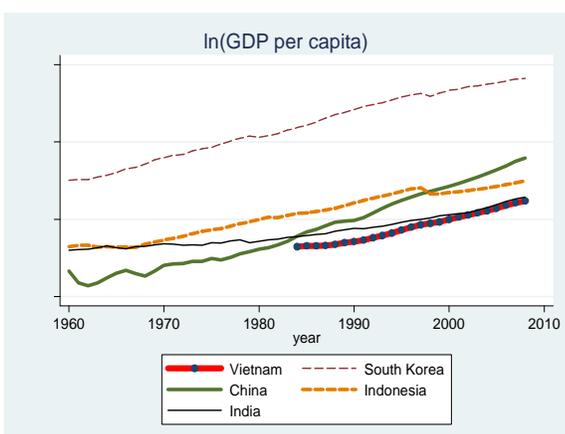
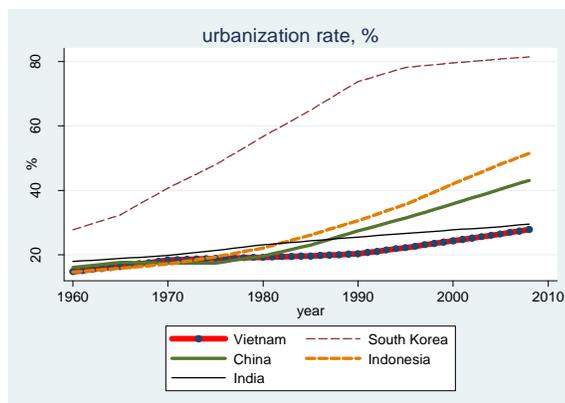


The Importance of Urbanization

Addressing the *Vietnam National Urban Conference* in November 2009, then Deputy Prime Minister Nguyen Sinh Hung said, “Vietnam will have one chance to get urbanization right. If we fail at urbanization, we will fail at industrialization and modernization.”

Thus Vietnam has placed strong emphasis on the role that urbanization will play in its development process. Urbanization does not guarantee economic growth and modernization, but an integral part of Vietnam’s transition from a low to middle income country and beyond may well depend on how well it manages the transition from a largely rural to an urban economy – a transition that is now well underway. No country has achieved high income status and strong economic growth without first urbanizing and nearly all countries become at least 50% urbanized before fully reaching middle income status. Vietnam expects to reach that point by 2025.



Vietnam will need to carefully manage the tradeoffs that will come with rapid urbanization. There is the potential for increased congestion costs, regional inequalities, increasing urban poverty, urban pollution and rising land and housing prices. Some of these risks are already manifest and increasing rapidly: increasing traffic congestion, increasingly polluted water ways and high urban land prices are already a problem. At the same time, Vietnam must be ready to employ urbanization as an instrument to sustain economic growth. This will mean, among other things, ensuring the economic competitiveness of key economic regions, ensuring the social and environmental sustainability of cities making them desirable places to live and work for all segments of society and increasing economic productivity through accelerated technological advances and a better trained, educated and mobile workforce.

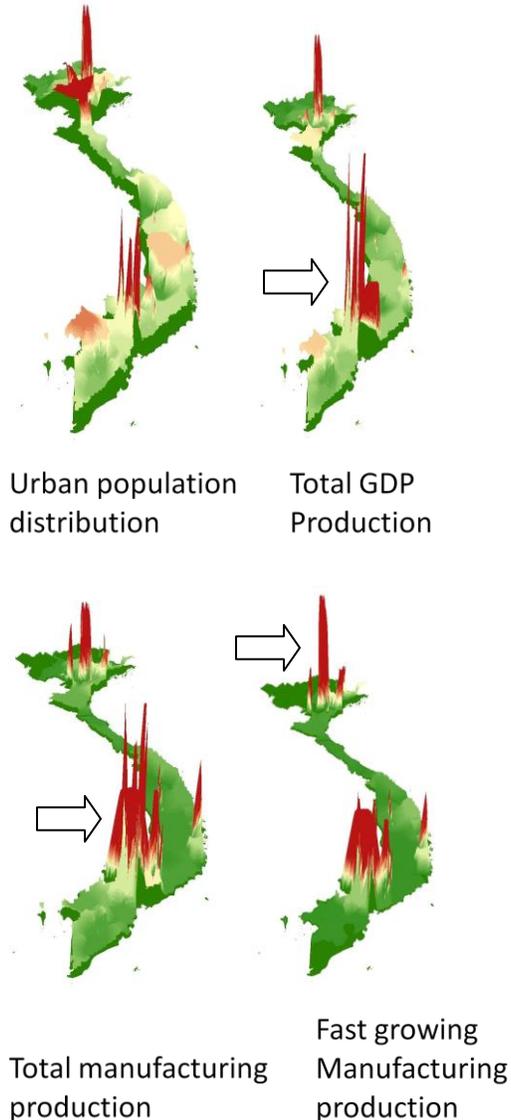
How is Vietnam Urbanizing?

The **Vietnam Urbanization Review** (November 2011), an analytical technical assistance report recently published by the World Bank, sets out to explore this question from several different points of view and provides an overview of the on-going urban transition that is happening in Vietnam. The following highlights some of the **Vietnam Urbanization Review** findings.

Two Dominant Urban Regions

Vietnam has a complex system for classifying cities, ranging from the special cities of HCMC and Hanoi then going from Class I down to Class IV. Besides the two Special Cities, Vietnam has at least two cities whose populations exceed 1 million people (Can Tho and Hai Phong) and several medium cities such as Da Nang which has a population of about 700,000. Yet despite this diversity, most of Vietnam’s economic and population growth is driven by two independent dominant core-periphery urban systems of Ho Chi Minh City and Hanoi. The dominance of the major economic regions of the Southeast (HCMC) and the Red River Delta (Hanoi), together with the emerging Mekong Delta economic region are to be expected at this stage of Vietnam’s development as gains from agglomeration economies are consolidated.

However, these regions appear to be developing in different ways with some evidence that Hanoi is moving more rapidly into heavy and higher technology manufacturing even while Ho Chi Minh City and the Southeast region still dominate economic and manufacturing output.



Vietnam's economic growth and competitiveness will depend largely on these regions and sustaining strategic investments in these areas is important for economic development. Notwithstanding the rise of important urban economic centers, rural areas are still the major source of livelihood for a large of Vietnam's population and 93% of it poor. For areas without currently strong economic potential comparable to large cities investing in people

(education and health) as well as infrastructure and universal access to basic services will help to level the playing field and facilitate the fluidity of factor markets enabling firms and households to choose the best locations for economic activity and maximize Vietnam's economic development.

Connectivity Is Important

Connectivity of the urban portfolio underscores the importance of continuing to invest in the development of the country's regional economic growth drivers. Ho Chi Minh City / Southeast together with the Mekong Delta Region account for 62% of Vietnam's industrial activity and Ho Chi Minh City / Southeast Region account for 71% of country's seaport throughput. The bulk of manufacturing employment and its highest growth rates from 1999-2009 are located in Hanoi and Ho Chi Minh City and their neighboring suburban areas within 70KM from the city center. Even at this early stage of urbanization manufacturing activities are not confined to the administrative boundaries and in many cases in Vietnam there is strong manufacturing activity within a 50KM radius of the two major cities. Investing in logistics infrastructure will be critical to developing the country's strongest economic regions. An intercity trucking survey conducted for the Urbanization Review indicates that transport costs are highest in the two main economic regions, with truckers indicating poor road conditions, and informal payments as the major bottlenecks. This suggests that connectivity can be improved not only through strategic transport and logistics improvements, but through regulatory reforms to improve services quality in trucking and logistics services. Analysis suggests that freight costs in the Ho Chi Minh City and Hanoi economic regions could be reduced by 57% and 67%, respectively by reducing these bottlenecks.

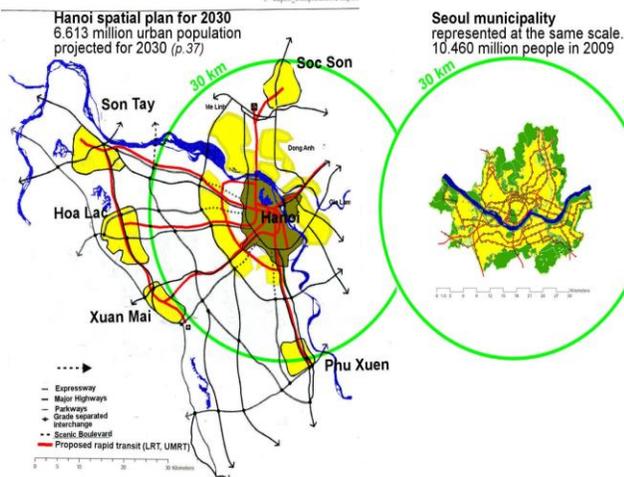
Better Planning Can Make a Difference

Planning and urban management in Vietnam, rather than facilitating the fluid functioning of land and housing markets, is still overly focused on static urban design principles. Strict adherence to static Master Plans, combined with a city classification system that induces cities to annex rural areas, combined with land lease for infrastructure

financing schemes are leading in many cases to urban sprawl and the development of new towns where there is little market demand. Improving the planning process through better integration of planning functions, moving from static to dynamic plans and using sharper tools to monitor real changes taking place in land and housing markets could serve to improve the planning process considerably and lead to a more efficient allocation of land uses. The following graphic demonstrates the problem with Vietnam's planning process. The newly approved Master Plan would aim to de-densify the city by proposing a system of satellite cities for a future population of about 6.5 million people. This could potentially lock in multi-billion dollar investments in areas where there is currently no demand. Compare this to the Seoul, South Korea city footprint - a compact, livable and efficient city which is home to over 10 million people.

Proposed Regional Highway Network: Ha Noi Capital Region 2030

The Hanoi Capital Construction Master Plan to 2030 and Vision to 2050
7th Report, Comprehensive Report

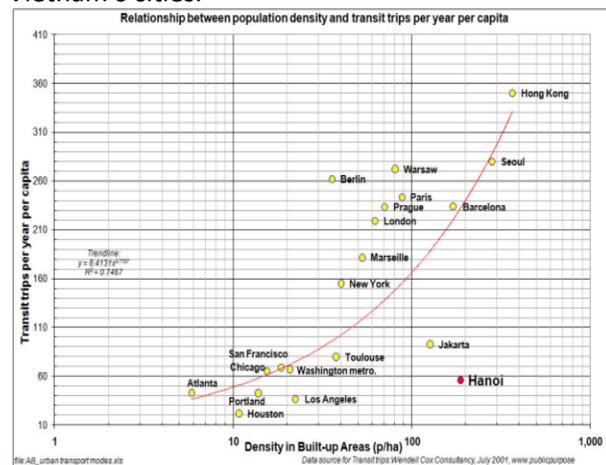


New Towns Master Plan vs. Compact City

Good but Deteriorating Urban Mobility

Vietnam's cities, including its largest cities, still have relatively good mobility, due in part to the predominance of motorcycles as the primary mode of transport. But this is changing rapidly. As incomes rise so is car ownership. The current road networks in Hanoi and Ho Chi Minh City will simply be incompatible with the demand for road space created by a shift to individual cars for even a fraction of the current trips made by motorcycles. Hence a priority will be the development of road

networks and transit systems that are compatible with rising urban densities and land use trends (such as the emerging policy centric development of the major cities) and that will reflect consumer demand for location of housing and commercial facilities. This would require a shift to integrating land use planning and development to be done in tandem with transit and urban transport development. Minimizing the transition from motorbike to car while Vietnam's major cities develop their transit networks will be a major challenge and priority to ensure greater mobility in Vietnam's cities.



Urban Land and Housing Markets

Land markets in Vietnam reflect some deeper issues with land management and governance. On the positive side, by and large Vietnamese cities have managed to enable a pluralistic supply of housing to meet the needs of different market segments, through small contractors producing town houses, densification of peri-urban areas through infrastructure extension and through the incremental upgrading of housing stock. On the other hand, land prices are by most indications are high, perhaps due in part to Vietnam's two tiered land pricing system and lack of good market information. In Hanoi and Ho Chi Minh City land prices and housing prices produced by formal developers are perhaps affordable to only 5% of the population. Monitoring land and housing markets will be important as these are critical factors for helping urban economies to function efficiently and equitably.

Basic Urban Services

Vietnam has done a remarkable job in achieving nearly universal coverage (i.e. 96%) in access to electricity. Access to other important basic services such as water and sanitation remain at lower levels despite still remarkable improvement: by 2007 70% of urban households had access to piped water. By contrast wastewater collection and treatment levels are still very low. And it appears that access and quality to urban services diminishes with city size. As Vietnam moves to higher income levels and universal access is achieved in other services, the next goal would be to focus on the quality and sustainability of urban services. Tariff levels for urban water supply generally cover only operations and maintenance costs, and non-revenue water (losses) is as high as 40% in major cities, for example. A major challenge for local governments will be the financing of infrastructure services. As quality of services improves, tariffs will need to increase to cover, to the extent possible, investment costs as well as operations and maintenance costs. Local governments have limited options to raise own-source revenues for investment and rely increasingly on land sales (leases) for a large share of their budgets (e.g. 20% of HCMC's 2008 budget). Sustaining strong investment in cities will depend on more sustainable sources of financing.

A Final Word

Vietnam is now widely considered a development success story. Driven by the *Doi Moi* reforms begun in 1986, Vietnam has rapidly evolved from one of the poorest countries in the world to an emerging middle income country. In the span of about 25 years its GNI per capita has risen from less than \$100 to over \$1,000, living standards have tripled and the poverty headcount has fallen by 80%. The World Bank-Vietnam Country Partnership Strategy suggests that the country's long-term development prospects are solid, but the sustainability of its growth will necessitate a shift from a reliance on low-cost labor and natural resource exploitation to a greater focus on productivity growth and technological advances while also ensuring greater macroeconomic sustainability. This shift will happen in parallel with the shift to urbanization.

The World Bank has been a strong supporter of Vietnam's urban development. As Vietnam urbanizes and develops, urban development will become an increasingly important part of the Bank's development assistance in Vietnam. A greater focus will be placed on knowledge services to assist policy makers. One of the primary objectives of the Urbanization Review is to identify challenges and options for a smooth urban transition. For a full copy of the **Vietnam Urbanization Review** please visit the World Bank website at:

www.worldbank.org/en/country/vietnam

About Vietnam Urban Briefs

This is the first Vietnam Urban Briefs publication. Vietnam Urban Notes will be a regular monthly series of notes highlighting the operational, policy and analytical work on urban issues in Vietnam. Findings, views, interpretations and conclusions expressed herein do not necessarily reflect the views of the Board of Directors of the World Bank or the governments they represent.

Noteworthy

Mekong Region Urban Upgrading Project Approved: On March 22, the World Bank Board of Directors approved the \$292 million IDA financing for the Mekong Delta Region Urban Upgrading Project. The project aims to improve living conditions and urban infrastructure in six cities in the Mekong Delta Region of Vietnam