 18, 2014, March 12, 2015, April 28, 2016, February 6, 2018, and May 15, 2018 respectively.

<sup>3</sup> The World Bank (2018), *Taking Stock – An Update on Vietnam's Recent Economic Developments: Special Focus Reform Priorities for Reducing Trade Costs and Enhancing Competitiveness in Vietnam*, June, pp.37

- Implementing framework for inter-discipline collaboration.

**43.** In general, so as to attain sustainable development from now on until 2030, Viet Nam has to carry out these following key tasks:

- The internal reform should be more substantially brought about. In other words, Viet Nam should focus on enhancing the market mechanism and gradually liberalizing factor markets
- To achieve more and more “marketizing”, Viet Nam should accelerate the restructuring of SOEs that have been in abeyance since 2014. On this basis, Viet Nam can redress the balance between SOEs and private enterprises when it comes to investing activities in fields such as industrial manufacturing, infrastructure, transport and logistics.
- Allow private sector to invest and do business in fields, that are traditionally dominated by SOEs or FDI enterprises, thereby making it easier for them to access sources of capital
- Promoting in-depth integration and quickly adapt to this process. Viet Nam has achieved significant gains from external trade. Deepening its participation in GVC has given it a real head start over other emerging market competitors in terms of achieving potentially even more rewarding opportunities that result from proposed multi- and bilateral free-trade agreements. So, while retaining final-assembly production for large-scale job creation in manufacturing, Viet Nam could simultaneously deepen the participation of domestic suppliers into the final- assembly process by developing more comprehensive networks of dependable tier-1 and tier-2 suppliers. Reforms would first promote competitive private firms capable of establishing production links with foreign-invested firms.
- Institutional connectivity. The “software” side of things includes trade facilitation, structural and regulatory reforms, and transport and logistics facilitation.
- Infrastructural connectivity. A well-connected country has abundant and high- quality physical infrastructure, especially international gateways and multimodal interfaces, including ports, airports, road and rail links, as well

as ICTs. Viet Nam comes out well on the infrastructure component of the LPI ranking (44), but many transport aspects require attention<sup>1</sup>.

## **B. Review of Regional Cooperation Initiatives**

44. Deepening its participation in GVC has given it a real head start over other emerging market competitors in terms of achieving potentially even more rewarding opportunities that result from proposed multi- and bilateral free-trade agreements.

45. Both regional and sub-regional collaboration is needed to ensure that these international connections can complement and stimulate projects under China's BRI.

### **4. About regional co-operation: ASEAN Master Plan on ASEAN Connectivity (MPAC)**

46. In the 15th ASEAN Summit organized in Thailand, October, 2009, country members successfully issued the joint statement that underlined infrastructural connectivity (both "physical" and "non-physical" connectivity) so as to bridge the economic gap among countries in the bloc. This declaration was reaffirmed in 17th ASEAN Summit in Viet Nam. Delegators from 10 country members in ASEAN adopted the Master Plan on ASEAN Connectivity (MPAC). MPAC is a strategic document aimed at achieving the goal of building a well-connected ASEAN community by enhancing infrastructural, institutional and people-to-people connectivity. To attain this goal, MPAC incorporated 125 projects and specific measures, of which 55 measures concern infrastructural connectivity, 50 concern institutional connectivity and the other 20 concern people-to-people connectivity. On a reviewing panel for the implementation of these tasks, ASEAN asserted that 24 out of key measures had finished and 50 other measures could complete by the end of 2015.

47. In the 28th ASEAN Summit in Laos that was held in 2015, ASEAN adopted a new MPAC envisioned for 2020. This new master plan reoriented the concerns to 5 strategic fields, including: sustainable infrastructure, digital innovation, seamless logistics, regulatory excellence, and people mobility. With regard to sustainable infrastructure, ASEAN might need up to US\$110 billion for the construction of key infrastructure. Besides these 5 key disciplines, MPAC 2025 also plans to offer

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<sup>1</sup> Ministry of Planning and Investment of Vietnam, The World Bank (2016), *Vietnam 2035 - Toward Prosperity, Creativity, Equity, and Democracy*, pp.28

investing opportunities by increasing preparation, enhancing projects' productivity and assisting cities in abiding by the sustainable practices<sup>1</sup>.

- Sustainable infrastructure. The aim of this strategy is to coordinate existing resources to deliver support across the full life cycle of infrastructure projects in ASEAN, including project preparation, improving infrastructure productivity, and capability building.
- Digital innovation. Digital technologies in ASEAN could potentially be worth up to US\$625 billion by 2030 (8 percent of ASEAN's GDP in that year), which may be derived from increased efficiency, new products and services, etc.
- Seamless logistics. Enhancing ASEAN Connectivity presupposes excellent logistics. There is an opportunity to create mechanisms to support greater collaboration between logistics firms, academic institutions, and ASEAN Member States.
- Regulatory excellence. There is a need to embed good regulatory practice in the preparation, adoption, and implementation of rules, regulations, and procedures in the region. The aim of this strategy is to support implementation of key policies critical for the ASEAN Connectivity agenda.
- People mobility. Restrictions on travel for ASEAN nationals within the region are largely a thing of the past.

## **5. Subregional co-operation**

### Connectivity among countries in GMS

**48.** GMS is a co-operative mechanism financially aided by the ABD and Japanese government. It aims to cut down trading costs among countries situated in Southeast Asian peninsula. GMS members, including 6 countries, bound together via three features, namely: (i) Mekong river (flows from China), (ii) Nine economic corridors, (iii) Cultural and social connectivity. Since it was initiated in 1992, GMS have developed a strong interdisciplinary co-operative projects. Among them, there are three notable economic corridors that have been undertaken to bolster infrastructure, trading and other developing issues.

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<sup>1</sup> The ASEAN Secretariat (2015), Master Plan on ASEAN Connectivity 2025, <https://asean.org/wp-content/uploads/2016/09/Master-Plan-on-ASEAN-Connectivity-20251.pdf>

- The North-South Economic Corridor (NSEC)<sup>1</sup>. The North-South Economic Corridor involves three routes along the north to south axis of the GMS geography: (i) The Western Subcorridor: Kunming (PRC) – Chiang Rai (Thailand) – Bangkok (Thailand) via LAO PDR or Myanmar; (ii) The Central Subcorridor: Kunming (PRC) – Ha Noi (Viet Nam) – Hai Phong (Viet Nam) which connects to the existing Highway No. 1 running from the northern to the southern part of Viet Nam (iii) The Eastern Subcorridor: Nanning (PRC) – Ha Noi (Viet Nam) via the Youyi Pass or Fangchenggang (PRC) – Dongxing (PRC) – Mong Cai (Viet Nam) route.
- The East-West Economic Corridor links important commercial areas including<sup>2</sup>. GMS Ministers have endorsed the recommendation of the ADB to extend the western end of EWEC to Yangon–Thilawa in Myanmar, using the Myawaddy–Kawkareik–Eindu–Hpa-An–Thaton–Kyaikto–Payagi–Bago–Yangon–Thilawa route, with a possible extension to Patheingyi<sup>3</sup>.
- The Southern Economic Corridor (SEC)<sup>4</sup>. This vital passageway links Cambodia with six provinces in Thailand, including Bangkok, four regions in Viet Nam, including Ho Chi Minh City, and six provinces in Lao People's Democratic Republic (Lao PDR).

#### Mekong – Japan co-operation

**49.** So far, Mekong – Japan co-operation has successfully organized nine Summits since 2009. These discussions have pushed for joint statements to reaffirm the strategic partnership, and especially, the “Tokyo strategy”. This elaborative co-operating plan was amended many times. However, its ultimate goals of obtaining the high quality and sustainable development for all country members, has been sustained. In order to meet expected result, Mekong – Japan pointed out fields of co-operation:

- Promoting industrial infrastructure and enhancing physical connectivity between countries inside the Mekong subregion and other regions;

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<sup>1</sup> Greater Mekong Subregion (2017), “Economic Corridors in the Greater Mekong Subregion”, last updated: 25 August 2017, available at <https://greatermekong.org/content/economic-corridors-in-the-greater-mekong-subregion>

<sup>2</sup> Greater Mekong Subregion (2017), “Economic Corridors in the Greater Mekong Subregion”, last updated: 25 August 2017, available at <https://greatermekong.org/content/economic-corridors-in-the-greater-mekong-subregion>

<sup>3</sup> Greater Mekong Subregion (2017), “Economic Corridors in the Greater Mekong Subregion”, last updated: 25 August 2017, available at <https://greatermekong.org/content/economic-corridors-in-the-greater-mekong-subregion>

<sup>4</sup> Greater Mekong Subregion (2017), “Economic Corridors in the Greater Mekong Subregion”, last updated: 25 August 2017, available at <https://greatermekong.org/content/economic-corridors-in-the-greater-mekong-subregion>

- Boosting industry sectors and the regional value chains, improving human capital and enhancing economic, institutional, people-to-people connectivity;
- Sustainably develop toward “Green Mekong” outlook;
- Incorporating the Mekong – Japan co-operation and other co-operative mechanism and international organizations.

### Connectivity under LMC

**50.** Until now, there have been at least 10 multilateral co-operation mechanisms tackling the Mekong river’s economic, political and social problems. However, these mechanisms contained several limitations when it came to managing the water resource offered by Mekong river, which was firstly initiated by Thailand in 2012 then spurred up by China in the 17th ASEAN Summit in 2014, Lancang – Mekong Co-operation (LMC) received high expectation and consensus from six countries sharing the Mekong river, namely China, Myanmar, Thailand, Laos, Cambodia and Viet Nam. LMC is characterized by three pillars: Politic and security, Economic and sustainable development and Cultural and social exchanges.

**51.** Among them, LMC emphasizes 5 co-operative objectives:

- Managing water resource;
- Promoting connectivity among 6 countries in the bloc;
- Expanding production capacity;
- Increasing cross-border economic co-operation;
- Encouraging agricultural co-operation and fighting against poverty.

**52.** Having coordinate a pioneering response to foster the LMC, China substantially influences this mechanism. China’s alacrity provided a helping hand in hastening the institutionalization of activities under LMC. By way of illustration, the LMC Foreign Ministers’ Meeting has, so far, convened three time since November, 2015. Under the scope of this meeting is a working panel of senior officers organized by country members’ Ministry of Foreign. Notably, in the 2nd LMC Senior Officers Meeting held in Cambodia, 2018, 6 country members arrived at a common consensus on critical problems such as:

- Adopting Five years Plan of Action (2018 – 2022) ;
- Fostering institutional co-operation;
- Upgrading sustainable development;
- Reaching consensus on the vital role of LMC as an impetus to carrying out the BRI.

#### Pan – Tonkin Gulf economic co-operation

53. China launched Pan – Tokin Gulf economic co-operation, an initiative introduced by a leader of Zhuang autonomous region as a part of “One axis, two wings” in July, 2006. The gulf co-operation aims to pursue a regional co-operation mechanism, provide leverage over the comprehensive development of marine transport, promote industrial connectivity and growth of coastal cities. These goals have been elaborated in Pan – Tokin Gulf economic co-operation forum organized annually since 2006, yet the mechanism has not been effectively carried out and demonstrates several limitations. Thereby, in order to increase efficiency, Pan – Tokin gulf co-operation is commonly regarded as a part of BRI. For instance, in the 10th forum, delegators significantly emphasized the importance of collaboration on the building of transport route connecting the Kunming and Nanning provinces of China with Singapore.

#### ***Co-operating on regional connectivity under the scope of projects: SKRL Singapore – Kunming rail link***

54. With the intention of connecting six countries in Mekong subregion, including Singapore, Malaysia, Thailand, Myanmar, Cambodia and Vietnam, Singapore, Kunming rail link is an ambitious and critical component of China’s infrastructural project in Southeast Asia. This 6617 kilometers long railroad system will start from Singapore and run through Malay peninsula, directly entering Thailand’s interior. Thereat, it will divide into two lines, one going to Cambodia and Vietnam, the other going to Laos. At the moment, the line going through Vietnam is under good process, but there are several missing link connecting Kunming (China) – Vientiane (Laos) and Kunming (China) – Mandalay (Myanmar)

55. Connectivity initiatives between ASEAN and partners (Japan, China) signals opportunities to further incorporate the BRI launched by China. The BRI projects in which Vietnam is involved is both highly relevant and promotes the priorities that Vietnam has committed to ASEAN (within the framework of MPAC 2025 ) and



GMS (connecting East-West Economic Corridor). Vietnam, with its critical political geography as an important gateway between China and Southeast Asian region, will promote the unification and deepen the cooperation among partnership countries. Specifically, the east corridor of GMS connectivity, east and west axes of GMS, MPAC 2025, North – South corridor under China – ASEAN connectivity will be unlocked.

- The focus of these previous projects remains on road transports and investment activities with regards to high-speed railroad are still modest. This reality is the result of the infrastructural incompatibility among countries under these initiatives. As an example, Vietnam is a critical connecting point under the SKRL cooperation, yet at the same time its the railroad system uses the narrow tracking gauge, whose width is under 1000mm. Meanwhile, railroad projects carried out by Chinese contractors require standard tracking gauge. Furthermore, the capital for these projects is mostly funded by World Bank and remains limited. Especially in the case of Vietnam, the construction of highspeed railroad running along the length of Vietnam will cost 58.7 billion USD, thus relying solely on capital from the World Bank might not be enough to meet demands<sup>1</sup>.
- With respect to energy co-operation, many projects relate to coal-fired electricity plants and renewable energy. However, ASEAN members also tend to expand the contribution of hydropower in their energy structure. Establishing hydropower electricity plants will first require sustainable water resources under the scope of Mekong – Lancang mechanism.
- The financial resource supplied for physical and non-physical connectivity projects cannot meet the burgeoning demand in Southeast Asia region. Therefore, it is essential to set up a channel of capital inflow so that governments can assuage the acceleration of government debt and avoid collapsing the national debt ceiling. Under this context, the capital supplement to private sectors suggested by AIIB should be taken into account.

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<sup>1</sup> Vietnamnet (2018), “Nearly US\$60 bn. of North-South railway”, August 28, available at <http://vietnamnet.vn/vn/thoi-su/an-toan-giao-thong/gan-60-ty-usd-lam-duong-sat-bac-nam-toc-do-nhu-di-may-bay-473733.html>

- Sub-regional initiatives related to infrastructural and institutional connectivity should be assigned higher priority so as to promote cooperation and regional unification.
- As initiatives spearheaded by Japan often emphasize the quality infrastructure, a goal that is not shared by members in ASEAN, Chinese capital under BRI can be regarded as a major supplementary cooperation with not only Vietnam, but also the other countries in the region.

### III. Selected Case Studies

56. Three focal economic zones (FEZs) are formed such that economic activities in general and production and processing of exported goods in particular are concentrated. The northern FEZ is the second most important economic cluster, covering Ha Noi, Hai Phong city, and Quang Ninh province. Trade flows mainly through primary international gateways (Hai Phong port and Noi Bai airport) and international gateways (inland borders in Lang Son and Lao Cai). These gateways cover a considerable portion of trade, in particular to and from mainland China. There are three main corridors within this region: the Ha Noi – Hai Phong corridor (road and railway), the Ha Noi – Lao Cai corridor (road and railway) and the Ha Noi – Lang Son corridor (road and railway)<sup>1</sup>.
57. Lao Cai, Lang Son and Quang Ninh are border provinces that have developed a strong cross-border economic relationship with China. These border provinces are not only a crucial gateway facilitating economic collaboration but also an important component of the mechanism established under the GMS. Hence, for the past ten years, these regions have witnessed a great “density” of co-operative initiatives proposed by both countries.
58. The national case studies are as follows:
- (1) Two Corridors, One Economic Belt Initiative including (i) commerce, (ii) investment, (iii) technology, (iv) tourism, (v) sustainable exploitation resource in Tonkin Gulf, (vi) cross-border economic collaboration and (vii) on-road and off-road transport. In this case study, we will focus on 8 border economic zones which in Lao Cai, Cao Bang, Lang Son, and Quang Ninh province.
  - (2) Dong Dang – Hanoi Railway project
  - (3) Hai Phong – Hanoi Railway project
  - (4) Cat Linh – Ha Dong elevated railway project

#### A. Two Corridors, One Economic Belt

59. During the official visit of President Xi Jinping to Viet Nam in November 2017, the two countries reached three MoUs related to important economic initiatives,

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<sup>1</sup> The World Bank (2013), *Trade Facilitation, Value Creation and Competitiveness: Policy Implications for Vietnam's Economic Growth*, July, Hanoi, pp.42

including: (i) MOU to promote the link between the “Two Corridors, One Economic Belt” (TCOB) framework with the Belt Road initiative; (ii) MoU on accelerating the negotiation of the framework agreement on the construction of cross-border economic cooperation zones, and (iii) MOU on the List of Projects on Productivity Partnership 2017<sup>1</sup>.

- 60.** In fact, TCOB initiative was introduced by former Prime Minister Phan Van Khai when he paid a visit to China in 2004. The two economic corridors are “Kunmin (China) – Lao Cai (Viet Nam) – Hanoi (Viet Nam) – Hai Phong (Viet Nam)” and “Nanning (China) – Lang Son (Viet Nam) – Hanoi (Viet Nam) – Hai Phong (Viet Nam)”. As it can be seen, this initiative will be undertaken in 4 provinces in China, namely, Yunnan, Guangxi, Guangdong and Hainan, and 5 provinces in Viet Nam: Lao Cai, Lang Son, Quang Ninh, Ha Noi and Hai Phong.
- 61.** In October, 2004, Vietnam and China set up a board of experts within the framework of the government economic cooperation commission for the purpose of conducting research and building up foundations for TCOB. It was not until November, 2006 that Vietnam and China signed the first agreement on projects related to “Two corridors, one economic belt”. The agreement determined cooperation within the free trade area between China - ASEAN with attention to the GMS mechanism.
- 62.** Generally speaking, “Two corridors, one economic belt” is a measure to promote the multi-faceted co-operations including (i) commerce, (ii) investment, (iii) technology, (iv) tourism, (v) sustainable exploitation of resource in Tonkin Gulf, (vi) cross-border economic collaboration and (vii) on-road and off-road transport.
- 63.** Since 2006, Vietnamese Prime Minister has designed and implemented Decisions, namely, No. 98/2008/QĐ-TTg on 11st July, 2008, No.4/2009/QĐ-TTg on 2nd March, 2009 no.343/QĐ-TTg on 13rd March, 2015, to develop corridors and belts. These Decisions clarified key tasks related to foster and carry out corridors and economic such as developing economic centers aligning with the corridors and constructing infrastructure.
- 64.** Speaking of plans about economic development under TCOB, on April 25, 2008, the Prime Minister issued Decision No.52/2008/QĐ-TTg, approving the Plan on

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<sup>1</sup> Nhan Dan Online (2017), “Vietnam - China Joint Statement”, November 13, available at <http://www.nhandan.com.vn/antuong/item/34704102-tuyen-bo-chung-viet-nam-trung-quoc.html>

the Development of Border Economic Zones up to 2020<sup>1</sup>. With China, Viet Nam has either already developed or plans on developing nine border economic zones in total, including Dong Dang and Chi Ma (Lang Son province); Lao Cai (Lao Cai province), Mong Cai, Bac Phong Sinh and Hoanh Mo – Dong Van (Quang Ninh province), Cao Bang (Cao Bang province), Thanh Thuy (Ha Giang province), and Ma Lu Thang (Lai Chau province), in which Mong Cai, Lao Cai and Lang Son are special zones<sup>2</sup>.

65. “Two corridors, one economic belt” co-operation has gradually become an important momentum stimulating cross-border commercial activities, especially in regions along the corridors and belt. Trading activities through border economic zones of the northern border localities have contributed significantly to the trade turnover of the whole economy.

**Table. Trade turnover of border economic zones with China 2014**  
(US\$ mil.)

No.	Content	Trade turnover	Proportion in trade turnover of all border economic zones
1	Mong Cai	1,267	10.2
2	Hoanh Mo – Dong Van	44	0.4
3	Bac Phong Sinh	311	2.5
4	Dong Dang – Lang Son	6,061	48.6
5	Chi Ma	103	0.8
6	Cao Bang	190	1.5
7	Thanh Thuy	108	0.9
8	Lao Cai	550	4.4
	<b>Total</b>	<b>8,634</b>	<b>69.2</b>

Source: Service Economy Department, Ministry of Planning and Development

<sup>1</sup> Viet Nam Border (2014), “Planning on development of Vietnam's border gate economic zones by 2020”, June 9, available at <http://bienphongvietnam.vn/cong-tac-bien-phong/kiem-soat-xuat-nhap-can/1320-sss.html>

<sup>2</sup> Viet Nam Border (2014), “Planning on development of Vietnam's border gate economic zones by 2020”, June 9, available at <http://bienphongvietnam.vn/cong-tac-bien-phong/kiem-soat-xuat-nhap-can/1320-sss.html>

66. According to the Northern Border Provinces Statistics Office, the total export turnover (for all markets) of the localities increased from US\$2.97 billion in 2010 to US\$ 3.65 billion in 2015, with an average growth rate of 4.2% per year for the 2011-2015 period. Quang Ninh, Lang Son and Lao Cai had the highest export values.

**Table. Export values of Northern border localities 2010-2015 (US\$mil.)**

No.	Localities	2010	2011	2012	2013	2014	2015	Average 2011-2015 (%)
1	Lai Chau	4.0	4.1	5.9	4.6	5.6	6.2	9.2
2	Lao Cai	135.0	341.8	205.6	407.8	341.3	387.7	23.5
3	Dien Bien	8.5	10.3	13.9	18.6	24.1	22.8	21.8
4	Ha Giang	10.5	29.0	30.2	28.4	30.5	30.6	23.9
5	Cao Bang	3.7	53.4	11.1	11.3	12.7	3.6	-0.5
6	Lang Son	724	970	995	1,306	1,479	1,633	17.7
7	Quang Ninh	2,088	2,264	1,814	1,929	1,939	1,564	-5.6
	Total	2,973.7	3,672.6	3,075.7	3,705.7	3,832.2	3,647.9	4.2

Source: Statistical Year Book of Localities in 2015

67. Cross border trade between Viet Nam and China bolstered up the local economy and tackled the employment issue. Statistics on border trade between Viet Nameese and Chinese localities (according to the Ministry of Industry and Trade) showed strong growth in activities between the two sides. The total value of goods passing the Viet Nam-China border has grown by an average of 32% over the past ten years, accounting for 31.25% of total bilateral trade volume in the same period. Goods were mainly concentrated in Lao Cai, Lang Son and Quang Ninh. Border trade between Viet Nam and China has helped to consume a large quantity of Viet Nameese agricultural products. At the moment, the Chinese market accounts for a large proportion of Viet Nam's agricultural exports, such as cassava (90%), rice (40%), rubber (50%). Statistics from the Border and Mountain Trade Department, MOIT showed that the proportion of border trade between the two countries' trade accounted for about 30 percent of bilateral trade. The trade turnover in 2016

between Viet Nam and Guangxi reached over US\$25 billion (25% of total trade turnover of the two countries), while total investments reached US\$524 million<sup>1</sup>.

**68.** Cross border trade helped Viet Nam promote the industrialization and modernization process. Just before travelling to China to attend the forum on Belt and Road Initiative in May 2017, Mr. Tran Dai Quang, Viet Nam's Former President, answered Xinhua News Agency: "Viet Nam supports initiatives and efforts to foster economic links and regional connectivity for shared benefits of nations. We hope the forum will open up economic links and cooperation opportunities for nations and regions"<sup>2</sup>. He also hailed the positive effects of linking China's Belt and Road Initiative with Viet Nam's "Two corridors, One Economic Belt" plan to boost his nation's industrialization and modernization<sup>3</sup>.

**69.** The central government declared that the close development of economic cooperation and the maintenance of a stable environment with China is a form of public good that is important to the border localities, creating policy consensus and the support from local authorities for other central policies. The leaders of Guangxi, Yunnan or Guangdong have regularly met the leaders of Viet Nam. For example, in February 2017, Mr. Nguyen Xuan Phuc, Viet Nam's Prime Minister met the Party Secretary of the Guangxi Zhuang Autonomous Region in the spring exchange program with four border localities of Viet Nam including Quang Ninh, Lang Son, Cao Bang, and Ha Giang<sup>4</sup>.

**70.** Improving the exploitation and conservation of natural resources in Tokin gulf.

## **B. Nanning – Pingxiang (Friendship Pass) – Dong Dang – Hanoi Railway**

**71.** Nanning – Pingxiang (Friendship Pass) – Dong Dang – Hanoi Railway. The expansion of the Nanning-Pingxiang section of China was initially incorporated into the "13th Five-Year Plan" for the development of national railways, with construction beginning in 2017. The Hanoi – Lang Son section in Viet Nam has

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<sup>1</sup> VGP News (2017), "The Prime Minister wishes to promote cooperation in four border provinces of Vietnam with Guangxi and China", February 10, available at <http://baochinhphu.vn/Tin-noi-bat/Thu-tuong-mong-muon-thuc-day-hop-tac-4-tinh-bien-gioi-VN-voi-Quang-Tay-Trung-Quoc/298451.vgp>

<sup>2</sup> Interview: Vietnamese President looks forward to Belt and Road forum in China, [http://www.xinhuanet.com/english/2017-05/11/c\\_136273962.htm](http://www.xinhuanet.com/english/2017-05/11/c_136273962.htm)

<sup>3</sup> Interview: Vietnamese President looks forward to Belt and Road forum in China, [http://www.xinhuanet.com/english/2017-05/11/c\\_136273962.htm](http://www.xinhuanet.com/english/2017-05/11/c_136273962.htm)

<sup>4</sup> See more <http://baochinhphu.vn/Tin-noi-bat/Thu-tuong-mong-muon-thuc-day-hop-tac-4-tinh-bien-gioi-VN-voi-Quang-Tay-Trung-Quoc/298451.vgp>

been included in the Viet Nam National Railway Network plan and will be renovated, starting from Yen Vien station, into a 1435mm standard gauge<sup>1</sup>.

72. On 24th July, 2014, Prime Minister issued Decision No. 1210/QĐ-TTg to approve the plan raised by Ministry of Transport to restructure the transporting system and serve the national industrialization and modernization course toward 2020<sup>2</sup>.
73. Ministry of Transport issued Decree No. 744/QĐ-BGTVT to adopt the following plan: “Restructure transporting sector from 2016 to 2020, toward 2025”<sup>3</sup>. This plan ultimately set the goals of increasing the amount of passenger and quantity cargo in railways to 3.38% and 4,3% respectively.
74. The plan involves renovating and developing the current railway system so as to better contribute to the construction of a national transport system. Working toward this goal, plan: “Restructuring the transport sector from 2016 to 2020, toward 2025” defined developing multimodal transportation as the most critical task.
75. Compared to other modes of transportation in Viet Nam, passenger and cargo transport by railway operates in a minor scale, despite its crucial role. Thereby, it is essential to increase the proportion of passenger and cargo transported by railway. This is a consistent goal of plans and strategies developed by Vietnamese competent authorities. However, the speed of growth of this means of transportation is slow. A World Bank research (2013) show that the road and inland waterway transport are the dominant modes of freight transportation in Viet Nam, it accounts for total 92 percent<sup>4</sup>. In comparison, rail and air sectors only have a minor role. According to statistical numbers published by Ministry of Transport, only 1.14% amount of passengers traveling by train while 95.75% of passengers travelled by road. In comparison to the world, railway sector made up of 30% of transport activity, thirty times larger than that in Viet Nam<sup>5</sup>. As another notable comparison, while China built 16,000 kilometers worth of high-speed railway and Malaysia, Korea, Japan has 1,650, 2,000 and 19,600 kilometers long double-track

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<sup>1</sup> MOC (2011), “General planning to build Hanoi Capital to 2030 vision to 2050” pp.11, available at [http://www.xaydung.gov.vn/c/document\\_library/get\\_file?p\\_l\\_id=49902&folderId=47604&name=16237](http://www.xaydung.gov.vn/c/document_library/get_file?p_l_id=49902&folderId=47604&name=16237)

<sup>2</sup> See more at <https://thuvienphapluat.vn/van-ban/Giao-thong-Van-tai/Quyet-dinh-1210-QD-TTg-2014-Tai-co-cau-nganh-giao-thong-van-tai-den-2020-240825.aspx>

<sup>3</sup> Xem MT (2017), <http://www.mt.gov.vn/Images/editor/files/KIM%20CUC/2017/img-328162302.pdf>

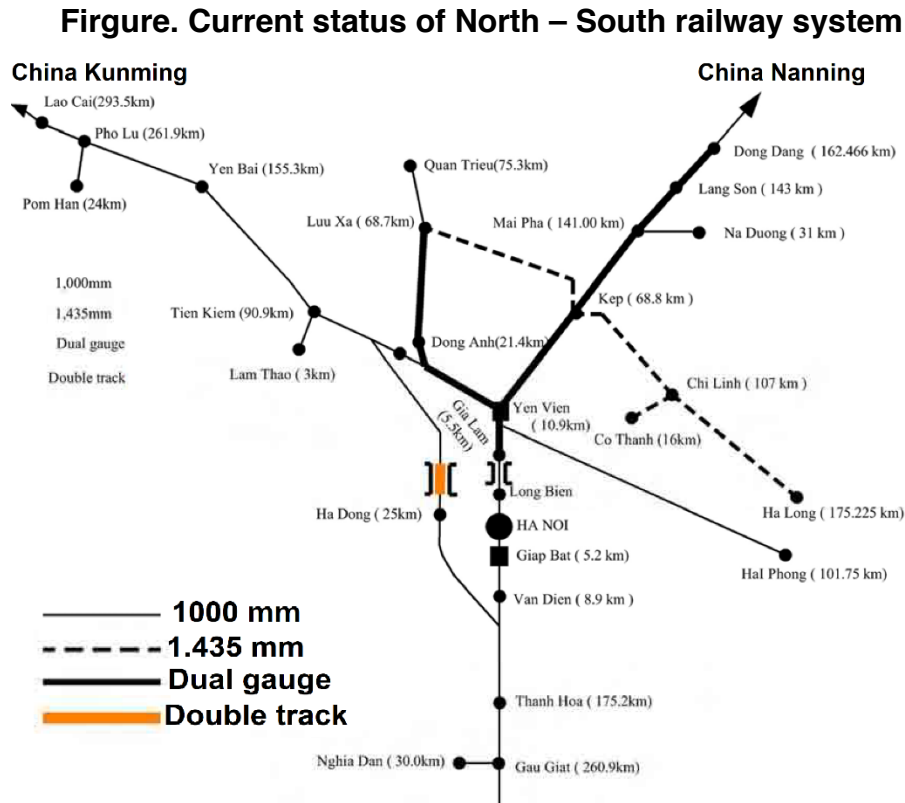
<sup>4</sup> The World Bank (2013), *Trade Facilitation, Value Creation and Competitiveness: Policy Implications for Vietnam's Economic Growth*, July, Hanoi, pp.45

<sup>5</sup> VOV (2018), “The railway industry needs a ‘major surgery’”, June 11, available at <https://vov.vn/xa-hoi/nganh-duong-sat-can-mot-cuoc-dai-phau-772803.vov>



electrified railways respectively, Vietnam has not yet constructed double-track railway, let alone other advanced railway systems.

76. With the exceptions of standard gauges along the Luu Xa – Kep – Ha Long section and dual gauges along the Gia Lam – Lang Son, Yen Vien – Luu Xa section, the whole railway system will use 1000 mm. No sections are electrified railways. Thus, railway systems in Vietnam still have a lot of room for improvements and investments.



Source: VITRANSS, JICA, (2000)

### C. Fangchenggang – Dongxing – Hai Phong – Hanoi Railway

77. Fangchenggang – Dongxing – Hai Phong – Hanoi Railway. The Chinese territory was completed in 2017 with the standard 250 km/hour, two-track rails. Departing from Co Bi station, line Hanoi – Hai Phong will be renovated into a double-track railway using 1435mm tracking gauges<sup>1</sup>. Hanoi – Hai Phong is a major section of the Lao Cai – Hanoi – Hai Phong railway planned for the 2020-30 Viet Nam

<sup>1</sup> MOC (2011), “General planning to build Hanoi Capital to 2030 vision to 2050” pp.11, available at [http://www.xaydung.gov.vn/c/document\\_library/get\\_file?p\\_l\\_id=49902&folderId=47604&name=16237](http://www.xaydung.gov.vn/c/document_library/get_file?p_l_id=49902&folderId=47604&name=16237)

strategic railway development plan. This plan was approved by Prime Minister as it was clearly stated in Decision No. 1436/QĐ-TTg on 10th September, 2009<sup>1</sup>.

**78.** Strategy to develop logistic services until 2020, toward 2030 highlighted the role of international co-operation on developing railway, especially among countries who are member of Organization for Co-operation of Railways. Besides, this strategy promoted the participation of Viet Nam in developing trans-pacific railways and set higher priority to enhancing the transportation capacity on the Hai Phong – Lao Cai line<sup>2</sup>.

**79.** The railway line Hanoi – Hai Phong serves as an engine for stimulating the economic and social development of Mekon subregion, which spans between Yunnan, China and Hai Phong, Viet Nam.

#### **D. Cat Linh – Ha Dong elevated railway**

**80.** During the visit of Former President Tran Dai Quang at the Belt and Road Summit held in Beijing in May 2017, the two countries signed two important projects related to BRI. One is the Cat Linh - Ha Dong railway project that began in 2008. The Cat Linh – Ha Dong elevated section of the Hanoi Metro is financed by China's ODA in accordance with the Framework Agreement signed on 30 May 2008 between the governments of Viet Nam and China. This project is constructed by China Railway Sixth Group Co. Ltd as EPC<sup>3</sup>. The project has a 13-km elevated railway line (from Cat Linh to Ha Dong), with a width of 1.435m and a total of 12 stations. On 10 October 2011, Ministry of Transport commenced the construction of Cat Linh – Ha Dong line. The project has a total investment of US\$552.86 million, including ODA from the government of China and counterpart fund of the Government of Viet Nam.

**81.** Construction of the Viet Nameese capital's first urban railway was meant to run from 2008 to 2013 at a cost of some US\$552 million with \$419 million in loans from China. Ground was not broken until 2011. Costs were then projected to run to US\$868 million by 2016 with an additional US\$250 million pumped in by Chinese

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<sup>1</sup> See [http://vanban.chinhphu.vn/portal/page/portal/chinhphu/hethongvanban?class\\_id=1&mode=detail&document\\_id=90564](http://vanban.chinhphu.vn/portal/page/portal/chinhphu/hethongvanban?class_id=1&mode=detail&document_id=90564) at

<sup>2</sup> <https://thuvienphapluat.vn/van-ban/Giao-thong-Van-tai/Quyết-dinh-318-QĐ-TTg-nam-2014-chien-luoc-phat-trien-dich-vu-van-tai-den-nam-2020-222505.aspx>

<sup>3</sup> Nikkei Asian Review (2017), “China's projects in Vietnam earn reputation for poor quality, delays”, September 20, available at <https://asia.nikkei.com/Politics-Economy/Economy/China-s-projects-in-Vietnam-earn-reputation-for-poor-quality-delays?page=2>; [http://www.xinhuanet.com/english/2018-09/20/c\\_137482233.htm](http://www.xinhuanet.com/english/2018-09/20/c_137482233.htm);

lenders<sup>1</sup>. The final disbursement is now due in March, but complicated procedures applied by China Eximbank have hindered the Chinese consortium headed by China Railways Sixth Group. In May 2017, the loan was finalized between the government of Viet Nam and China Eximbank. After three delays, the Chinese EPC pledged to run a pilot on the Cat Linh – Ha Dong line. The elevated railway has since started its trial operation on September 2018. It is scheduled to run on a pilot basis for three to six months before commercial operation<sup>2</sup>.

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<sup>1</sup> Nikkei Asian Review (2017), “China's projects in Vietnam earn reputation for poor quality, delays”, September 20, available at <https://asia.nikkei.com/Politics-Economy/Economy/China-s-projects-in-Vietnam-earn-reputation-for-poor-quality-delays?page=2>; [http://www.xinhuanet.com/english/2018-09/20/c\\_137482233.htm](http://www.xinhuanet.com/english/2018-09/20/c_137482233.htm);

<sup>2</sup> Jun, Tao and Bui Long (2019), “ Feature: China-constructed urban railway in Vietnam on horizon”, Xinhua News, June 22, available at [http://www.xinhuanet.com/english/2018-09/20/c\\_137482233.htm](http://www.xinhuanet.com/english/2018-09/20/c_137482233.htm)

## IV. Evaluations

### A. Assessment Indicators

- 82.** In this report, we will thoroughly examine seven projects, one of which is a TCOB, three of which are railways and the other three are highway projects.
- 83.** As these projects will be studied from an economics perspective with consideration towards inclusive economic growth, we will use several sets of evaluative indicators, namely, (i) GDP growth, (ii) growth in per capita income, (iii) FDI attracting, (iv) custom duties at border gates, (v) the extent of cutting down trading cost (including tax and non-tax). These indicators not only rendering information about economic growth but also represent the positive impacts of the BRI on economic integration.
- 84.** Furthermore, in order to attain a multi-faceted approach, this report will include information collected from interview section with non-governmental stakeholders to understand their opinions about the economic benefits offered by the BRI.
- 85.** To investigate the impact of the BRI on sustainable development, this report will in-corporate the 17 sustainable development goals (SDGs) so as to examine the compatibility between the influences of these seven projects and the 17 SDGs. Furthermore, this report will include interviewed perspectives from non-governmental stakeholders to point out SDGs that will be directly supported by these projects.

#### ***1. Two Corridors, One Economic Belt***

- 86.** The two corridors, one economic belt is a national action plan toward the 2030 Agenda. Undertaking these projects brings about benefits for Northern provinces in Viet Nam, accompanying national sustainable development goals and infrastructural systems, including:

##### SDG1 – Poverty reduction

- 87.** Provinces that are involved in dynamic economic exchanges also witnessed high levels of custom duties. Examples include Lang Son (6.4 trillion VND in 2015) and Quang Ninh (14.5 trillion VND in 2015)<sup>1</sup>. Tax revenue is mostly contributed by economic activities in developed regions, yet the tax redistribution is often carried out on a provincial scale (about 85%). Thereby, this substantial financial resource

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<sup>1</sup> Statistical Yearbooks of Vietnamese provinces 2016

responded to burgeoning demands for capital allocated into regional developing projects, especially with regard to mountainous area in Northern Vietnam, and directly improved the communities' living standards. Undeniably, fostering regional co-operation projects will create fundamental support for Vietnamese provinces in the fight against poverty.

- 88.** These projects provide assistance in circumventing poverty and bridging the income gap between border provinces and other in-land provinces. Indeed, provinces who have projects under BRI and “Two corridors, one economic belt” have higher per capita income. Lang Son, Lao Cai, Quang Ninh achieved 1,500 USD, 1,900 USD and 3,800 USD per capita income respectively, while provinces such as Dien Bien, Lai Chau, Ha Giang and Cao Bang have yet to exceed 1,000 USD in per capita income<sup>1</sup>.

#### SDG5 – Empowerment

- 89.** The formation of cross-border economic zone, trading facilitation addressed employment problem for female labour related to low-skill jobs.
- 90.** Most northern provinces in Vietnam engaged in economic activities with Chinese partners have a dominant proportion of ethnic minorities in their population structures. For example, Lao Cai is one of the most ethnically diversity province in Viet Nam, home to 25 Vietnamese ethnics. Among them, ethnic minorities account for 64% of Lao Cai's population<sup>2</sup>. Similarly, Cao Bang and Lang Son have 94% and 85.5% of ethnic minorities in their populations respectively. These provinces, however, are developing regions in Vietnam and so their communities, particularly ethnic minority groups, are still living under indigent conditions. Ethnic minorities have limited access to education and rely on low-income agricultural jobs for their livelihood. Thereby, the introduction of Chinese project in these regions will create opportunities for this group of people to participate in non-agricultural professions. By virtue of it, they can improve income per capita and tackle the current living difficulties.

#### SDG8 – Economic growth

- 91.** Bolstering economic growth. For 2011 – 2016 period, Northern provinces witnessed rapid speeds of economic growth due to intensive economic co-operation and commercial activities with China. This swift pace of economic growth

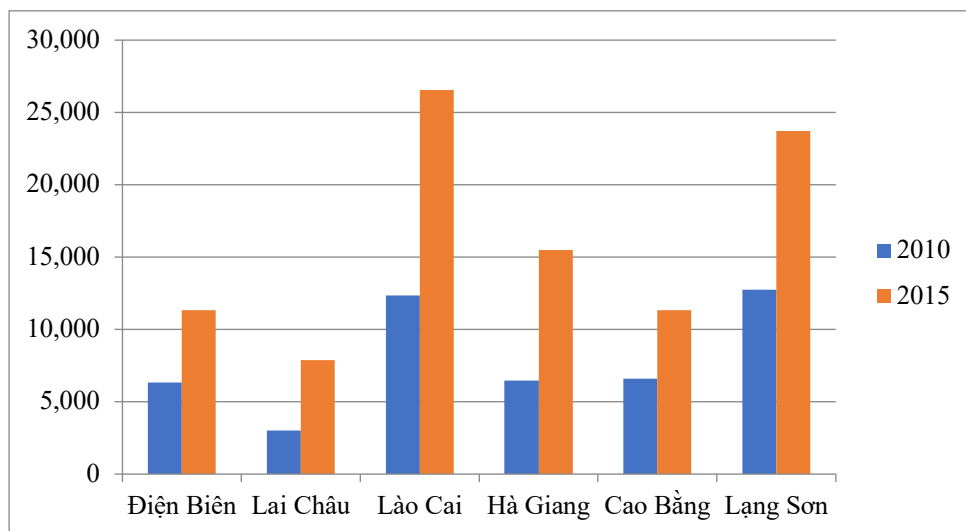
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<sup>1</sup> Statistical Yearbooks of Vietnamese provinces 2016

<sup>2</sup> The World Bank (2013), *Vietnam Public Expenditure Review (Vol. 5)*, Hanoi, June, pp.9

increased the economic scales of these provinces relative to provinces that were not as economically involved with China. (This comparison does not include Quang Ninh province because Quang Ninh, at the first place, had a better economic foundation than other provinces)

**Figure. Northern provinces's GDP in period 2010-2015 (VND bn., current price)**



Source: Statistical Yearbook 2015

**92.** On a national scale, Former President Quang hailed the positive effects of linking China's Belt and Road Initiative with Viet Nam's “Two corridors and One economic belt” to boost his nation's industrialization and modernization<sup>1</sup>. Several empirical works have applied CGE models to better understand the impacts of the BRI projects. These state that the allocation of BRI's fund into the development of infrastructure can bolster up the economic growth, boost export activities and increase the national income of country members in ASEAN<sup>2</sup>.

SDG9 – Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

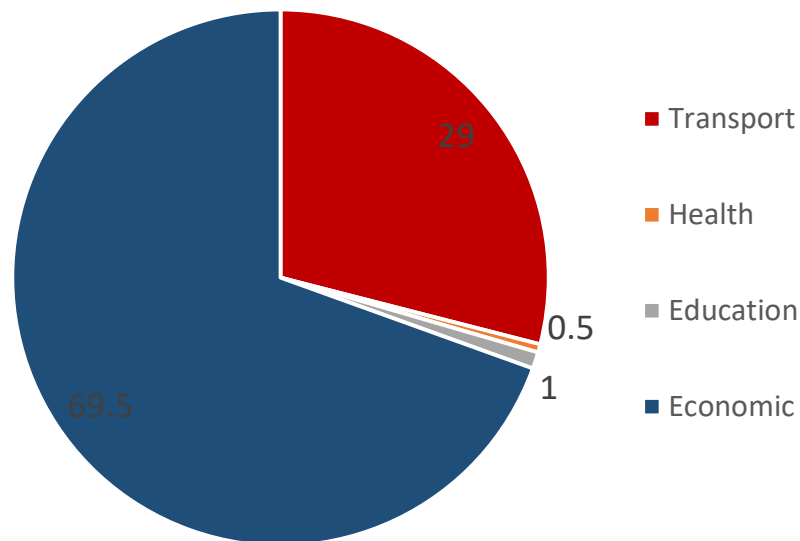
**93.** The Vietnamese government has been making gradual progress in improving provincial government access to credit financing. In the early 2000s, the government established a Local Development Investment Fund (LDIF) financing framework for provinces to borrow for cost-recovery infrastructure projects. LDIFs have achieved modest success in some provinces.

<sup>1</sup> Xinhua (2017), “Interview: Vietnamese President looks forward to Belt and Road forum in China”, May 11, available at [http://www.xinhuanet.com/english/2017-05/11/c\\_136273962.htm](http://www.xinhuanet.com/english/2017-05/11/c_136273962.htm)

<sup>2</sup> Villafuerte, James (2018), “Understanding the Belt and Road Initiative and Its Impact”, Workshop on Understanding and Assessing the Potential Impact of the BRI on the Central Asian Economies, Beijing 24 April

94. Meanwhile, the government has passed several laws and issued many regulations authorizing provincial government borrowing since the 2000s. The recent State Budget Law (SBL) of 2015 reflects this shift toward a more enabling framework for subnational borrowing, including a substantial increase in the statutory debt limit compared to the previous regulation.
95. Provincial governments can supplement their ability to undertake capital projects by borrowing as they have the authority to borrow for projects contained in the state budget. Provinces can tap the following sources for loans: (a) the State Treasury for short-term loans not exceeding one year, (b) on-lending from the central government of ODA funding, (c) the Vietnam Development Bank (VDB), (d) state-owned and commercial banks, and (e) bond issues to tap the capital markets.
96. Provincial governments will have to finance a major portion of the infrastructure gap because more than 75 percent of government spending for infrastructure is now the responsibility of the provinces<sup>1</sup>.
97. In Lao Cai, prioritizing investing activities into infrastructure and agriculture, competent authority assigned 24% and 19% of the total of investment budget for the two aforementioned sectors respectively<sup>2</sup>. By the same token, Quang Ninh pumped 29% of its investment budget into infrastructure. However, the required amount capital in Quang Ninh province was not frequently sourced from debt by virtue of PPP method.

**Figure. Composition of Capital Program, Quang Ninh**



<sup>1</sup> The World Bank (2018), *Mobilizing Finance for Local Infrastructure Development in Vietnam: A City Infrastructure Financing Facility*, Hanoi, June, pp.3

<sup>2</sup> The World Bank (2013), *Vietnam Public Expenditure Review (Vol. 5)*, Hanoi, June, pp.15

**Source:** Quang Ninh Province

**Table. Capital Expenditures for 204 Infrastructure Projects, Quang Ninh**

Project Expenditures	VND	US\$
Total	20,370,143	964
Average	103,139	4.97
Maximum	1,198,128	55
Minimum	1,316	0.06

**Source:** Quang Ninh Province

**98.** The project list submitted by the province still amounts to billion US\$964 million, and the plan is to fund that amount mostly from the province’s own resources, with some borrowing. The province’s emphasis on economic projects probably implies that some of them will also eventually be undertaken as PPPs or by developers.

**99.** The increasing economic cooperation between Viet Nam and China under the framework of TCEB and BRI will spur up investment demand on infrastructure. Indeed, China is willing to provide financial support via AIIB or Chinese commercial banks for infrastructural investment in Northern provinces in Viet Nam. Obviously, it can bridge the gap between investment demand and the ability to mobilize capital for these projects in difficult regions. For example, Cao Bang submitted to the government collaborating plant with China to construct 115 km long highway Dong Dang (Lang Son) – Tra Linh (Cao Bang), whose design and scale comply with the others highway projects connecting the Northern and Southern regions. This project proposed by Cao Bang is supposed to require 20 thousands billion VND (862 mil USD) investment capital<sup>1</sup>.

SDG10 – Reduce inequality within and among countries

**100.** Northern mountainous regions of Vietnam are the provinces with the highest poverty rates compared to other regions. There is also a high level of inequality among the poor provinces of the Northwest and the rich provinces of the Northeast. Lao Cai is one of the poorest provinces of Vietnam, with the majority of the rural population living below the poverty line and the near-poor group at risk of falling into poverty. The province has an average poverty rate of 57%. This is also the locality with the highest inequality, with a Gini coefficient of 0.397<sup>2</sup>. Compared to Lao Cai, Cao Bang has more poor households. According to the survey results of poor households and near-poor households in 2015, the poverty rate of Cao Bang

<sup>1</sup> See more at <https://vnexpress.net/thoi-su/cao-toc-lang-son-cao-bang-dai-115-km-duoc-trinh-chinh-phu-3848577>

<sup>2</sup> The World Bank (2013), *Vietnam Public Expenditure Review (Vol. 5)*, Hanoi, June, pp.8



is 34.77%<sup>1</sup>. Meanwhile, the poverty rate of Quang Ninh was 7.68%, ranking 11th of 11 provinces of the Northeastern region and the 52nd of 63 provinces and cities nationwide<sup>2</sup>. By the end of 2017, Lang Son province had 36,537 poor households, accounting for 19.07% of the total household population<sup>3</sup>.

**101.** In 2017, Quang Ninh's income per capita reached 4,528 USD per year<sup>4</sup>. By stark contrast, this indicator in Lang Son, Cao Bang and Lao cai were 810 USD/year<sup>5</sup>, 950 USD/year<sup>6</sup> and 2000 USD/year respectively<sup>7</sup>.

**102.** Therefore, the economic cooperation with China under BRI is expected to improve the living standard and people's income in difficult regions such as Lao Cai, Cao Bang and Ha Giang.

### SDG17 – Partnership

**103.** Trade facilitation and investment under TCOEB co-operation has promoted China's economic activities in Lao Cai, Lang Son and Quang Ninh. In particular, Quang Ninh has successfully deploy the abundant capital offered by China to development its local economy. In 2016, Quang Ninh accounted for 35% the total projects and 78% total FDI loans that China had provided for seven border provinces in Viet Nam<sup>8</sup>. Later on, during the period between 2010 and 2016, Quang Ninh made up 86% the total amount of Chinese registered capital. Furthermore, in 2017, Quang Ninh had 66 out of 120 of its projects funded by FDI loans launched by China, an amount equivalent to 1.7 billion USD<sup>9</sup>.

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<sup>1</sup> CBTV (2018), "Poverty Reduction - Looking back a year", February 7, available at <http://caobangtv.vn/tin-tuc-n16263/cong-tac-giam-ngheo--mot-nam-nhin-lai.html>

<sup>2</sup> "Proportion of poor households in Quang Ninh ranks 52/63 provinces and cities nationwide", <http://www.quangninh.gov.vn/pInChiTiet.aspx?nid=46405>

<sup>3</sup> Bao Moi (2018), "Lang Son: 6 months reduced by 1.5% the rate of poor households", August 20, available at <https://baomoi.com/lang-son-6-thang-giam-1-5-ty-le-ho-ngheo/c/27370050.epi>

<sup>4</sup> Tran Ky (2018), "Quang Ninh on the road to becoming a pole of growth", VnEconomy, January 23, available at <http://vneconomy.vn/quang-ninh-tren-lo-trinh-tro-thanh-cuc-tang-truong-20180123085746329.htm>

<sup>5</sup> See more at <https://baomoi.com/lang-son-tong-ket-10-nam-thuc-hien-nghi-quyet-trung-uong-7-khoa-x/c/26847085.epi>

<sup>6</sup> VTV (2016), "Cao Bang: Per capita income reached nearly 21 million VND/year", December 24, available at <https://vtv.vn/kinh-te/cao-bang-thu-nhap-binh-quan-dau-nguoi-dat-gan-21-trieu-dong-nam-20161224182808906.htm>

<sup>7</sup> Viet Cuong, and Duc Toan (2018), "Lao Cai: Toward the position of the province "head ship" in the Northwest region", *Journalists and Public Opinion*, June 15, available at <https://congluan.vn/lao-cai-huong-toi-vi-the-tinh-dau-tau-khu-vuc-tay-bac-post39240.html>

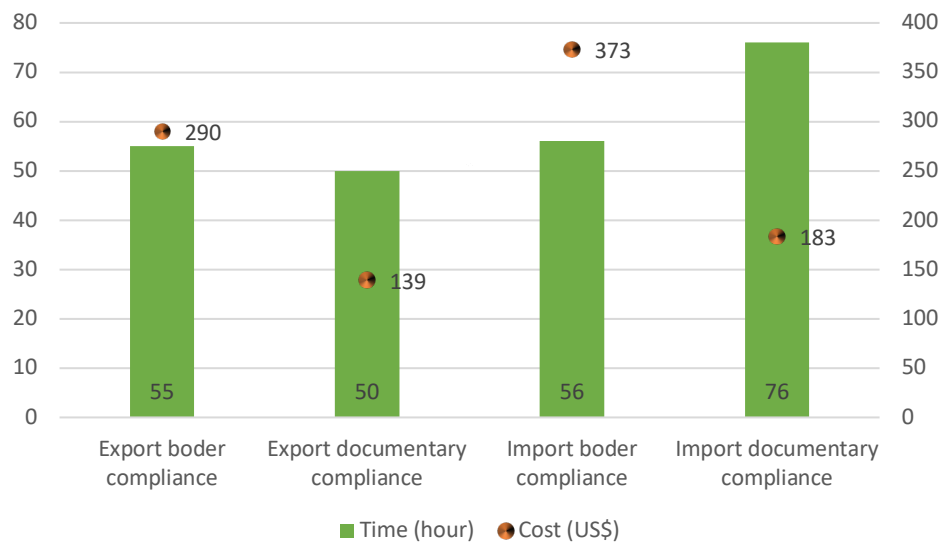
<sup>8</sup> Statistical Yearbooks of Vietnamese provinces 2016

<sup>9</sup> Bnews (2018), "Quang Ninh attracts investors in Northeast Asia", September 11, available at <https://bnews.vn/quang-ninh-thu-hut-nha-dau-tu-khu-vuc-dong-bac-a/95875.html>

**104.** Undertaking projects under TCOEB can significantly contribute towards diversification of trading, investments and tourism between Viet Nam and China. Generally speaking, these collaborating efforts will encourage the formation of unprecedented models of cooperation such as special cross border economic cooperation and cross border economic zone. Other 8 cross border economic zones, since 2007, Viet Nam and China have initiated negotiation to form others 4 CBEZ, which was equivalent to 25% the total number of CBEZ that China is negotiating with its neighbor countries.

**105.** The major obstacles in facilitating trading activities in mountainous areas in Northern of Viet Nam are logistic and custom duties. Within close economic cooperation with China, especially under custom harmonization initiative, Viet Nam can improve custom quality and increase the quantity of clearance goods.

**Figure. Vietnam: Trade Time and Costs**



Source: World Bank (2018)<sup>1</sup>

**106.** High costs of port handling is mainly from delays and extra inventory at port related to extended time of border compliance. Whilst logistical processes for both exports and imports are equally important, given that Viet Nam’s exports are largely characterized as low value-added (and most of materials are imported for export), the importance of reducing the time and costs to imports should be prioritized.

<sup>1</sup> The World Bank (2018), *Taking Stock – An Update on Vietnam’s Recent Economic Developments: Special Focus Reform Priorities for Reducing Trade Costs and Enhancing Competitiveness in Vietnam*, June, pp.42

## **2. Nanning – Pingxiang (Friendship Pass) – Dong Dang – Hanoi Railway**

### SDG5 – Empowerment

- 107.** A gender action plan (GAP) was developed during the project design. The project's GAP included the following key gender targets: (i) aiming for at least 30% of unskilled civil works labours to be women; (ii) at least 50% of community facilitators for hygiene and sanitation awareness raising activities to be women; (iii) 50% of positions in community-based waste management groups to be held by women; (iv) 40%–50% of positions in community-based monitoring committees to be held by women; (v) at least 30% of participants in public consultation meetings for displaced households to be women; (vi) separate supplementary consultation meetings to be conducted with women for income restoration and resettlement needs; (vii) 100% participation of female project staff in all trainings provided by the project; (viii) capacity building for the Women's Union to implement the project's communication strategy; and (ix) collecting, analyzing and including sex-disaggregated data in project progress reports.

### SDG8 – Economic growth

- 108.** In Dong Dang, the Huu Nghi border gate handled about 70% of freight and passenger transit between Viet Nam and the PRC along the NSEC. Trade value totaled \$859 million, with the volume of passenger transits at 710,606 in 2010. Between 2010–2015, the average annual trade growth was 18% and the annual passenger transit growth was 25%. The trade volume in 2020 is expected to reach about 10.2 million tons of various goods worth \$2.78 billion and passenger traffic is expected to reach 1.4 million in the same year. It is clear that the capacity of the Huu Nghi border gate will not be able to handle the expected increases in trade and passengers.

### SDG9 – Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

- 109.** The system using narrow gauge single track (except for some sections) has maximum capacity of less than 25 pairs of trains / day. Besides, this current system has fundamental setbacks such as backwards signal systems and communication, and slow average speed of Hanoi - Lang Son route, with the first 47% of the route at 40 km/h and the rest at 70 km/h. Investments in the construction of dual-gauge and electrified roads will contribute to the preparation of transport infrastructure for the development of a very important economic corridor of Vietnam.

**110.** The improvement of the existing railway lines will transform the current role of railway systems in Vietnam.

**Table: Market and the the role of individual railway lines**

• Lines	Market/Roles	Market / Expected role	
		Current	Alternatives
Ha Noi – Hai Phong	<ul style="list-style-type: none"> <li>Transporting goods and passengers at a low cost</li> </ul>	<ul style="list-style-type: none"> <li>Transporting goods and passengers at a low cost</li> </ul>	<ul style="list-style-type: none"> <li>Inter-city passenger trains (Hanoi - Hai Duong - Hai Phong)</li> <li>Transporting goods with low freight rates</li> <li>Access to ports</li> </ul>
Ha Noi – Lao Cai	<ul style="list-style-type: none"> <li>Transporting goods and passengers at a low cost</li> <li>Tourism activities</li> </ul>	<ul style="list-style-type: none"> <li>Transporting goods and passengers at a low cost</li> <li>Tourism activities</li> </ul>	<ul style="list-style-type: none"> <li>Inter-city passenger trains (Hanoi – Hai Duong – Hai Phong)</li> <li>Tourism activities</li> <li>Transporting goods with low freight rates</li> <li>Regional connectivity</li> </ul>
Ha Noi – Lang Son	<ul style="list-style-type: none"> <li>Transporting goods and passengers at a low cost</li> </ul>	<ul style="list-style-type: none"> <li>Transporting goods and passengers at a low cost</li> </ul>	<ul style="list-style-type: none"> <li>Inter-city passenger trains (Ha Noi – Bac Giang)</li> <li>Transporting goods with low freight rates</li> <li>Regional connectivity</li> </ul>

Source: JICA (2010)

SDG10 – Reduce inequality within and among countries

**111.** As people living below the poverty line on the right bank of Red River do not own cars, motorcycles, or bicycles, their mobility is extremely limited. The project will provide them with access to social and economic services and to employment in cities and towns.

**112.** The project was designed to contribute to more balanced regional development in the North–South Economic Corridor (NSEC) of GMS or the Eastern North of Viet Nam. Its expected impact was the development of Viet Tri, Hung Yen, and Dong Dang towns as economic centers in northern Viet Nam. The expected outcome was to improved urban infrastructure and municipal services in Viet Tri, Hung Yen, and Dong Dang.

## SDG17 – Partnership

- 113.** Viet Nam’s rail road system has to meet domestic demand while also enhancing its connectivity with Singapore – Kunming line. In doing so, it can promote transport connectivity between countries in the Greater Mekong Sub-region.

### **3. *Fangchenggang – Dongxing – Hai Phong – Hanoi Railway***

#### SDG1 – Poverty reduction

- 114.** The major sources of livelihood in the project area are related to agriculture. Rice is the major crop in the project area. In the lowland areas where the proposed highway will be constructed, crops for household consumption are also cultivated. The current livelihood system in this region involves the rearing of livestock— primarily pigs and to a lesser extent poultry and cattle. The poverty rates in Phu Tho, Yen Bai, and Lao Cai provinces are higher than the country average, which is 20%.
- 115.** Improved transport infrastructure in these provinces is critical for poverty reduction. Once the project has been completed, reduced travel times and improved transport conditions will allow the industries clustered around Hanoi and Hai Phong to expand into the country’s poor northwest region, bringing employment and better access to social services among other benefits.
- 116.** Decreased travel costs will encourage economic activity in the project cities and provinces, provide employment opportunities for the local population, and improve access to social services. Significant reduction in overall poverty in these provinces from 52% in 2004 to 15% in 2015 has already been noted.

#### SDG5 – Empowerment

- 117.** Viet Nam’s ability to export agricultural and maritime products to Yunnan province, already a rapidly growing trade area, will also improve substantially. This will increase the amount of small and medium businesses, thereby increasing employment of local people by 70% in 2015.
- 118.** Both agricultural sector and SMEs are labour intensive sector and attract a myriad number of female employment. Thus, promoting the export of agricultural products as well as the development of SMEs will greatly contribute towards the participation of female worker, especially in regions along the rail road.

## SDG8 – Economic growth

- 119.** From 2005 to 2018, Viet Nam’s external trade increased from US\$69 billion to US\$482 billion, while the country’s total freight traffic volume more than doubled in the same period from 100 billion ton-km to 238 billion ton-km.
- 120.** In the last 10 years, production growth in Viet Nam has led to a significant increase in freight traffic, highlighting the importance of ports and the need for further investments in its infrastructure to reduce logistics costs, which currently accounts for 21 percent of the GDP.
- 121.** As of December 2017, Vietnam has 44 seaports with a total capacity of 470-500 million tons per year. The major ports in Vietnam include Hai Phong, Danang, Qui Nhon, and Ho Chi Minh City. Future ports under development include My Thuy International Seaport, Lien Chieu Seaport, and Lach Huyen International Gateway Port.
- 122.** Hai Phong and Vung Ang port are the major ports for international container traffic in north Vietnam, but neither are deep-water ports. Hai Phong accounted for 18 percent of the total throughput of all the country’s ports in 2018. Seaport system in Hai Phong accounts for 90% of container volume and more than 50% of total import and export volume in this area in the North. Containers heading for Hai Phong or Vung Ang require transshipments, which usually takes place in the ports of Singapore or Hong Kong, China, where the containers are loaded into smaller container vessels so that they can later be accommodated in the northern ports of Viet Nam. Lach Huyen Port, a new deep-water port that is going to open in May 2018 in Hai Phong, will help in accommodating larger container vessels and reduce the need for transshipments. This port will be connected to the mainland through the new Tan Vu-Lach Huyen Highway and Bridge to ensure connectivity and easier movement of goods.

## SDG9 – Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

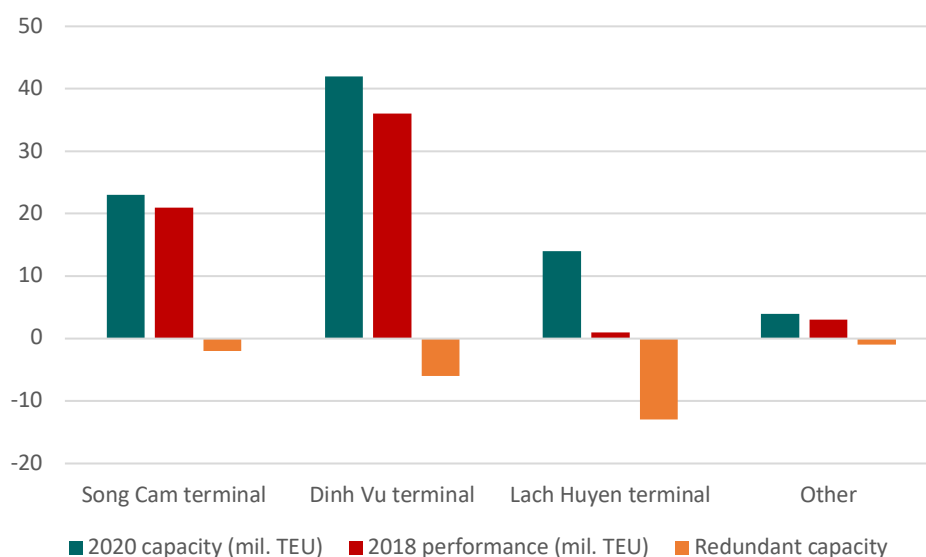
- 123.** Underdeveloped shipping infrastructure has started to impact the industry, with annual freight-related losses reaching US\$2.4 billion. Some ports also suffer from being over-burdened with shipments, which has led to congestion and huge delays.
- 124.** Increasing port capacity. The Vietnamese government not only needs to invest in increasing the existing port capacity but also in constructing new deep-

water ports to reduce transportation costs and increase efficiency, especially in Red River Delta.

**125.** The government had introduced a master plan related to the development of seaport systems by 2020 and 2030. It focuses on achieving a cargo clearance target of at least 1 billion tons by 2020 and 1.2 to 1.6 billion tons by 2030. However, the government needs to consider issues such as port placement, connectivity with economic hubs, and proximity to international maritime routes in their plan.

**126.** The major hurdle facing the development of new ports and efficient functioning of the existing ones is the lack of connecting infrastructure such as roads, railways, bridges, or warehouses. Smaller ports are preferred due to their proximity to production hubs, which has led to congestion and huge delays. Infrastructure investments focusing on connecting the ports to the customers is vital, which will allow them to function to their maximum capacity.

**Figure. Current productivity of seaports in Hai Phong**



**Source:** Hai Phong Port (2018)

SDG10 – Reduce inequality within and among countries

**127.** The current travel time between Kunming and Hai Phong is more than 2 days. This will be reduced to 1 day upon completion of the proposed highway. By providing a shorter and lower cost route to major ports and inland markets, traffic demand at Lao Cai will increase by approximately 10%. This increase will be caused by (i) reduced travel time on the Kunming–Hai Phong Transport Corridor

and transshipment cost savings at the Lao Cai–Hekou border; and (ii) diversion of freight traffic in Kunming from the ports in Guangxi province (PRC) to Hai Phong and Cai Lan Ports in Viet Nam.

- 128.** Economic spillover effects to neighboring provinces due to strengthening connectivity between the Red River delta economic zone and Hai Phong port. The highway will be used as a transport link connecting two economically developing areas, and also contribute to economic growth in provinces sandwiched between areas that are rapidly growing economically.

#### SDG17 – Partnership

- 129.** The passage of containerized freight is particularly important for the trading relationship. Forwarders of overseas container cargo in Kunming do not currently use the Kunming–Hekou–Lao Cai–Hanoi–Hai Phong route, partly because of the poor condition of the Lao Cai–Hanoi section in Viet Nam, inefficient custom control procedures at the Hekou–Lao Cai border, and the high cost of transshipping containers at the border crossing. Instead, they send container cargos by rail or road to the large ports in Guangzhou province (PRC), which takes up to 6 days, and by road to the nearest ports in Guangxi province (PRC), which is about 1,050 km from Kunming. The proposed Noi Bai–Lao Cai Highway will allow forwarders in Kunming to reach Hai Phong and Cai Lan ports, which contain large container facilities.

#### **4. *Cat Linh – Ha Dong elevated railway***

#### SGD3 – Ensure healthy lives and promote well-being for all at all ages

- 130.** Railroads help improve urban transport. Residents living far away from the city center can access better health, employment, entertainment and education services by moving into the city center. Thus, the level of inequality in living standards can be reduced.

#### SDG9 – Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

- 131.** With regard to private business. Railway system Cat Linh – Ha Dong, with 13 kilometers in length, might exert positive impacts on private businesses in Hanoi. As this is a small project, Chinese contractors might in-corporate domestic



companies rather than their partner in China in order to attain cost efficiency. As a result, indicated by author's interview with the business world in Hanoi, Vietnamese companies will carry out up to 50% proportion of tasks under this project.

#### SDG10 – Reduce inequality within and among countries

- 132.** Southern Hanoi is an area based on agricultural economy. Therefore, the income gap between this area and the downtown area is always high. Since the railway was built, residents' incomes have been improved (1) compensation for land, (2) hiring labor for railway construction, (3) agricultural labor conversion to industry and services, (4) access to jobs in the center of the capital.

#### SDG11 – Habitation

- 133.** Satisfying the escalating demand for traffic in busy area of big cities as Hanoi. This railway system not only serves as Viet Nam's first urban railway using Chinese ODA, but also, alleviates substantial burden on public transport in Hanoi. Currently, public transport in Hanoi is short of means of massive transit, with busses still accounting for the majority of public transport activities in Hanoi. Obviously, busses only, despite of its convenience and well-developed in Hanoi, are unable to assuage pressure on the public transport system. This reality is enhanced by the fact that Hanoi's population is projected to reach 7.3 – 7.9 million in 2020 and 9.0 – 9.2 million in 2030. Furthermore, in 2015, the urbanization rate is 46 – 47%, this number will increase up to 58 – 60% in 2020 and 65 – 68% in 2030. Thereby, in Master plan to construct capital city until 2030, toward 2050, which was legislated under Decision No. 1259/QĐ-TTg issued by Prime Minister on 26th July, 2011, that Hanoi is going to build 8 urban railways including line 2A commonly called Cat Linh – Ha Dong<sup>1</sup>.

- 134.** With regard to citizens. Currently, in Hanoi, people are mostly travelling by individual motorbikes accounting for a dominantly percentage (66.7% is motorbikes in average size and only 2.2% is ones in small size). In addition, on average, the number of trips per person increased from 2 trips/person/day in 2005 to 2.73 trips/person/day in 2012<sup>2</sup>. As a result, the traffic congestion in Hanoi has gotten more severe. Worse still, it has resulted in slower speeds of travel,

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<sup>1</sup> MOC (2011), "General planning to build Hanoi Capital to 2030 vision to 2050" pp.6, available at [http://www.xaydung.gov.vn/c/document\\_library/get\\_file?p\\_l\\_id=49902&folderId=47604&name=16237](http://www.xaydung.gov.vn/c/document_library/get_file?p_l_id=49902&folderId=47604&name=16237)

<sup>2</sup> MOC (2011), "General planning to build Hanoi Capital to 2030 vision to 2050" pp., available at [http://www.xaydung.gov.vn/c/document\\_library/get\\_file?p\\_l\\_id=49902&folderId=47604&name=16237](http://www.xaydung.gov.vn/c/document_library/get_file?p_l_id=49902&folderId=47604&name=16237)

acceleration of energy consumption and adulteration of the environment. Thus, constructing a railway system, a prominent mean of massive transit in big cities worldwide, is a strategic goal that will bring about direct benefits for people living in Hanoi.

### SDG17 – Partnership

**135.** Contributing to the closer all-round cooperation between the two countries under BRI umbrella.

### **B. Stakeholder Engagement**

**136.** In order to evaluate the seven BRI's projects' sustainable contribution toward Viet Nam's economy and inclusive growth (in which ensuring the livelihood of citizens is taken into account), this report has sampled only non-governmental stakeholders, including private enterprises, households, private community representatives, and NGOs. We specifically exclude local, provincial, and national governmental or other public stakeholders, because this assessment is intended to reflect economic, rather than political, perspectives.

**137.** This report sent 40 questionnaires and collected 32 responses. Stakeholders are divided into four group with ten people in each, including:

- Private enterprises: Transport Engineering Consultant International JSC. (TECICO); Lihanco Viet Nam JSC. (LIHANCO); Transport Engineering Design Inc. (TEDI); The Saigon Times.
- Household: Families are living nearby Cat Linh - Ha Dong (Hà Nội) railway project
- Private community representatives: Independent economists; The Development Strategy Institute; Nguyen Tat Thanh University; Fulbright University (FUV); Viet Nam Institute for Urban and Rural Planning (VIUP).
- NGOs: Green Innovation and Development Centre (GreenID).

**Table. Number of distributed questionnaire for each group of stakeholder**

	Sample	Percentage
NGOs	11	23.1
Private enterprises	9	18.8
Households	16	18.8

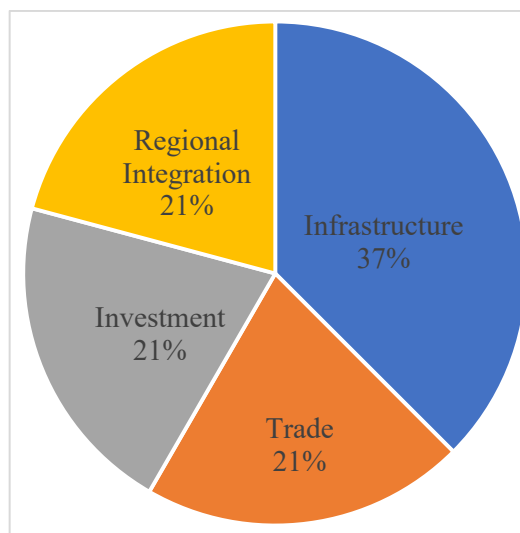
Private community representatives	12	33.3
<b>Total</b>	<b>48</b>	<b>100.0</b>

Source: Author's data collected from interviewing

**138.** There are 48 responses from interviewees. . Given that the survey consisted of questions for which interviewees could choose multiple answers, the total nominal number of response maybe exceed 100.

**139.** According to interview result, there are four sectors that interviewees believed that it will directly benefit from the seven examined projects under BRI. These sectors include: (i) promoting the infrastructural system in Northern area of Viet Nam, developing national railway and expressway; (ii) Enhancing trading activities, expand Chinese commercial market to domestic business; (iii) Generating new investment opportunities in Viet Nam and Viet Nam's companies located in border region; (iv) facilitating economic integration among Viet Nam – ASEAN, Viet Nam – China and ASEAN – China. Among the 36 samples expressing positive economic perspective, approximately 40% believe that the BRI's project will bring about infrastructural benefits.

**Figure. Sectors are believed that it will receive benefits from the projects under BRI**

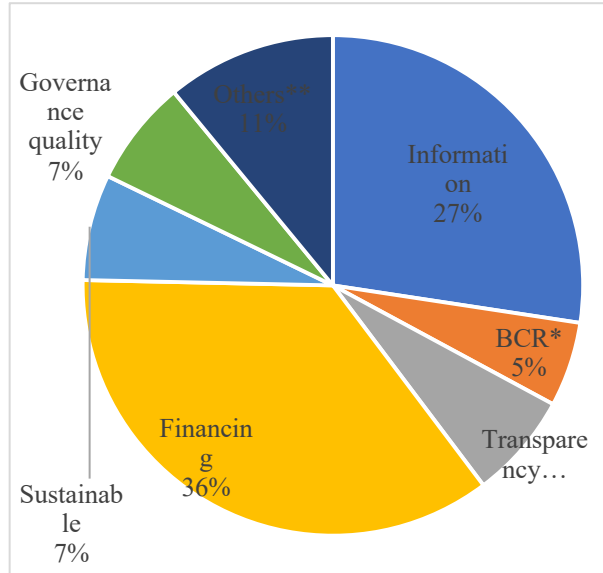


Source: Author's data collected from interviewing

**140.** Among the survey results, 93 responses were concerned with the negative economic impacts that the 4 projects under BRI might exert upon inclusive growth and sustainable development. These respondents expressed concern about (i) The financial ability of public and private sector to carry out these projects; (ii) The

lack of disseminating information about BRI restrict the private sector from accessing economic activities under BRI.

**Figure. Major concerns related to the seven projects under BRI**



Source: Author's data collected from interviewing

**141.** Financial concerns expressed through the surveys are divided into the following categories: (i) the shortage of capital in public and private sector will escalate the government debt; (ii) the inefficiency of investment; (iii) lack of in-depth cost – benefit analysis; (iv) Lack of a strategic development plan (v) The restriction towards private enterprises in accessing preferential capital resources.

**142.** Noticeably, among “Others” concerns, respondents mostly wonder about (i) The great dependency of Viet Nam’s economy on China; (ii) The imbalance in development between Northern and Southern areas of Viet Nam and (iii) the political risks that may accrue while undertaking of these projects.

## A. Opportunities

### 1. *Linkages, Complementarities, and Synergies with Other Local and National Programs*

143. The BRI launched by China plays an essential role in connectivity and effectively supplements other key national initiatives such as (i) The National Action Plan for the implementation of the 2030 sustainable development agenda which was promulgated in Decision No. 622/QĐ-TTg issued by Prime Minister on 10th May, 2017 (ii) SEPD 2016 – 2020 and (iii) Plan to restructure transport sector for the 2016 – 2020 period, toward 2025. Besides, Vietnam and China are also collectively implementing joint initiatives such as the Cross-border Economic zones in four provinces of Viet Nam and Lancang-Mekong Co-operation. This association among national and regional initiatives will provide Viet Nam with substantial resources to accomplish key tasks.

**Table. Linkages, Complementarities, and Synergies of BRI-related projects with Viet Nam’s National Programs**

BRI	SGD	Decision No. 744/QĐ-BGTVT on 21 <sup>st</sup> Mar, 2017
Objectives of “Two corridors, one economic belt” <ul style="list-style-type: none"> <li>• Facilitate investment into commerce</li> <li>• Foster economic co-operation between China and ASEAN</li> <li>• Develop border gate economic zone aligning with the corridors</li> <li>• Construct infrastructure</li> </ul>	Objectives of economic and social sustainable development <ul style="list-style-type: none"> <li>• Maintain sustainable development</li> <li>• Gradually attain green growth and develop non-fossil fuel and renewable energy</li> <li>• Sustainably develop regions in Viet Nam</li> <li>• Focus on fighting against poverty</li> <li>• Sustainably generate jobs</li> </ul>	
Transport infrastructure <ul style="list-style-type: none"> <li>• Railway Dong Dang - Hanoi</li> <li>• Railway Hanoi – Hai Phong</li> <li>• Railway Cat Linh – Ha dong</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainably develop urbans</li> </ul>	Transport <ul style="list-style-type: none"> <li>• Upgrade railway Hanoi – Hai Phong; Hanoi – Dong Dang</li> <li>• In 2020, railway will account for 3.38% passenger transport and 4.3% of goods transport.</li> </ul> Logistics

		<ul style="list-style-type: none"> <li>• Cut logistic cost to be equivalent to 15% GDP</li> <li>• Renovate critical stations: Hanoi, Hai Phong, Lang Son</li> </ul>
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Source: Author's collected

**144.** Major railway projects and plan “Restructuring transport sector for 2016 – 2020 period, toward 2025”:

**145.** With regard to expressways, Viet Nam has gradually been constructing sections listed as BRI projects under different cooperation mechanisms. As a result, capital flows are diverting to railway projects. Indeed, railway systems in Viet Nam is superannuated (100% of the railways are not electrified) and inefficient (railway accounted for a minor percentage of passenger transport and cargo). Hence, effective regulation over capital flows and aid from AIIB and commercial banks in China will combine to ensure sufficient capital constructing railways that connect the Northeast region with coastal regions.

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## **2. Multilateral Regional Initiatives**

**147.** Currently, achievements have been obtained through the formation of a unified community under the ASEAN, and through the promotion of multilateral cooperation mechanism and in-depth inter-regional economic integration. ASEAN has 10 crucial cooperation mechanisms, namely, (i) Mekong River Commission (MRC), (ii) Greater Mekong Sub-region (GMS), (iii) Cambodia-Laos-Viet Nam (CLV) Development Triangle Area cooperation, (iv) Cambodia-Laos-Myanmar-Viet Nam cooperation (CLMV), (v) Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS), (vi) ASEAN Mekong Basin Development Cooperation (AMBDC), (vii) The Japan-Mekong Regional Partnership Program, (viii) Mekong–Ganga Cooperation, (ix) Lower Mekong Initiative (LMI) and (x) Lancang – Mekong Cooperation (LMC). Among them, one of the most noticeable cooperation mechanism is the BRI launched by China. Initially, the BRI raised

existential concerns due to its overlap with existing initiatives. However, BRI has been alleviating these concerns with its promising results recently. For example, Vietnam, an important link in the success of the BRI, effectively utilized resources offered by the BRI to accomplish not only national but also regional cooperation (such as GMS, MPAC 2025) key tasks. In addition, the BRI's projects, examined in this paper, clearly earned its significance by transforming RCI's idea from paper to reality.

### GMS

- 148.** Greater Mekong Subregion (GMS) corridors have evolved in three stages. The first stage, from 1992 to 1997, laid the foundations for the development of GMS corridors. Nine priority road projects were identified in the study. Between 1992–1994, new routes were added while some were shelved, illustrating the evolution of route selection and delineation.
- 149.** The second stage of GMS corridor development, from 1998 to 2007, started with the adoption of the economic corridor approach and the designation of East–West Economic Corridor (EWEC), North–South Economic Corridor (NSEC), and Southern Economic Corridor (SEC) as priority corridors in 1998. It recognized the need to take account of developments in the subregion since 1994, including Guangxi Zhuang Autonomous Region (Guangxi) of the PRC in 2004. After Guangxi joined GMS, Nanning–Ha Noi–Hai Phong corridors was added.
- 150.** The third stage, from 2008 onward, began with the formulation of the strategies and action plans (SAPs) for EWEC, NSEC, and SEC, which required that their alignment be more precisely defined and confirmed by the GMS countries. Based on country consultations conducted in 2008 as part of the SAP formulation process, certain changes in the alignment and configuration of NSEC and SEC were adopted and two subcorridors were added to the NSEC, including: (i) Nanning–Ha Noi via Pingxiang in the PRC and Dong Dang in Viet Nam; (ii) Nanning–Ha Noi via Fangcheng and Dongxing in the PRC and Mong Cai in Viet Nam
- 151.** In the fourth stage, the 21st GMS Ministerial Conference in 2016 reviewed and endorsed certain proposed initiatives aimed at the further development of the GMS economic corridors.

### **Table. GMS Program: 25 Years**

<b>Building Blocks</b>	<b>Goals</b>	<b>Strategic Documents</b>	<b>Planning Framework</b>
Connectivity	Strengthen infrastructure linkages	2002: GMS Strategic Framework (SF)	Regional Investment Framework (RIF) 2013 - 2022
Competitiveness	Facilitate cross-border trade, tourism, investment	2012: GMS SF 2012 - 2022	RIF Implementation Plan 2014-2018, 2020
	Enhance private sector participation	2018: Hanoi Action Plan 2018-2022	
Community	Develop human resources		
	Protect environment & promote shared used of natural resources		

**Source:** ADB (2018)

**152.** In the next phase, GMS seeks to make the following projects a greater priority: (i) Bangkok and Ha Noi link in NSEC using the Bangkok–Nakhon Ratchasima–Udon Thani–Sakon Nakhon–Nakhon Phanom–Thakhek–Na Phao–Chalo (via Route No. 12)–Vung Ang–Vinh–Ha Noi route; (ii) Vientiane and Ha Noi using the Paksan–Nam Phao–Cau Treo–Vinh route with an extension to Vung Ang. Thus, the capital supply for railway as Nanning Pingxiang – Dong Dang - Hanoi - Hai Phong và Nanning – Dongxing – Mong Cai – Hai Phong – Hanoi, becomes an even bigger concern.

#### MPAC 2025

**153.** The table below will discuss the compatibility and importance of the seven BRI projects, examined in this report, with delineated goals and commitments of Viet Nam in relation to GMS and MPAC 2025.

**Table. Linkages and Synergies of BRI-related projects with main RCI in SE Asia states**

	Strategy	Target	Viet Nam's goals and commitments	Cách thức mà BRI có thể bổ sung cho các RCI hiện nay



MPAC 2025				
	Sustainable infrastructure	Establish a rolling priority pipeline list of potential ASEAN infrastructure projects and sources of funds	2.1. Viet Nam's need for infrastructure investment between 2016 and 2040 amounts to US\$605 billion <sup>1</sup> . 2.2. The productivity of the infrastructure itself needs to improve rapidly 2.3. Dealing with the growth of middleweight cities	2.1.1. AIIB, CHEXIM, BOC, CDB, ICBC 2.1.2. Viet Nam's Congress allowed to lift the foreign capital ceiling up to 360 trillion VND. This change based on the corresponding adjustment of domestic capital supply <sup>2</sup> . 2.2.1 China's technology 2.2.2. Joint venture between China and other multilateral development bank (ADB, WB, JICA etc.) 2.3.1 Cat Linh – Ha Dong sky train project
		Increase people mobility	4.1. People mobility	4.1.1. Development of aviation, road, rail and maritime links between Viet Nam, ASEAN and China
		Increase public and private infrastructure investment in each ASEAN Member State, as needed	5.1. Increase PPP investment	5.1.1. AIIB is interested in encouraging and supporting the private sector to invest in Vietnam's infrastructure development <sup>3</sup> .
	Seamless logistics	Strengthen ASEAN competitiveness	6.1. Reducing capital expenses	6.1.1. Development of infrastructure to support logistics.

<sup>1</sup> Global Infrastructure Hub (2017), *Global Infrastructure Outlook - Infrastructure investment needs - 50 countries, 7 sectors to 2040*, <https://d2rpq8wtqka5kg.cloudfront.net/389138/open20170919030300.pdf>

<sup>2</sup> Nguyen Vu (2018), "The National Assembly agreed to extend ODA ceiling of VND 60 trillion", *VnEconomy*, November 12, available at <http://vneconomy.vn/quoc-hoi-dong-y-noi-tran-oda-60000-ty-2018111210401596.htm>

<sup>3</sup> VOV (2017), "Vietnam expects AIIB to approve investment project in 2017", March 7, available at <https://vov.vn/chinh-tri/viet-nam-hy-vong-aiib-co-du-an-dau-tu-trong-nam-2017-600526.vov>

		through enhanced trade routes and logistics	6.2. Reducing logistic expenses 6.3. Harmonizing custom procedures	Promoting multimodal transport connectivity in order to reducing logistic costs. This is an important co-operational goal under TCOB, as well as GMS and.
		Enhance supply chain efficiency through addressing key chokepoints	7.1. Attracting China's transfer of compatible technology	7.1.1. TCOB places emphasis upon supply chain shifting from China to Viet Nam through 36 Production Capacity Co-operation projects which was signed in November, 2017 <sup>1</sup> .
		Support development of e-commerce	8.1. Building and improving e-commerce systems	8.1.1. TCOB promotes the formation of logistic network and cross-border e-commerce commercial activities between Viet Nam and China
		The aim is to lower logistics costs by drawing on appropriate metrics for trading across borders.	9.1. Developing cross-border economic co-operational model 9.2. Facilitating means of payment at border area	9.1.1. TCOB constructs economic zone at border gates between Viet Nam and Zhunan, Guangxi 9.2.1. Promoting bilateral payment made by Renminbi 9.2.2. TCOB sets up branches of Chinese commercial banks in border provinces in Viet Nam, especially ones near border gates.
GMS				

<sup>1</sup> “Joint Statement between ASEAN and China On Production Capacity Cooperation”, available at <https://asean.org/storage/2016/09/Joint-Statement-on-Production-Capacity-Cooperation-Final.pdf>

	<p>3C: – Connectivity, Competitiveness, Community</p>	<p>Connectivity: The GMS Transport Sector Strategy, 2006–2015, which proposed a GMS corridor network of nine corridors. Essential elements: (i) sound economic rationale, including the basis for related economic zones; (ii) physical infrastructure connecting centers of economic activity to each other; (iii) streamlined policies and procedures to allow cross-border utilization of the corridor; (iv) site-specific physical infrastructure, and policy and regulatory framework; (v) effective marketing strategy of the concept as a set of tangible investment opportunities</p> <p>Competitiveness: Improving competitiveness by effectively supporting cross-border transport activities, market integration, production process and value chains.</p>	<p>10.1. New framework for strategic incorporation for period 2012 - 2022 (RIF – 2022)</p> <p>10.2. Regional investment framework under GMS</p> <p>10.3. Entering into GMS Cross-Border Transport Facilitation Agreement (GMS-CBTA)</p> <p>10.4. Entering into 3 major economic corridors: NSEC, EWEC and SEC</p>	<p>10.1.1 Similar development goals</p> <p>10.1.2. Capital complement: RIF-II 2022 under GMS will require a total capital of up to 64 billion USD. Meanwhile, countries member of ADB and GMS might only be able to meet 50% the total required capital.</p> <p>10.3.1. Content about trading, investment and developing facilitation</p> <p>10.4.1. Completing physical connectivity of GMS by NSEC's transport network.</p>
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Source: Collected by author

**154.** Measures and sectors that BRI can reasonably support with the current RCI:

**Table. Measures and sectors that BRI can support with the current RCI that is being undertaken in Viet Nam**

	GMS/ADB/JICA	MPAC 2025	BRI
Capital	RIF-II 2022 of GMS requires a total capital of up to 64 billion USD, while countries member of ADB and GMS might only be able to meet 50% the total required capital.	Supplied by ASEAN	<ul style="list-style-type: none"> <li>• AIIB: US\$ 120 bn.</li> <li>• Policy banks such as CDB, CHEXIM</li> <li>• The “Big-4” (BOC, ICBC etc)</li> </ul>
Types of project and route	<ul style="list-style-type: none"> <li>• High-speed railway</li> <li>• Focusing on variety of infrastructure and sustainable development</li> <li>• Projects has small and average scale</li> </ul>	<ul style="list-style-type: none"> <li>• Most of them are projects about promoting the efficiency of infrastructural connectivity.</li> </ul>	<ul style="list-style-type: none"> <li>• Railway using standard gauge (1435mm): East-West branch of NSEC</li> </ul>
Method of investing	<ul style="list-style-type: none"> <li>• Mainly private capital, PPP</li> </ul>	<ul style="list-style-type: none"> <li>• Mainly PPP</li> </ul>	<ul style="list-style-type: none"> <li>• Focusing on State capital, quickly disbursing</li> </ul>
Technology	<ul style="list-style-type: none"> <li>• High costs</li> </ul>	<ul style="list-style-type: none"> <li>• Large discrepancy in technological level</li> </ul>	<ul style="list-style-type: none"> <li>• Reasonable costs</li> <li>• 30 – 40% devices which are used by Vietnamese company are imported from China</li> </ul>
Institution	<ul style="list-style-type: none"> <li>• Multilateral</li> </ul>	<ul style="list-style-type: none"> <li>• Multilateral</li> </ul>	<p>Lower coordinating cost, easier to negotiate and reach agreement due to:</p> <ul style="list-style-type: none"> <li>• Mostly relying on bilateral negotiations (Between Xhunan, Guangxi and five provinces of Viet Nam)</li> <li>• Highly connected with national plans (BRI integrates with TCOEB)</li> </ul>

Source: Collected by author

**155.** Both AIIB and ADB simulated the bilateral co-operation to supply capital for projects under BRI. In fact, together they paid out capital for several projects in 2016 – 2017. However, there are no projects under the BRI carried out in Viet Nam have successfully received fund from ADB, which is also the current situation of projects under GMS in Vietnam in relation to the ADB. The information noted above implies competition between the ADB and AIIB in three dimensions: (i) capital (ii) standards and (iii) type of infrastructure.

**Table. Measures and sectors that BRI can compete with the current RCI that is being undertaken in Viet Nam**

	GMS/ADB/JICA	BRI
Capital	<ul style="list-style-type: none"> <li>Limited loans</li> <li>Higher interest rate</li> <li>Stringent lending criteria</li> </ul>	<ul style="list-style-type: none"> <li>No limitation on lending amount</li> <li>Low interest rates (have to bear many fees and charges)</li> <li>Have not introduced mechanisms to lend by RMB</li> <li>Allow private sector to borrow without guarantee</li> </ul>
Types of project and route	<ul style="list-style-type: none"> <li>High-speed highway North – South</li> <li>Focusing on SEZs</li> </ul>	<ul style="list-style-type: none"> <li>Standard gauge (1435mm) railway, section West – East</li> <li>Implementing unprecedented economic co-operational model</li> </ul>
Method of investing	<ul style="list-style-type: none"> <li>Requiring long period of time to disburse</li> <li>Focusing on SMEs</li> <li>Focusing on community interaction</li> <li>Bidding to win project</li> <li>Project is implemented on schedule</li> <li>Highly focusing on sustainable development</li> </ul>	<ul style="list-style-type: none"> <li>Quickly disbursing</li> <li>Working with governmental bodies and local competent authorities</li> <li>Chinese companies hardly incorporate CSR principles into their operation in Viet Nam or disseminate information related to their CSR</li> <li>Most of the projects are implemented by EPC method</li> <li>Projects are hardly implemented on schedule</li> <li>Focusing on commercial values</li> </ul>
Technology	<ul style="list-style-type: none"> <li>Environmental friendly</li> <li>Utilize technology from a diverse sources and high standards</li> </ul>	<ul style="list-style-type: none"> <li>Most technological devices are imported from China</li> <li>30 – 40% devices which are used by Vietnamese company are imported from China</li> </ul>
Institution	<ul style="list-style-type: none"> <li>Requiring prime level of transparency</li> <li>Hardly being influenced by political institution of country members.</li> <li>Focusing on quality infrastructure (soft ware)</li> </ul>	<ul style="list-style-type: none"> <li>Many lobbying activities and without regulation to combat corruption</li> <li>Heavily being influenced by Viet Nam – China relationship</li> <li>Focusing on hard ware</li> </ul>

Source: Collected by author

### Public-Private Partnerships

**156.** Within the framework of GMS, Regional Investment Framework Implementation Plan (RIF – IP) 2014 – 2018 lent out 25.79 billion USD for a total of 34 investment projects and 18 technical assistances. In comparison, ADB only allocated 11% (2.89 billion USD), Development Partners and Private Sector

financed 15% (3.7847 billion USD) and the other 74%, equivalent to 19.12 billion USD, was mobilized by GMS countries themselves<sup>1</sup>. By RIF – II 2022, the total of investment seeks to increase to 64 billion USD, yet ADB and country members have only acquired half of this number. Thereby, in order to sufficiently amass capital to meet investment demand, ADB and GMS countries have to implement all means of mobilizing capital, especially PPP (with contract types such as BOT).

**157.** In Viet Nam, for the recent 10 years, BOT and other forms of PPP have gradually become a prominent channel to mobilize capital for national and urban infrastructural development projects. In order to have better regulation over these methods of investment, especially BOT method, the Vietnamese government, basing on practical accumulated experience, passed Decree No. 83/NQ-CP on 26th June, 2018.

**158.** As mentioned in previous sections, BOT is undeniably a powerful method in raising capital for infrastructural projects. The Vietnamese government took these experiences very seriously and have since enforced more stringent regulations like Decree No. 83/NQ-CP to improve the current situation. Apart from Cat Linh – Ha Dong, which is expected to start operating in 2019, there two more projects, Dong Dang – Hanoi and Hanoi Hai Phong, that need to attract more capital from domestic private sector and international lenders.

**159.** These two railway projects are what BRI can arouse private sector participation for. Investing into these railways using the BOT method might offer advantages, such as:

**160.** More comprehensive guidelines and legal documents through BOT. For example:

- Communist party of Viet Nam issued Resolution No. 13-NQ/TW on 16th January, 2012 and Resolution No. 5-NQ/TW on 1st November, 2016.
- Vietnamese Congress has legislated primary laws to govern BOT contracts, including: Law on Public investment, Law on State budget, Law on Investment, Enterprise Law, Law on Bidding, Law on Construction, Land law, Law on Road traffic, Law on Price, ... Besides, Congress issued Resolution No. 66/2013/QH13 on 29th November, 2013, Resolution No. 38/2004/QH11, and Resolution No. 142/2016/QH13

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<sup>1</sup> ADB (2016), *Greater Mekong Subregion Regional Investment Framework Implementation Plan: Mid-Term Review and Revised Regional Investment Framework Implementation Plan 2020*, December, pp.2

- Government introduced legal documents to regulate BOT contract, such as: Decree No. 78/2007/NĐ-CP on 11th May, 2017, Decree No.108/2009/NĐ-CP on 27th November, 2009, Decree No.24/2011/NĐ-CP on 5th April, 2011 and especially Decree No. 15/2015/NĐ-CP on 14th February, 2015.

**161.** Two railways have been receiving meticulous policy attention:

- The Hanoi to Hai Phong section is under the framework of the strategic plan to develop railway transport in Viet Nam in 2020, toward 2030
- Strategy to develop logistic service in 2020, toward 2030 (issued on 4th March, 2014) emphasized improving cargo transport in Hanoi – Lao Cai line<sup>1</sup>.
- Decision No. 1210/ QĐ-TTg issued on 24th July, 2014 proclaimed plans to gradually improve transport ability and quality in Hanoi – Lang Son line<sup>2</sup>.

**162.** Demand for transporting goods and passenger by the two mentioned railway is projected to continue increasing in foreseeable future. For instance, the total amount of goods transported by line Hai Phong – Lao Cai will jump further to 131.5 million tons in 2020, which will be 30 million tons more than what was transported in 2018. Moreover, the bilateral trading value between Viet Nam and China will also dramatically increase in upcoming periods, especially in cross-border trades. Three main border gates (two of them include the railways Huu Nghi and Lao Cao) accounted for 30% of total trade value with China.

**163.** Domestic and regional railway systems: lack of interconnection and connectivity. Goods transported from Viet Nam to mainland areas of China have to transit into others wagons at Hekou North before continuing on their journey. This process increases trading costs and directly damage the competitiveness of these products.

**164.** The practical implementation of the BOT over the past five years has shown that tackling the limitations of investment budget for infrastructure is important. In the period 2011-2016, the Ministry of Transport has mobilized about 171,308 billion, of which BOT accounted for about 90.2%. So far, 55 BOT projects have

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<sup>1</sup> <https://thuvienphapluat.vn/van-ban/Giao-thong-Van-tai/Quyết-dinh-318-QĐ-TTg-nam-2014-chien-luoc-phan-trien-dich-vu-van-tai-den-nam-2020-222505.aspx>

<sup>2</sup> See more at <https://thuvienphapluat.vn/van-ban/Giao-thong-Van-tai/Quyết-dinh-1210-QĐ-TTg-2014-Tai-co-cau-nganh-giao-thong-van-tai-den-2020-240825.aspx>

been completed). In localities, 43 provinces and centrally-run cities have mobilized more than 80,000 billion VND for BOT projects<sup>1</sup>.

**165.** Receiving assistance from international partners can bring about more opportunities for investment in BOT contract.

- AIIB expressed their intention to allow private sectors in Viet Nam to borrow money. Obviously, opening up opportunities to get access to massive capital resource will enable Vietnamese business to make contribution toward the infrastructural development. Moreover, it can also alleviate the burden on Viet Nam's government debt<sup>2</sup>.
- Recently, congress has approved a ODA loan of 60 trillion dong (equivalent to 2.57 billion USD) and reduced public sector investment <sup>3</sup>.

### **B. Potential Risks**

**166.** The Strategic Framework for Connecting GMS Railways was endorsed at the GMS Ministerial Conference in August 2010. If the rail network in Viet Nam becomes part of the broader GMS rail network, investments will complement the national rail network. Within the context of an integrated and efficient GMS rail network, the need to invest in infrastructure and equipment (like the national rail sector) is not the only consideration.

**167.** Ability to mobilize capital for project:

- Under GMS, new NSECs does not assign high priority to expressways and railways, namely, Kunming – Hanoi – Hai Phong, Nanning Pingxiang – Dong Dang - Hanoi – Hai Phong and Nanning – Dongxing – Mong Cai – Hai Phong – Hanoi. Thus, it is not likely that GMS will pump money into these railways under the BRI in Viet Nam.
- Capital resources for developing infrastructure until 2030 focus on road transport, highways. While the GMS has plans to accumulate capital for high-speed rails, standard gauge railway projects have not been taken into account.

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<sup>1</sup> National Assembly Standing Committee (2017), Report on the results of monitoring the implementation of policies and laws on investment and exploitation of transport works in the form of BOT contracts , pp.13

<sup>2</sup> Nguyen Vu (2018), “The National Assembly agreed to extend ODA ceiling of VND 60 trillion”, *VnEconomy*, November 12, available at <http://vneconomy.vn/quoc-hoi-dong-y-noi-tran-oda-60000-ty-2018111210401596.htm>

<sup>3</sup> VOV (2017), “Vietnam expects AIIB to approve investment project in 2017”, March 7, available at <https://vov.vn/chinh-tri/viet-nam-hy-vong-aiib-co-du-an-dau-tu-trong-nam-2017-600526.vov>



**168. Economic benefits**

- Economic benefits for passenger and goods transport on the railway Lao Cai – Hanoi – Hai Phong, Lang Son – Hanoi – Hai Phong and Mong Cai – Hai Phong – Ha Noi has plunged since these three expressways mentioned above opened for traffic.
- The increase in the proportion of rail transport on the two lines of Dong Dang - Hanoi and Hanoi - Hai Phong is not proportional to the investment costs.
- With the proportion less than 10%, Lao Cai is the border gate with the lowest level of customs clearance in the three border gates (Lao Cai, Lang Son, Quang Ninh). Therefore, cargo demand from Kunming to Hai Phong port is not really significant.

**169. Connectivity with national railway system**

**170. The participation of private sector**

- 96% of BOT traffic projects in the period 2011 - 2016 concerned road transport (48/50 projects). This number indicated that the private sector has not really paid much attention to railways and railway reforms. The role of the Viet Nam Railways Corporation (VNR) has been rather small.
- Government is hesitant in allowing private sector access to capital resources offered by AIIB that companies can borrow without any guarantee.

**171. Institutional support**

- Plans to restructure the transport sector for the period 2016 – 2020, toward 2025 ignored the development of railways that align with the West – East axis<sup>1</sup>.

**172. Regional integration**

- To build a truly integrated GMS rail network, Vietnam will need to participate in the development of (i) protocols and policies for the cross-border movement of rail freight and passengers, (ii) common technical standards to ensure interoperability of equipment and trains, (iii) regional cooperation in the rail sector, and (iv) regional rail safety standards.

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<sup>1</sup> See more at MT (2017), <http://www.mt.gov.vn/Images/editor/files/KIM%20CUC/2017/img-328162302.pdf>

## **V. Summary and Conclusions**

### **A. Key findings**

**173.** After thoroughly studying survey result and secondary data, the report summarized new findings related to perception and impact of BRI upon Viet Nam's economy

#### **1. General evaluation of BRI's impact on organizations and community**

**174.** Opportunities

- Private enterprises in Viet Nam can be combined with Chinese contractors to implement infrastructural projects, including BRI's projects (Cat Linh – Ha Dong sky train)
- Viet Nam's consulting firms and constructing enterprises express positive view point on co-operating with capital suppliers from China. Working with them is more convenient than working with SOEs and involves lower "under-the-table costs" and unnecessary workloads.
- Private sector and local community rarely air their grievance towards the contamination of living habitat causing by projects under BRI (mostly because BRI's projects are mainly transport infrastructure)
- Expressing the positive contributions that the seven BRI's projects have had in the fight against poverty.
- Expressing positive perspective about technological improvement thank to the 4 projects under BRI
- Posing optimism about the prospects of implementing BOT contracts for BRI's projects related to transport infrastructure

**175.** Obstacles

- Lack of public information and accessibility to investment opportunities
- Policies changing between China and Viet Nam will negatively affect these projects
- Lacking of legal documents to regulate PPP

#### **2. General evaluation with respect to nation**

**176.** Opportunities

- Supplying more capital since Viet Nam's government debt is increasing.
- Developing infrastructure for mountainous provinces
- Benefitting economic integration between ASEAN and China
- Promoting trading and investing activities between China and border provinces in Viet Nam

**177. Obstacles**

- Lacking of information. Many enterprises are unable to grasp these opportunities due to the ineffective dissemination of information.
- Low return on investment due to high overheads, unclear profitability and the possibility of falling into the Chinese "debt trap"
- Increased dependency on the Chinese economy
- The selection of a bidding partner, the bidding process and the appraisal and evaluation of loans and bidders are not effectively implemented
- Disrupting the balance among provinces in Viet Nam
- Transport corridors are unable to transform into economic corridors, thereby, it will depreciate in investment efficiency

**3. *With respect to TCOEB projects, the implementation of TCOEB projects has encountered major hurdles, including:***

**178. Concerns about types of co-operation**

- Trade is witnessing a rapid speed of development compared to investment
- Border economic co-operation model lacks solid evidence to prove its efficiency

**179. Concerns about planning**

- Under GMS and NSEC, transporting system connecting Kunming, Nanning and Hai Phong is paling into insignificance.
- The Nanning – Hanoi – Hai Phong connectivity has proved its potentiality, and is therefore worth investing in. On the other hand, Kunming – Hanoi – Ha Phong corridor has yet to prove to investors that it is worthy of attracting more capital.
- Between the border provinces, Quang Ninh has developed remarkably and attracted most of the resources from China. The new plan witnesses the emergence of Cao Bang as a commodities trade and planning spread.

**180.** Concerns about information: Lack of information concerning this topic in both the business world and the general public