PHU MY HUNG, HO CHI MINH CITY, VIETNAM - CASE STUDY

URBAN REGENERATION KSB

WORLD BANK GROUP
Urban, Disaster Risk Management, Resilience & Land

TABLE OF CONTENT

1 SUMMARY

PROJECT & LOCATION	Phu My Hung City and Tan Thuan Export Processing Zone, Ho Chi Minh City, Vietnam
LAND-BASED FINANCING INSTRUMENT USED	Joint Venture
TOTAL PROJECT COST	Tan Thuan EPZ: US$ 89 million Phu My Hung City: US$ 242 million
LAND EXCHANGED FOR INFRASTRUCTURE	Tan Thuan EPZ: 300 hectares Phu My Hung City: 600 hectares
ECONOMIC & SOCIAL BENEFITS TO THE CITY	Development of EPZ; 17.8 km of 10-lane road; approximately US$ 500 million in tax revenue (1998-2009); a modern residential area; and infrastructure on 150 hectares of land

In the 1990s, Phu My Hung (PMH) was undeveloped swampland located seven kilometers to the south of downtown Ho Chi Minh City (HCMC). Today, PMH is one of the most coveted residential areas in Vietnam and its transformation is referenced as a national model for urban development.

PMH was one of the first land-based financing projects since Vietnam's reunification in 1975. It was part of a larger scheme by HCMC to develop an area to the south of the city (Saigon South) that included three main projects: Tan Thuan Export Processing Zone (EPZ), PMH area, and Hiep Phuoc Industrial Park. This case study explores the first two of these projects.

FIGURE 1
Phu My Hung
Development Site

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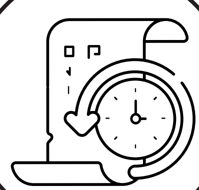
FIGURE 2
Star Light Bridge Connecting Two Pmh Develop

PHOTO CREDIT: PHUMYHUNG.VN



2 CONTEXT AND BACKGROUND

In the late 1980s, Vietnam's leadership pursued a program of reforms that called for market-based initiatives across the economy, including a new appetite for foreign investment. Considered the cradle of Vietnam's market economy, HCMC was at the forefront of the liberalization process with the New Saigon South Master Plan. However, given that the country was transitioning from a centrally planned, communist system towards a market-based economy, the HCMC government was aware of the challenges of attracting international investment. The government launched the initiative with building export processing zones (EPZs) as an entry point for foreign direct investment, helping to promote exports and develop Saigon South. The HCMC government established the state-owned enterprise Industrial Promotion Corporation (IPC), in an effort to attract potential financiers.

After lengthy negotiations, the interest of Taiwanese investors was secured as they have seen the Taiwanese economy go through similar challenges to that of Vietnam. Taiwan was among the first countries to promote exports through EPZs, strengthening the partnership. Using their experience with EPZs, the investors recognized Vietnam's growth opportunity through its export sector.

The negotiations between the city and the private sector investors resulted in an agreement to establish Tan Thuan Corporation (TTC), a joint venture to build a 300-hectare EPZ at Tan Thuan, a site along a peninsula toward the south of Saigon. Once the EPZ was completed, a 17.8-km road was needed to connect it to the country's main national highway. During the negotiation process, the two parties agreed on the development of PMH to recover the investors' costs of providing infrastructure to the EPZ. For the PMH project, the government contributed land and the Taiwanese partners put in equipment, financing, and expertise establishing the Phu My Hung Corporation (PMHC).

FIGURE 3
Location of Tan Thuan EPZ and PMH

3 THE PROCESS

To build the EPZ, the HCMC government established the Industrial Promotion Corporation (IPC) as the city-owned company to enter into a joint venture with its foreign counterparts, the Taiwanese Central Trading and Development Corporation (CT&D). The IPC and CT&D created the Tan Thuan Corporation (TTC) as a joint venture. The IPC contributed 300 hectares of land for a 30 percent equity stake in TTC, while CT&D got 70 percent ownership by contributing finance and expertise.

The cost of investment was around USD 89 million with an investment license issued in 1991. By 1992, the EPZ was built. However, the EPZ but suffered from power blackouts because the existing electric grid had insufficient capacity which led the developer to build and operate a 375 MW power plant named Hiep Phuoc Power Plant (HPPP). HPPP still delivers power to around 45% of HCMC.

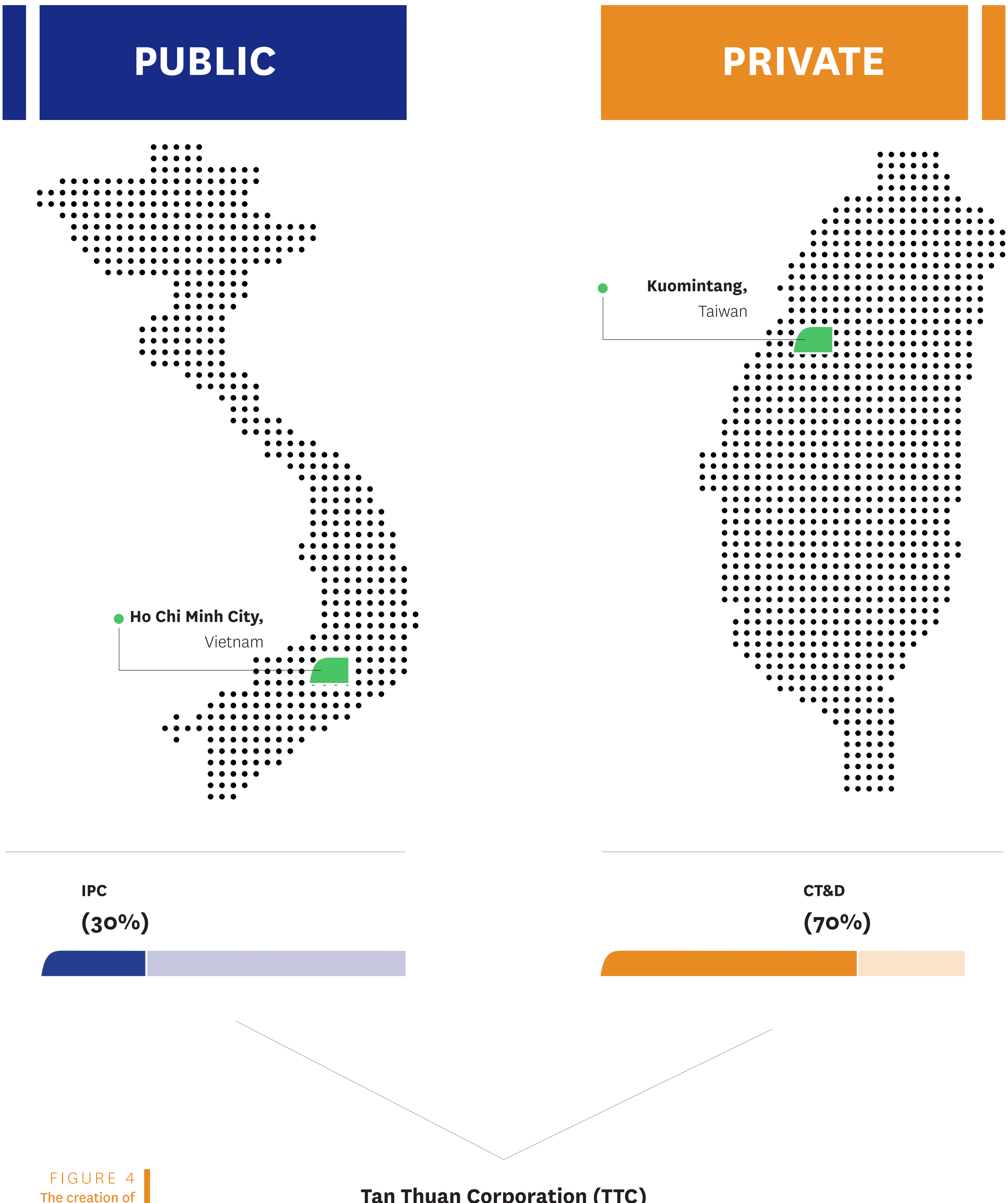


FIGURE 4
The creation of the TTC

TTC built the on-site infrastructure for the EPZ and put it into operation. However, the needed highway connection triggered CT&D to collaborate with HCMC government on an additional joint venture, Phu My Hung Corporation (PMHC). The arrangement was that the developer would receive 600 ha of land with a 50-year lease term for real estate development in exchange for the construction of the Nguyen Van Linh Parkway (220 ha for a 17.8 km, 10-lane highway) and 150 ha of built infrastructure land for public use. The serviced public land is mixed in with the commercial land of PMH. Figure 4 shows the 600 ha of PMH's which are divided into five modern urban clusters A, B, C, D and E. PMHC was established in 1993 with US$60 million in equity from HCMC and CT&D. The city government contributed land to the venture, and in return received a 30 percent stake in PMH valued at US$18 million. CT&D contributed US$42 million in equity for a 70 percent stake in the new company. The total cost of the project was estimated at US$242 million, with US$79 million for the road and US$29 million for the 150 hectares of land.

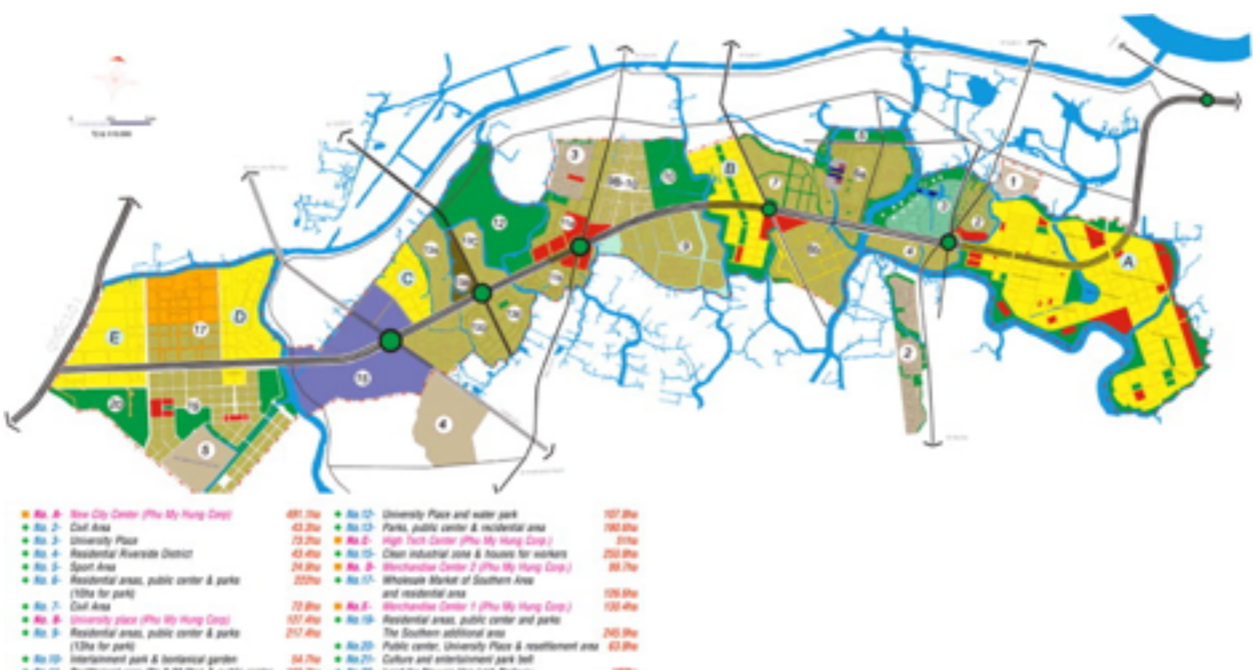


FIGURE 2
Lots A, B, C, D, And E Under Pmh Corporation

PHOTO CREDIT: PHU MY HUNG CORPORATION

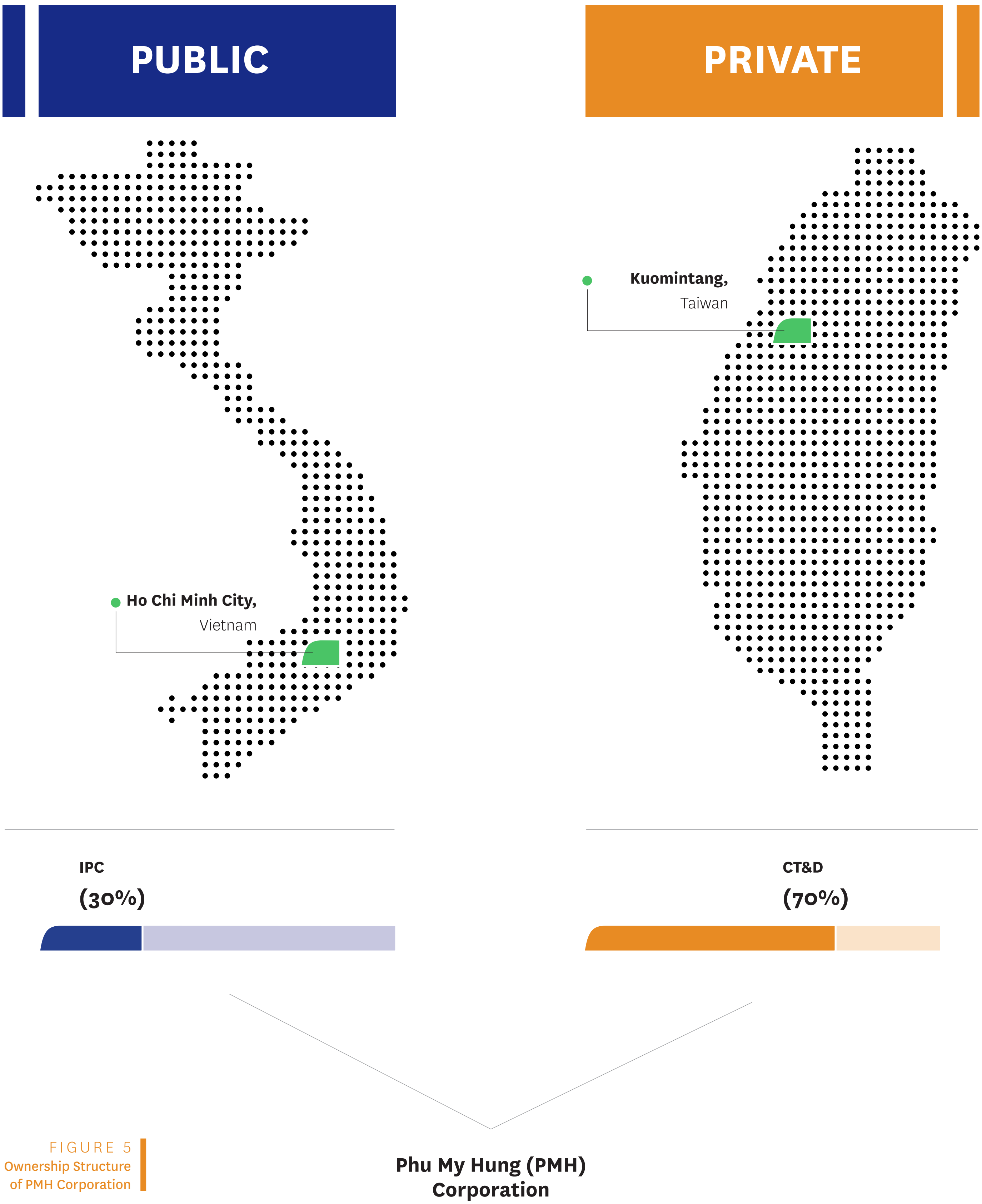


FIGURE 5
Ownership Structure
of PMH Corporation

4 PROJECT OUTCOMES

The project is considered a success in Vietnam of applying land-based financing — through the sale and transfer of land development rights to the private sector — due to its catalytic contribution to the city's development. However, as described below, there are significant concerns regarding its impact on social segregation and the environment.

5 SUCCESS

DEVELOPMENT OF TAN THUAN EPZ

Tan Thuan EPZ attracted 204 international investors aggregating US$1.559 billion in total investment. The special economic zone created more than 64,000 permanent job opportunities with US$2.1 billion in annual exports in 2013. Euromoney's Corporate Location Magazine rated it the best industrial zone in 2011.

TABLE 1
Tang (2019). Lessons From East Asia

Special Economic Zone	Number of Companies	Industries	Occupancy Rate	Total Investment (US$)	Export Value	Local Employment
Tan Thuan EPZ	204 (62 Japanese, 46 Vietnamese, 45 Taiwanese, 7 US, 6 Singapore)	Textiles, garments, software & tech, electric appliances, electronics, mechanics	87.2%	1.78 billion	23.538 billion	>60,000

TIMELY COMPLETION OF THE ROAD

Relative to most highway construction projects in Vietnam, whereby delays and cost overruns are common, Nguyen Van Linh Parkway was completed within negotiated budget and timeline. The road connects Tan Thuan EPZ with the National Highway No. 1, facilitating transport of the export-oriented goods produced within the EPZ, such as consumer electronics, garments, processed food and cosmetics.

CONSTRUCTION OF A MODERN URBAN AREA

After nearly two decades from the initial conceptualization of the project, a modern urban area has been built. PMH has become one of the most desirable places to live in Vietnam. From a meagre swampland, the value of vacant land in PMH has risen considerably, with the latest reliable reports showing it cost US$4,000 per square meter in 2011 and land prices were on an upward trend.

FINANCIAL BENEFITS FOR THE CITY

The PMH project has proven to be a good investment for the city government. From 1998, when the venture started generating revenues, to 2009, the government received US$500 million in dividends and revenues from taxes on income, property, and payment for the transfer of land use rights.

BENEFITS FOR SOUTH SAIGON AREA

The 970 hectares of land allocated to the project comprised of parcels scattered over an area of 2,600 hectares. The parcels serve the wider South Saigon area and are not confined to the boundaries of PMH Corporation. This development has positively impacted a large number of businesses and residents in the area by increasing land values, creating direct job opportunities, and opening up more opportunities for doing business with the exporters.

6 CONCERNS

SUSTAINABILITY OF URBAN SERVICES IN PMH

The developer has been directly subsidizing urban services in PMH, such as infrastructure maintenance, landscaping, and security services. This business model raises serious concerns about the financial sustainability of these services in the future, especially the costs of landscape and infrastructure maintenance and operations. When the developer started to transfer the responsibility of providing these services to the residentnominated building management boards, disputes emerged between the residents and the developer. Currently, there are no revenue sources for providing these services. If the current quality of urban services within PMH deteriorates, once the developer exits, there would be little difference left between PMH and the rest of the city. This could lead to a decline in property prices and the attraction of area. This situation rose because the funding for ongoing maintenance and common-area charges was not agreed on when the business model and development agreements were initially signed.

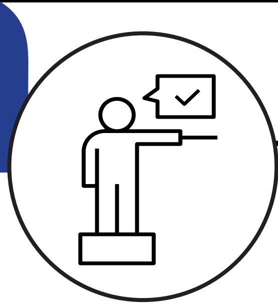
SPATIAL SEGREGATION & SOCIAL EXCLUSION

PMH is a gated mixed-use community with restricted access. Like any gated community, it creates spaces of social and spatial segregation, depriving non-community members access to the public spaces.

ENVIRONMENTAL CONCERNS

PMH is built on a wetland, an important ecosystem that provides protection from floods, mitigates changes in sea levels, and houses wildlife habitats. Some cities have developed wetlands into residential and industrial uses across the world without fully assessing the potential environmental damage. HCMC needs to address risks of flooding that have been aggravated with the destruction of this wetland.

7 LESSONS LEARNED AND REPLICABILITY



APPROPRIATE RISK ALLOCATION BETWEEN THE PUBLIC AND PRIVATE SECTOR

PMH serves as a good example of how a joint venture model can work well, with an appropriate allocation of risk between the private and public partners. The risk of the project was distributed in a manner where each partner assumed risks that it could manage more effectively. The public sector partner assumed the risk of dealing with local issues such as land clearance, intergovernmental bureaucracy, and administrative matters including getting plans approved, meeting standards, and filing documents. The private partner assumed the financial and technical risks. The expertise and experience of the staff, who were extremely knowledgeable about their localities, combined with the private capital aligned strengths and incentives to achieving an efficient process of land acquisition.

LOW COST AND EASE OF RESETTLEMENT

The cost of resettlement, which was borne by the HCMC government, was relatively low and the process was straightforward due to several factors: the majority of the 970 hectares was vacant swampland; the land was considered risky and unfit for development as compared with surrounding areas; reclaiming land for private development was a new process in post-war Vietnam and there was no precedent of resettling residents. As a result, resettlement costs were only US$15 million.

POLITICAL LEADERSHIP/ POLITICAL BUYOUT

The leadership of Mr. Phan Chanh Duong from the HCMC government and Mr. Lawrence S. Ting from CT&D was critical for the project's success. Viewed as a risky venture, Mr. Phan and his team put in extra effort to convince the city government to pursue the project. From the private sector side, Mr. Ting was open to new investment opportunities. With the Tan Thuan and PMH projects, Mr. Ting prioritized job creation and building public spaces such as parks and squares to increase land values and attract people to live and do business in PMH. He led CT&D to develop PMH without deviating much from the master plan of HCMC.

FAVORABLE FINANCING AND INCENTIVES

The PMH project benefitted from favorable financing from CT&D and aligned incentives for both parties of the joint venture. CT&D is owned by Kuomintang (KMT), the ruling party in Taiwan at the time. During that era, the tensions in Taiwan Strait[1] pushed the Taiwan to seek backup exporting facilities abroad. Thus, political and security concerns led to venture capital into an emerging real estate market. The KMT-led initial financial investment paved the way for private investors to gain confidence in the project.

The private partner had the potential to make a profit, and the city could develop Saigon South and benefit directly from the growth through its 30 percent ownership in the venture. It was unprecedented for the city to get US$ 22 million in an interest-free loan for land clearance. Access to this financing opportunity facilitated the city's work on the project.

The long-term partnership between the city (through IPC) and CT&D through the joint venture resulted in a risk reduction for the private investors. Because the joint venture was also an investment vehicle for the city, that dynamic created incentives for the city to liberalize land use policies. For instance, when the initial agreement was signed between IPC and CT&D, foreign individuals or companies were not allowed to own land in Vietnam. The successful venture paved the way for new legislation that authorizes foreign ownership of land use rights.

1. During 1995-1996, the People's Republic of China conducted missile tests in the waters surrounding Taiwan causing disruption and tensions to Taiwan's economy

REPLICABILITY The experience of PMH can be replicated by other cities around the world for infrastructure development, if favorable market conditions and a facilitating regulatory framework exists. PMH presents a case where the market demands for new developments existed along with a flexible legal framework that allowed local governments to pursue joint ventures and sell development rights. A ring road project in Changsha, China and a new airport in Bangalore, India are additional examples of public infrastructure built using a similar arrangement.

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