Profitability of Vietnam’s High-Speed Railway

The Vietnam government first announced its High-Speed Railway (HSR) plan connecting Hanoi and Ho Chi Minh in 2007. Although the plan was rejected by Vietnam’s National Assembly in 2010 due to its high cost, the railway project management board has prepared an amended plan scheduled to be presented in the coming October to the National Assembly for approval. The HSR, if approved, is expected to adopt Japanese railway trains and technologies. By comparing to HSR in Japan, Dr Tomoo Kikuchi and Ms Tomoyo Nakamura examined the profitability of the Vietnam HSR based on population density, if it goes into operation.

Connecting the country’s north and south, the Vietnam HSR plan is expected to span 1559km in length, with an estimated travel time of 5.5 to 6 hours. The construction project is divided into two phases, with the operational date set for 2050. The first phase (2020-2030) will connect Hanoi to Vinh in the north and Nha Trang to Ho Chi Minh in the south. The second phase (2030-2045) will then construct the middle section of the HSR, connecting the northern and southern sections.

The speakers argued that the Hanoi-Vinh and Nha Trang-Ho Chi Minh sections of the HSR have profit potential, whereas the middle section is less likely to be profitable. By looking at the rail share, that is the percentage of train usage as opposed to plane, they showed that Hanoi-Vinh and Nha Trang-Ho Chi Minh sections will have a higher rail share and hence a relatively high profit potential. The middle section of the HSR, however, stretches too far and has low population density along the way, dragging down profit potential of the entire stretch of HSR from Hanoi to Ho Chi Minh.

Lessons from Japanese HSR companies were drawn to show that in order for the Vietnam HSR to be profitable, it will need to diversify its business. In Japan, other than JR Central which derived most of its revenue from HSR business alone, the rest of the HSR companies have expanded into areas such as estates and hotels. According to the speakers’ calculation, the Vietnam HSR will need to diversify 70% of its revenue source in order to be profitable. If the population density is to increase, especially near its southern section, the percentage in which it needs to diversify its business could be lowered to about 50%.

Taking into account the railways under construction in neighbouring countries, the Vietnam HSR profitability could also be boosted if Phnom Penh of Cambodia is to be better connected to Ho Chi Minh. This will increase the flow of passengers travelling to and from Cambodia, Thailand and other Southeast Asia countries. In this case, more profits will be generated for the Vietnam HSR, especially its southern route.

The speakers stated that the southern part of the HSR matches well with the southern economic corridor strategy initiated in the Greater Mekong Subregion. They foresaw that the southern portion of the HSR will encourage economic exchange between Vietnam and the region in accordance with this strategy.

This summary reflects the personal opinion(s) of the seminar speaker(s) and should in no way be attributed to the East Asian Institute.