The Second Pillar: Economic Infrastructure Development

Large-scale economic infrastructure such as roads, bridges, ports, power plants, main power transmission network, and telecommunications facilities will induce the country's overall economic growth and plays an important role for reducing poverty.

The development of major infrastructure such as main national highway and power supplies will lay the groundwork for economic activities. At the same time, it will generate employment and increase income by stimulating economic activities such as attracting investments, expanding the scope of domestic and external markets, and creating new economic activities, through improvement of services arising from infrastructure. Additionally, infrastructure projects will, in their own, create effective demand, generating employment and income and contributing to growth and reducing poverty.

Major economic infrastructure is characterized by a positive impact on economic activities not limited to a project site area but encompassing a broader region or the entire country. In this sense, it has a major significance. Of particular importance is the network function of economic infrastructure. Roads that connect main and regional roads will form a network. In the power sector, power plants and main power lines connect with regional power grids to form a network. Development of rural roads and power lines will produce a major economic impact only if they link up with main roads and power plants or main power lines.

Economic infrastructure also has a major significance in providing basic social services in education and health. For a person living in a remote, impoverished region with inferior infrastructure, even going to a regional clinic or a hospital in the urban area for examination is extremely difficult. Economic infrastructure plays an important role in improving access to such basic social services.

Moreover, in relation to the importance of foreign direct investment (FDI) as the engine of growth, how much FDI a country can attract hinges on investment climate in a broader sense. When a company makes a decision on where to invest, the extent economic infrastructure is developed, including the cost of infrastructure services, is one of the major factors affecting its decision.

In this way, economic infrastructure is crucially important for achieving economic growth. However, in Vietnam, there are still considerable development needs for such infrastructure. For example, in the transport sector, many facilities in Vietnam are being used by patching up the facilities dating before or destroyed by the Vietnam war. Inadequate maintenance has also led to extensive aging. In the power sector, total power demand in 2020 is projected to increase by seven fold from the level in 2002.

Under these circumstances, Japan has made a major contribution to the development of large-scale economic infrastructure in Vietnam, especially focusing on transport and power. In the transport sector, ODA loans provided by JBIC and grants have helped improve and rehabilitate main national highways and bridges, improve ports, develop transport networks in large cities, improve and rehabilitate regional roads and bridges, and build airport terminals. In the power sector, ODA loans provided by JBIC helped build power plants and power transmission networks. In both sectors, development studies conducted by JICA supported preparations of master plans and feasibility studies for individual projects.

In May 2002, Vietnam drew up the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) as the first Poverty Reduction Strategy Paper (PRSP) among countries in Asia. As the role played by large-scale infrastructure in economic growth and poverty reduction was not contained in this CPRGS, it was decided at the Consultative Group meeting on Vietnam in December 2002 that CPRGS be expanded by including this point.

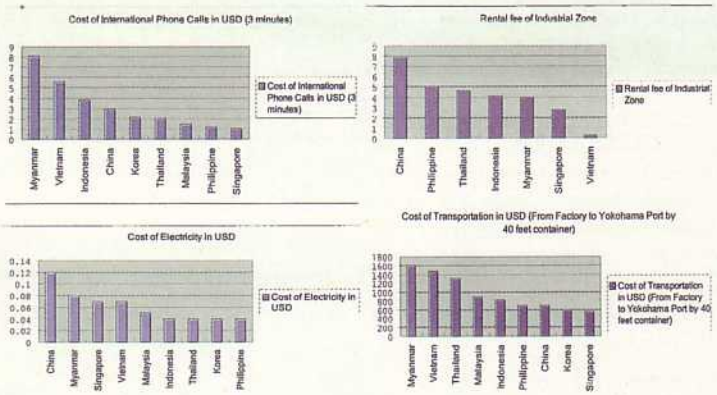
Expansion of CPRGS

The Consultative Group meeting on Vietnam in December 2002 discussed expansion of CPRGS. In the closing session, MPI Minister Phuc summed up the discussion as follows:

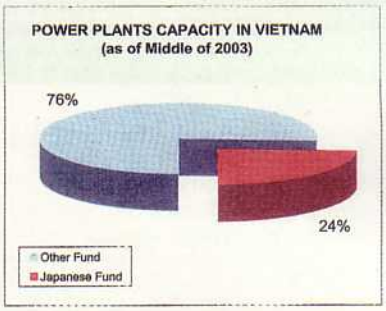
"We consider high and sustainable growth as an engine and precondition that creates resources for poverty reduction. Therefore, to address poverty, first of all, one needs to pay attention to growth. Once we want to look at growth and poverty reduction, we need to look at its physical content. Therefore, investment for infrastructure development constitutes an indivisible part of the CPRGS. As a result, CPRGS needs to be further revised on the part to large scale infrastructure ... We should add large scale infrastructure development to the CPRGS in order to create momentum for economic development, with high and sustainable growth. For example, we may add the building of bridges, roads, highways, ports, power plants, and a power transmission system that aim at poverty reduction, as I mentioned to you. And I also suggest that early next year, when we review the implementation of the CPRGS, we will officially amend with a legal document by the government."

Economic Infrastructure: Comparison with Neighboring Southeast Asian Countries

Per capita power consumption, access to telephones, paved road ratio and costs of infrastructure services



Japan's Contribution to Vietnam's Overall Power Capacity and Its Growth



Note: Japan's assistants include Phu My 1(1,090MW), Ham Thuan- Da Mi (475MW), Pha Lai (600MW). In addtion to this, Dai Ninh Hydro Power Plant (300MW), O-mon Thermal Power Plant (300MW) and Da Nhim Hydo Power Project (160MW) are under implementation.

Assistance for the Transport Network in Northern Vietnam

ODA loans provided by JBIC helped improve national road No. 5 connecting the capital Hanoi with the important northern port Haiphong. An ODA loan also helped rehabilitation of the port in Haiphong. These two projects played a major role in expanding the transport network in northern Vietnam, thereby contributing to an increase in FDI in this region. This has contributed to growth and poverty reduction through various channels.

National Road No. 5 and the Port of Haiphong

Contribution of Infrastructure to Growth: A View of DFID

The report by DFID, "Making Connections: Infrastructure for poverty reduction" stated:

"Investment in infrastructure can contribute to sustainable growth by:

- Reducing transaction costs and facilitating trade flows within and across borders.
- Enabling economic actors-individuals, firms, governments-to respond to new types of demand in different places.
- Lowering the costs of inputs used in the production of almost all goods and services.
- Opening up new opportunities for entrepreneurs, or making existing business more profitable.
- Creating employment, including in public works (both as social production and as a counter-cyclical policy in times of rececssion).
- Enhancing human capital, for example by improving access to schools and health centers.
- Improving environment conditions, which link to improved livelihoods, better health and reduced vulnerability of the poor."

(Source: DFID, "Making Connections: Infrastructure for poverty reduction")