Vietnam: Impact Assessment of Large-Scale Transport Infrastructure in Northern Vietnam

Highway No. 5 is a trunk road of 100 kilometers connecting the national capital of Hanoi with the country’s gateway port city of Haiphong. The highway has been a main road for transporting raw materials, components, and final products that are produced, processed, and consumed in northern Vietnam. In this sense, the highway is the most important road for maintaining the economic and social activities in the region. Projects to improve Highway No. 5 and rehabilitate Haiphong Port were agreed upon between the Vietnamese and Japanese governments soon after the resumption of the Japanese Official Development Assistance (ODA) loan to Vietnam in 1992. The two projects were intended to meet the needs of the rapidly increasing road traffic in the Red River Delta of northern Vietnam and to strengthen the capacity of Haiphong Port.

Six paths for sustainable growth and poverty reduction

This study identified six paths through which poverty reduction and economic growth in the region could be realized. These paths are (1) the creation of factory employment by newly invested foreign and local enterprises along the upgraded highway; (2) the expansion of newly created micro business beside the industrial complex along the highway; (3) the development of industrial links between local and foreign enterprises; (4) fiscal contribution by newly invested foreign enterprises; (5) the expansion of high-value agricultural production for urban markets; and (6) improved access to higher education and advanced medical services. The impact of the two transport projects are described as follows, and refer to these six paths.

At the household level, the impact of these two transport improvement projects can be seen from a variety of perspectives in the following examples:

- In 1996, only 12.5 percent of the foreign investment in Vietnam was registered in the provinces in the Red River Delta; this ratio increased to 27.8 percent during 1998 and 2001.
- Foreign enterprises in Hanoi contributed to 15 percent of the GRP (Gross Regional Product) and 32 percent of industrial gross output in 2001. Those in Haiphong produced 16 percent of the GRP and 45 percent of the industrial output. In Hung Yen Province, where state industrial investment remained limited, 71 percent of the gross industrial output was generated by foreign enterprises in 2000.
- A total of 14,000 workers were employed at the four major industrial parks in Hanoi and Haiphong in 2003. It is estimated that around 40,000 jobs were generated by new investment along the highway by 2003. Factory income is considered a very significant source of income for the employees’ household, since many of them are fresh graduates of either secondary or vocational schools in the provinces, without any job experience.
• Micro business has been expanding rapidly in the two provinces along the highway. In 1999, no private enterprises received loans from the Hung Yen and Hai Duong branches of the bank of agriculture. In the next year, private enterprises obtained 2 percent of the bank’s lending, a share that increased to 13 percent in 2003.

• High-value agriculture, such as highly profitable fishery production, has been expanding as well. The growth rates of fishery production from 1995 to 2001 in the Hung Yen and Hai Duong Provinces were 312 percent and 200 percent respectively, much higher than the national average of 101 percent.

• The source of income for households has become greatly diversified. Although the farming income of the surveyed households showed the relatively modest increase of 138 percent between 1997 and 2002, their income from livestock and fishery increased by 204 percent and 314 percent, respectively.

• The Agricultural Extension Centers in the Hung Yen and Hai Duong Provinces now provide a variety of training courses for local farmers, in response to their growing demand for upgrading and diversifying agricultural production. The number of participants to these courses increased fourfold, and the number of model farms rose fivefold from 1998 to 2003. The government, both provincial and central, expanded the budget for the centers more than fourfold to cope with this increasing demand.

At the regional level, the impact of the projects to improve Highway No. 5 and rehabilitate Haiphong Port are as follows:

• A comparison of the share of poor households in 2002 among communes in Hung Yen Province shows that many of the communes located on Highway No. 5 have lower shares (less than 3 percent) of poor households while others tend to have higher ones.

• The comparison of the growth rate of per capita GRP of the provinces in the Red River Delta between 1995 and 2000 shows that all of the five fastest-growing provinces are located along Highway No. 5 or Highway No.18, another major highway.

• The data on the rate of reduction in the number of poor households by province from 1998 to 2000 show that three of the five provinces that reduced the number of poor households by more than 75 percent have good access to Hanoi and Haiphong Port via either Highway No. 5 or Highway No. 18.

The role of infrastructure and institutional capacity building

The main role of large-scale transport infrastructure should be to promote economic growth by stimulating investment and/or trade. The improvement of Highway No. 5 and Haiphong Port has caused a large inflow of foreign direct investment (FDI) to the provinces along the highway. This inflow of FDI has resulted in the creation of many job opportunities as well as the expansion of
various micro businesses around the industrial parks. The recent increase in the inflow of FDI has made an immediate and positive impact on the regional poverty reduction.

In addition to the improvement of transport infrastructure, many aspects of institutional capacity building are urgently needed to attract foreign investors. The elaboration of FDI-related laws and the improvement of administrative procedures are examples. The experience of neighboring East Asian countries, such as China or Thailand, should be very helpful for Vietnam to consider in developing its institutional capacity. Institutional learning at the provincial level has also enabled the provinces concerned to offer a far more favorable incentive to their potential investors, leading to the scaling up of poverty reduction in the project areas. Technical support from foreign governments or private companies has made a significant contribution to developing capacity as well. For instance, the interaction and cooperation between the investor and the custom officers stationed in an industrial park have created an institutional innovation for their customs operation. The implementation of the Action Plan under the Japan-Vietnam Joint Initiative to Improve Business Environment would work as an important catalyst for improving the investment environment in Vietnam, becoming a solid foundation for scaling up poverty reduction.

Large-scale infrastructure could make a direct contribution to poverty reduction as well. The improvement of Highway No. 5 and Haiphong Port has resulted in the expansion of high-value agricultural production in the provinces along the highway. Expansion of fishery production for urban consumers is a notable example in these provinces. This structural transformation in agricultural production has wide and sustained effects on poverty reduction in the region.

The importance of political commitment

To realize this poverty reduction in the rural economy, administrative support with a clear political commitment was absolutely necessary. The Vietnamese government demonstrated its strong commitment to reducing poverty by formulating the Comprehensive Poverty Reduction and Growth Strategy (CPRGS), which has, with the government’s other efforts, become a concrete basis for scaling up poverty reduction in the areas along Highway No. 5. With this strategy, central and provincial governments have provided comprehensive support to poor farmers. The expansion of agricultural extension services by provincial governments and the increase in rural credit by the state bank are examples of such support. Without these interventions, farmers would not have been able to make use of the business opportunities provided by the improvement of transport infrastructure.

Conclusion

The transport infrastructure projects in northern Vietnam have made a great contribution to poverty reduction, as can be widely seen in the areas along the highway. The projects shed light on the broad range of roles that infrastructure plays as a prerequisite for economic growth and a direct contributor to poverty reduction, through multiple channels (such as those identified in the projects). Analysis of this case reveals the important lesson that to scale up the effect of poverty
reduction, it is necessary to combine large-scale infrastructure projects with institutional support backed by the clear commitment of the government.