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The diverging South : comparing the cashew sectors of Tanzania and Vietnam

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Parallel but different transitions to a market economy

Introduction

This chapter addresses the transition to a market economy in Tanzania and Vietnam and the divergence in performance between the two countries in the period between 1986 and 2007.

The year 1986 was crucial when Tanzania and Vietnam both adopted market reforms. Tanzania was being ruled by only its second president since independence in 1961, President H.E. Ali Hassan Mwinyi, who faced the monumental task of introducing free-market changes after almost two decades of socialism. A move away from the socialist method of doing business presented its own challenges as this was the only method of operation that those in government knew. Tanzania's economy was performing poorly and having to comply with conditionalities laid down by international financial institutions that were supporting its ailing economy. For Vietnam, 1986 marked the beginning of the implementation of *Doi Moi* (renovations), namely market-oriented strategies. As in Tanzania, this was a new path away from socialism and the Vietnamese economy was functioning equally poorly at the time. *Doi Moi* was characterized by a move from socialist collectivization to individual ownership of land and the freedom to produce and trade. Vietnam started to implement wide-ranging strategies to enable its citizens to move out of poverty in this period, including rural electrification and resettlement projects. 1986 was thus a turning point for both countries.

A macro view of the two countries is provided in Table 2.1 and Graph 2.1. The variables considered include land area, arable land, population, the percentage of the population in rural areas, and population density and structure. Tanzania has three times more land than Vietnam and about half its population, with a population density of about 50 people per km² compared to more than 250 per

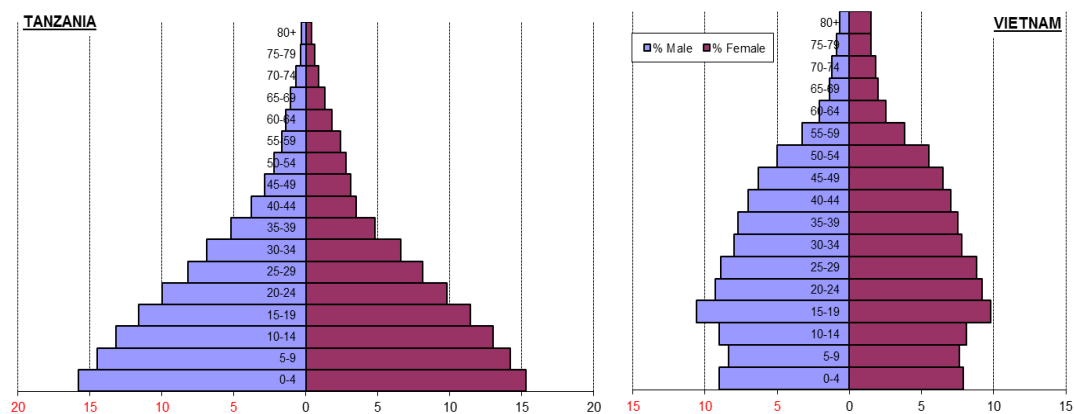
km² in Vietnam. The rural population in both countries is about the same at around 70% of the total population. The two countries have different population structures. The population pyramids in Graph 2.1 show that both countries are predominantly made up of young people. Vietnam's population structure is starting to bulge, with half its population being under 30 years of age, while half of Tanzania's population is under 20.

Table 2.1 Vietnam and Tanzania compared

	Land area (km ²)	Arable land (hectares)	Population (in millions)	Percentage in rural areas	Population density
Tanzania	887,460	9,600,000	42,188	73.7	49
Vietnam	310,070	6,300,000	85,790	70.4	259

Source: National Bureau of Statistics (NBS) of Tanzania and General Statistical Office (GSO) of Vietnam. The estimated population figures for Tanzania are for 2010 and the population figures for Vietnam are from its 2009 census.

Graph 2.1 Population pyramids for Tanzania and Vietnam (2009)



Source: General Statistical Office (GSO) of Vietnam and US Census Bureau, International Database

It is important to understand what happened in both countries prior to 1986 so this chapter makes macro comparisons between Tanzania and Vietnam in the context of the global economy between 1955 and 2010. The next section discusses a theory of divergence and comparison, while the third section looks into the similarities between Tanzania and Vietnam and the socialist approach that failed either to increase production substantially or to reduce poverty. After socialism was abandoned, market-oriented strategies were adopted and the subsequent section considers the self-initiated market-oriented strategies of *Doi Moi* in Vietnam, comparing them with the conditional market strategies of Tanzania's

Structural Adjustment Programmes. Improvements in GDP and agricultural growth are also examined.

The diverging South

Trying to understand differences is an exercise often undertaken by scholars, and this research is no exception. It studies, in particular, the diverging South. To understand divergence between two areas, one has to assess how the two places are faring and compare their production levels with world averages. This approach provides respective ranking positions in relation to a benchmark figure. Alternatively, one could compare the two countries as individual cases, providing a comparative understanding and using a period with similarities as a benchmark.

Wood (2000, 2001a, 2001b) employs export structure as an entry point of comparison. By using the Heckscher-Ohlin trade theory and assuming that a 'country's export depends on the composition of its resources', the H-O theory helps to describe North and South trade where the composition of GDP of Northern economies is composed of capital-intensive manufacturing while developing countries in the South have economies based on labour-intensive export items. Wood shows that the differences between the two regions are mainly caused by variations in skill, land and labour and that countries with a high ratio of skills to land tend to export manufactured products, while those with a low ratio of skills to land are more likely to export primary products.¹ Wood feels that Africa has low manufacturing levels and a low percentage of processed products in its primary exports, with low levels of skill and high levels of land per worker.² But then again, this acts as a diseconomy of scale. He also observes that there has been little improvement in skills with a growing population.³ Comparing Asia and Africa, Karshenas (2001), who looks only at the South, shows the variations in agrarian structure in the two regions and claims that in countries in Sub-Saharan Africa with much lower population densities, agriculture plays an important role in explaining cross-country differences in sectoral per capita income. Woods believes that all the constraints that lead to discrepancies with other parts of the world are due to a lack of infrastructure, macroeconomic mismanagement (especially in exchange rates) and ineffective administration. Africa would develop faster, he feels, if it reduced transaction costs, especially in infrastructure.

Karshenas (2001) on the other hand uses a so-called v-ratio to capture duality in Sub-Saharan African economies as compared to Asia, noting that per capita

¹ Skill per worker is measured by an adult's average number of years of schooling (aged 15 and over), while supply of land (a proxy for resources) is measured by a country's total land area. N.B. These measures do not account for quality. See Wood (2000, 2001a, 2001b).

² The ratio of manufacturing to primary exports tends to be higher in countries with more skills and less land per worker.

³ An observation shared by Boserup (1965) who mainly focused on static comparison.

income and productivity in the non-agricultural sectors is well above that in the agricultural sector. The v-ratio measures the value added per agricultural worker as a percentage of value added per worker in the non-agricultural sector at current prices. The relatively low v-ratios in Africa are predominantly explained by the structural characteristics of the agrarian economies in Sub-Saharan Africa in contrast to those in Asia. This view is shared by Wood but Karshenas shows that initial conditions matter when it appears that, to explain wage differentials between Asia and Africa, one does not need to invoke arguments of urban bias, government wage legislation or union power in post-colonial Sub-Saharan Africa.

These approaches offer two different ways of making comparisons. Firstly, to create a measure, in the case of Karshenas the v-ratio, and then to see how countries rank, and explain the divergence by looking at the differences in initial conditions (labour, land and output). He followed the pattern by assessing how economies with limited labour operate. Wood, on the other hand, created a measure that captures the export structure variation and then sees how different world blocs are faring. He dissected the export structure in detail to ascertain the types of resources being used for export production in individual countries, and then did the same for manufacturing in total exports, both current and predicted, and identified the share of skill-intensive items in manufacturing.

The analysis in this chapter draws on macro-sectoral data and a literature study. The similar roots of Vietnam and Tanzania are considered first, with an emphasis on their common turning point,⁴ and later their diverging pathways.

Common roots, diverging pathways

There were some commonalities of experience between Tanzania and Vietnam, such as socialist development from a predominantly agrarian economy and similar levels of development in the 1960s, but also important differences (two Vietnams versus one Tanzania, war versus peacetime development). This section starts by looking at the roots that Tanzania and Vietnam have in common.

As can be seen in Table 2.1, both countries have a large rural population. This was around 80% in the 1970s and most of the people were engaged in agriculture. The two countries had high levels of poverty until the early 1990s, with almost 40% of Tanzania's population and nearly 60% of Vietnam's being classified as 'poor'.⁵ With the majority of their population confined to the rural areas, both countries adopted a socialist approach but a lack of sufficient resources resulted in the underdevelopment of infrastructure. For instance, with land size almost three times that of Vietnam, Tanzania had 85,000 km of roads in 1998 and

⁴ A time of sharp divergence.

⁵ For levels of rural poverty, see Table 2.1A in the Appendix.

Vietnam's totalled 93,300 km. The entire railway network was 4,444 km in Tanzania and 2600 km in Vietnam in the same year.⁶ Both countries have very low road density, namely 9 and 48 km of roads per 100 km² for Tanzania and Vietnam respectively.⁷ At about 10% the size of Vietnam and 3% that of Tanzania, the Netherlands, for example, has a total land area of around 37,000 km² and a road network of more than 137,000 km, giving a road density of above 300 km of road per 100 km². The use of five-year plans by Tanzania's and Vietnam's interventionist governments is evident in both countries.

Socialist state of Tanzania: 1967 to 1985

Tanzania gained independence from the British in 1961 and became a republic in 1962. In 1964, mainland Tanganyika was united with Zanzibar to form Tanzania. Political parties were banned in 1965 and Tanzania became a one-party state with the challenge of having a population facing poverty, disease and ignorance. Under the leadership of Julius Kambarage Nyerere, the Tanzania African National Union (TANU) saw the major means of production in the hands of just a few and socialism was introduced with the expectation that it would create a more egalitarian society.

*Ujamaa na Kujitegemea*⁸ (Socialism and Self-reliance) were adopted in 1967, with all the major means of production belonging to the state. Efforts were made to increase literacy levels among the population, price controls for producer and consumer goods were introduced, wages, incomes and pricing policies were adopted by the government to control wage rises (Semboja *et al.* 1988), and private banks, enterprises, hospitals and schools were privatized. According to Coulson (1982: 274), parastatals in Tanzania limited the transfer of profits abroad, investing in productive sectors and providing productive infrastructure in transport, construction and power generation. The government also abolished all local government in an attempt to improve service delivery and services were then centrally controlled.

The main pillars of *Ujamaa* were based on the mobilization of the masses to bring about development, social justice and equality, and to reduce poverty. With a vast country and a scattered population, the party initiated a resettlement programme to allow for the easy provision of services. Initially, moving to *Ujamaa*

⁶ WDI database sourced from the International Road Federation, World Road Statistics and electronic files, except where noted, and the World Bank, Transportation, Water, and Information and Communications Technologies Department, Transport Division.

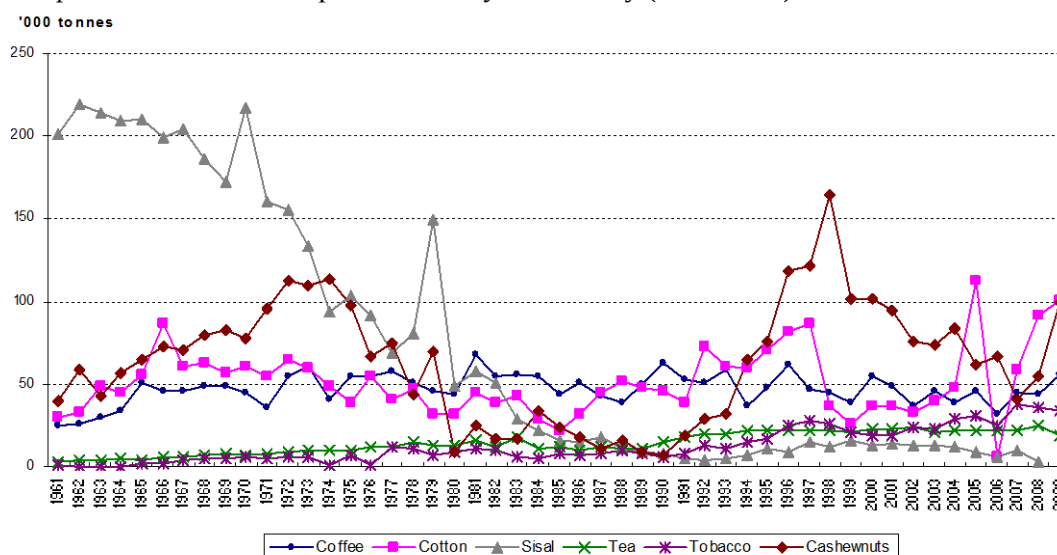
⁷ WDI database sourced from the International Road Federation, World Road Statistics and electronic files, except where noted, and the World Bank, Transportation, Water, and Information and Communications Technologies Department, Transport Division.

⁸ Tanzanian socialism is referred to simply as *Ujamaa* and self-reliance as *Kujitegemea*.

villages was voluntary, but persuasion and inducement were used later with farmers who were slow to move to these villages (McHenry Jr 1979).⁹

In 1973 and coupled with the oil crisis, the movement of farmers to the development villages led to a sudden fall in crop production (of cash and food crops) and exports of traditional crops experienced a dramatic fall in the following years, especially in sisal and cashew (Graph 2.2 and Table 2.2A in the Appendix). By 1975 and amid resistance from farmers, only villages where ‘a substantial portion of the economic activities of the village are being undertaken and carried out on a communal basis’ were designated and registered as *Ujamaa* villages.¹⁰

Graph 2.2 Tanzania’s export volume by commodity (1961-2009)



Source: Bank of Tanzania (BOT) and Economic Survey (2009)

Much of the state’s investment was aimed at providing public-sector services, increasing industrial production and promoting communal agriculture. To compensate for its limited production, Tanzania was able to benefit from its friendly ties with the Nordic countries (Sweden, Norway, Denmark and Finland) that supported the provision of healthcare services and education. Other foreign exchange came from trading traditional export crops, such as coffee, cotton, sisal, cashew and tea.

After independence, Tanzania started to build import substitution industries (ISI) to process its raw materials. Parastatals were formed, including ones in

⁹ The villages became ‘development villages’, reflecting the importance the party leaders put on development. See McHenry Jr (1979) for more details on their implementation.

¹⁰ Villages and Ujamaa Villages Act 21 of 1975, Article 16: 1.

charge of crop marketing and banking. The government owned all Tanzanian enterprises and made the strategic decision to invest heavily in human capital in order to have enough qualified labour to run the economy. The expansion of parastatals meant an explosion in managerial positions, which attracted many able Tanzanians away from the civil service (Coulson 1982). These included, for instance, the National Bank of Commerce (NBC),¹¹ the National Insurance Corporation (NIC), the National Provident Fund (NPF), the Tanzania Rural Development Bank (TRDB),¹² the Tanzania Investment Bank (TIB) and the National Development Corporation (NDC), most of which started around this time. Several production plants were set up too: Wazo Hill for cement production, cashew-shelling plants in Mtwara and textile mills such as Mwatex and the Friendship Mill. Coulson (1982) observed that a lot of the investment in the manufacturing sector tended to be capital intensive and the plants were costly to run. Most of the projects were managed by international aid donors (Wuyts 2004).

The then established Import Substitution Industries (ISI) found it difficult to obtain imported tools, machines and other inputs for production due to higher oil prices after the 1973 oil crisis. Some of the newly built cashew-processing plants never opened. The National Price Commission offered higher prices for food crops to encourage production, which led to increases in the production of food at the expense of cash crops. This was a response to the drought of 1973/74 and shows that farmers do react to price incentives. The demand for wage goods (necessities) continued to grow but this led to further increases in the prices of wage goods, particularly food (Wuyts 1994, 2001). In his recent work, Edwards (2012: 22) notes that ‘during the late 1970s, and as profits from state owned firms and crop authorities declined, the government ran increasingly large deficits. These were partially financed through money creation by the Bank of Tanzania, with the resulting inflationary pressures and further erosion of competitiveness. By 1977, and in spite of the goal of becoming self-reliant, almost 60% of Tanzania’s development budget was financed with foreign aid.’ Wangwe (1983: 484) noted that this was due to capacity creation coupled with capacity underutilization and that ‘MVA (manufacturing value added) doubled during the 1966-1980 period while industrial employment tripled’.¹³ With so much money chasing so few goods, inflation became rampant (Wuyts 2004).

¹¹ The bank with the most branches was split into NBC Limited (with 53 branches), Consolidated Holdings Corporation and NMB with 139 branches in 1997.

¹² Transformed in 1984 to support rural cooperatives, the then-called Cooperatives and Rural Development Bank (CRDB) was privatized to become the CRDB Bank PLC in 1996.

¹³ Even with a reduction in output, enterprises continued to hire labourers, which resulted in an underutilization of labour. The structure of imports was not adjusted to reflect the greater need for intermediate inputs than machinery to solve the balance of payments crisis. All industries, with the exception of hoes/ploughs, operated at less than full capacity. See Wangwe (1983: 489, Table 7).

It was also at this time that Tanzania followed a non-alignment movement, which allowed it to receive assistance from both the Western and Eastern blocs to support its development programme, especially education and health. But failure to meet the conditions provided by the IMF on devaluation and fiscal adjustment led to minimal donor assistance.

Parts of Tanzania's northern border region were illegally occupied by the then-president of Uganda Idi Amin in late 1978 and Tanzania went to war to defend its territory. The fighting was over by April 1979 and Amin was overthrown by a combined team of Tanzanian and exiled Ugandan soldiers. Though no official figures are available, Tanzania used most of its national reserves to fight this war.¹⁴ And a shortage of foreign-exchange earnings, coupled with the Ugandan war, led to the emergence of deep cracks in the country's economy.

Even with limited resources at its disposal, Tanzania was still at the forefront of supporting its non-free neighbours in Southern Africa, including Angola, Zimbabwe (then Rhodesia), Mozambique and South Africa where it also helped to fight apartheid by allowing freedom fighters to have a base in Mazimbu, Morogoro (Ngowi 2005). Sanctions were imposed on Tanzania as a result of its support of the opposition forces in Southern Africa and donors questioned the rationale behind providing funds to Tanzania as it was in turn supporting other countries in their fight for independence.

Tanzania began to struggle to stand on its own as its economy failed. Bienefeld (1989: 4) summarized the process that led to the crises of the late 1970s and early 1980s as 'construction, over twenty years, of a geographically dispersed, import intensive, urbanised economy depending critically on expanding marketed agricultural surpluses to feed the urban population and to earn the foreign exchange required for that system to operate'.

To win external support, Tanzania had to accept conditionalities from the International Financial Institutions (IFI). From 1981 to 1984, the country tried to implement its own reforms to avoid IFI conditionalities and to preserve its autonomy in making policy, undertaking locally designed recovery programmes that included the National Economic Survival Programme (NESP) and Structural Adjustment Programmes (SAP) in 1981 and 1983 respectively (Wangwe 2004). The NESP aimed to cut government expenditure by downsizing government institutions and privatizing parastatals (state-owned enterprises), increasing exports and reducing imports to help earn foreign exchange, increasing food sufficiency, improving strategic planning and coordinating activities better, and providing incentives to farmers through agricultural marketing to increase efficiency. For-

¹⁴ The cost of the war is estimated at about US\$ 500 million to US\$ 1.5 billion (Nyang'oro 2011: 82), BOT (2011: 89) and Edwards (2012: 24).

eign-exchange liberalization and devaluation were implemented to improve the balance of payments deficit.

The above-mentioned reforms led to greater reliance on individual initiatives and corporate accountability rather than on government as the decision maker in business matters. Tax and civil-service reforms were additional components that reflected changes in the role of government under SAP. In these times of transition in the early 1980s, Tanzania experienced severe shortages in the production of necessities and wage goods. Food was rationed and many families had to access a garden to ensure their own food supply. I personally remember standing in line (saving a spot for my mother) waiting for a truck from the National Milling Cooperation (NMC) to distribute flour and sugar for *kaya* (households) in our neighbourhood. In urban areas, it was common to see houses surrounded by vegetables, chickens and cows instead of lawns. ‘The worst were the generalized shortages and electricity blackouts (...) shops were empty, and many people resorted to bartering, and the precipitous decline in incomes and public services.’¹⁵ And ‘this *goods famine*’ was experienced in both the urban and rural areas; farmers had little incentive to sell their crops if there was hardly anything to buy with the money they earned (Wuyts 2004: 338). In rural areas the situation was even worse.

The state failed to implement the envisaged reforms due to a lack of resources as even the previously friendly Nordic donors were now siding with the IFI. ‘In the four years between 1981 and 1985, net official assistance, in per capita terms declined by a remarkable 40%.’¹⁶ In 1985, after more than twenty years in power, President Julius Kambarage Nyerere, Tanzania’s first president, stepped down to make way for a new president, who would have to adopt market reforms with conditionalities from the IFIs. These conditionalities in Tanzania and in other Sub-Saharan African countries were influenced by the 1981 Berg Report (Wuyts 2004), which hinged on the fact that the depressing performance of the economy was a result of bad policies, with people’s interests coming behind those of bureaucrats. With evidence of failure of the required planned economic change, President Nyerere mainly concentrated on the politics of nation-building and passed the torch of economic strength to President Ali Hassan Mwinyi.¹⁷

Socialist state of Vietnam: 1955 to 1985

In the past, South Vietnam followed a capitalist path, while North Vietnam adopted a socialist path. North Vietnam gained independence from the French in

¹⁵ Edwards (2012: 26) citing Mtei (2009).

¹⁶ Edwards (2012: 3).

¹⁷ Mkandawire (2001) noted that most first-generation African presidents strove for nation-building and subsequent presidents had to deal with rebuilding the economy.

1945 and introduced socialism in 1955 after its war with France.¹⁸ The South remained capitalist with support from the US until the end of the Vietnam War in 1975 when North and South Vietnam were reunited and the socialist government in the North faced the challenge of rebuilding the country. Under socialism, most enterprises were run by parastatals or corporations. Production was centrally planned, with all farmers belonging to a cooperative society and producing communally. Earnings were then distributed to each member regardless of his/her effort or level of input. In the North where central planning was practised, production was collectivized. The leadership of North Vietnam¹⁹ wanted to remove all traces of capitalism in the South but this proved to be a challenge after the end of the war when there was already resistance in the North to cooperatives, as incentives provided under collectivization were falling.

With all the major means of production controlled by the state, efforts were made to redistribute land equitably and the majority of farming households received land, as was observed by ANZDEC Ltd *et al.* (2000: 28):

The distribution of agricultural land is relatively equitable in Viet Nam. This is a consequence of its socialist revolution in which large holdings were converted to state farms or agricultural collectives in the late 1950s in the North and in the late 1970s in the South. Furthermore, the process of decollectivization, in which collective land was allocated to member households, was relatively equitable. A limit of 2 hectares in the Red River Delta and 3 hectares in the south prevented the creation of large private farms.

In its socialist period, Vietnam depended on China and Russia for aid but relations with China broke down after Vietnam attacked Cambodia in 1978 (ANZDEC Ltd *et al.* 2000: 31).²⁰ Prior to this, China and Russia had assisted in establishing state enterprises to produce fertilizer (Minot *et al.* 2006). Vietnam received about US\$ 1 bn annually in economic assistance, mainly from the Council for Mutual Economic Assistance (CMEA), which included the Soviet Union and the People's Republic of China (PRC) (Tri 1990).²¹ Vietnam was not self-sufficient in food. In 1981, the Communist Party allowed farmers to sell any surpluses on the open market after meeting their required quota.²² Marketed out-

¹⁸ At Dien Bien Phu.

¹⁹ The party that fought the US in South Vietnam.

²⁰ With the end of the Vietnam War, there were frequent attacks from Cambodia, which was by then under the Khmer Rouge. The Vietnamese invasion of Cambodia resulted in retaliation from China, which supported the Khmer Rouge. Vietnam went on to occupy Cambodia for ten years (1979-1989) and did not trade much with the rest of the world before its withdrawal from Cambodia.

²¹ The USSR in particular assisted with heavy industry, sending not only about 1000 specialists and technicians but also undertaking the training of 10,000 Vietnamese. Of the 90 projects, 25 involved large-scale electric power plants, mining and mechanical engineering and there were also tea-processing and fish-canning facilities set up and tractors and other agricultural equipment were provided. The Chinese were involved in bridge and railroad (re)construction too and provided equipment for Vietnam's mines, radio networks and state farms.

²² A three-point contract was put into practice in 1970 based on contractual output, production costs and work points. Production brigades assigned work to members, specified norms for each task and fixed the number of work points that each member would receive.

put initially increased but quotas were adjusted upwards and farmers reacted by producing less, which worsened the chronic food shortages.

After five years, the state came up with reforms that were famously known as *Doi Moi* (renovations) in 1986. *Doi Moi* saw a move towards a free market arrangement with the allocation of collective land to farming households and an end to the quota system (Tri 1990). In addition, the reforms led to exchange rate adjustments. *Doi Moi* encouraged stabilization and the development of production, distribution and the circulation of goods, which improved people's lives. Efficiency of organization and management were called for, with the establishment of order and discipline and the realization of social justice (*Ibid.*).

Economic growth in both Tanzania and Vietnam before 1986 was extremely low, and at times even negative, with growth rates below zero reflecting a real fall in output. IMF data show that the adjusted GDP per capita based on purchasing power parity (PPP) was around US\$ 500 for both countries in the early to mid-1980s. This is extremely low and corresponds to less than US\$ 1.5 per day on average.

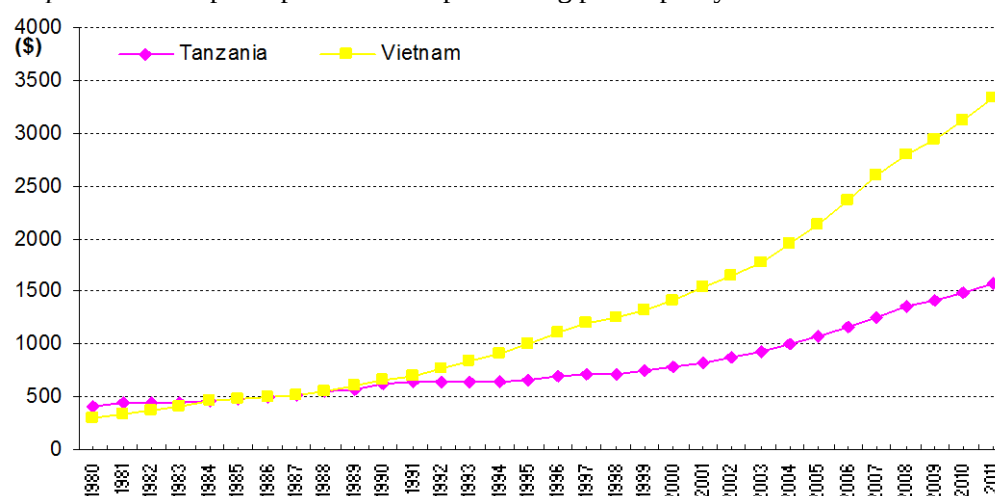
In summary, this section on the two countries' common roots shows that Tanzania and Vietnam both adopted socialism and then struggled to produce under it as all the major means of production were controlled by the state. The high levels of poverty did not disappear and in some cases even deepened. Before discussing the countries' diverging results after they adopted a more market-oriented approach, some observations are made based on secondary data on the growth performances of Tanzania and Vietnam.

GDP growth and its structure

Graph 2.3 shows little divergence between Tanzania and Vietnam in terms of GDP per capita before 1990. Since then, GDP per capita in Vietnam has almost doubled compared to Tanzania's GDP per capita, which has increased but more slowly (Graph 2.3). GDP per capital rose in both countries to above US\$ 500 after 1986 and more than tripled in Tanzania between 1980 and 2008, while Vietnam's increased to more than six times its 1980 level.

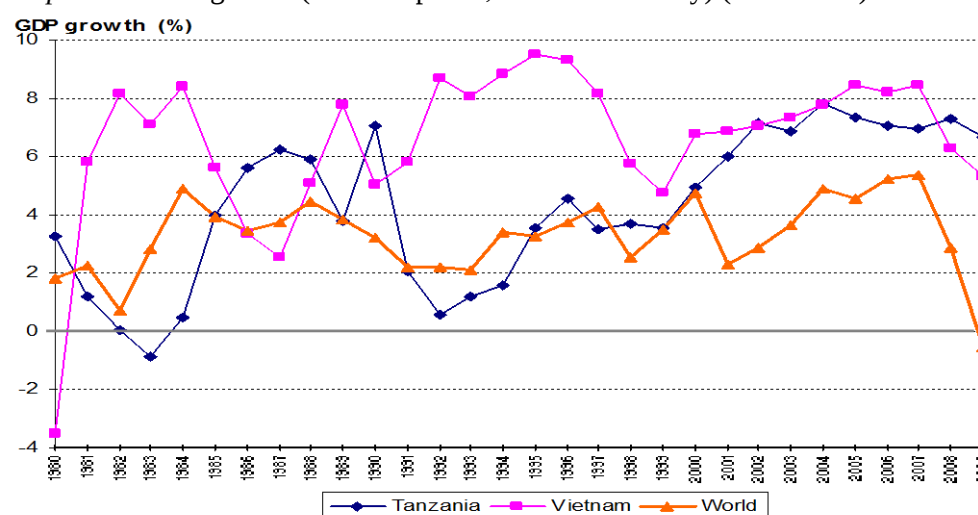
GDP growth rates show fluctuations in both countries (Graph 2.4). Vietnam's growth rate was consistently higher than Tanzania's between 1990 and 2008. And although GDP per capita has been rising steadily in Tanzania, growth rates are erratic. From 1980 to 1983, the Tanzanian economy grew by less than 2% and even experienced negative growth in 1983 when the country was implementing the NESP's home-grown reforms and SAPs. A sharp rise in GDP went hand in hand with acceptance of the IFI's conditionalities in Tanzania in 1986. Even

Graph 2.3 GDP per capita based on purchasing power parity



Source: International Monetary Fund, World Economic Outlook Database (October 2010)

Graph 2.4 GDP growth (constant prices, national currency) (1980-2009)



Source: International Monetary Fund (2011)

though growth in GDP is positive, it started from a very low point.²³ Around this time, export levels of most crops were low too (Graph 2.1).

A fall in GDP was seen in Vietnam in 1980, 1985, during the 1997 crisis in Asia and during the recent global economic crisis that began in 2008. It should be noted that since Vietnam adopted *Doi Moi* in 1986/1987, its GDP growth rates

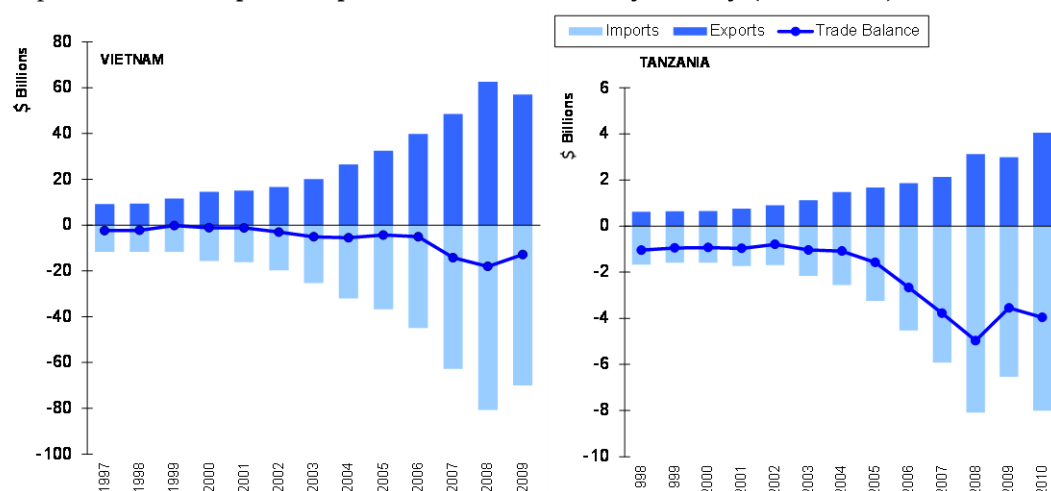
²³ For instance, Tanzania's GDP grew to above 6% in 2010 at a time when global growth rates were at 4.08%. The fact that Tanzania's growth rate is above average says little about the size of its economy and a poor country, like Tanzania, needs to maintain a high growth rate for a long period to accrue any real benefits.

have always been above the 5% mark. The country recovered quickly from the 1997 Asian crisis but is yet to emerge from the current financial crisis.

Tanzania and Vietnam trade with many other partners. Vietnam joined the WTO in 2007 and Tanzania has been a member since 1995.

Tanzania and Vietnam are net importers²⁴ as they have a negative trade balance (trade deficit) (Graph 2.5). When considering the period between 1997 and 2009, Vietnam traded at more than 10 times the level Tanzania did. The Tanzania graph shows more inequality between exports and imports, which signifies a high domestic absorption rate (Wuyts 2004). Nevertheless, the adoption of SAPs, which were aimed at macro-economic stabilization and an acceptable trade balance, showed disappointing trends in Tanzania. Trade deficits meant that Tanzania had to find other means to finance its economy by receiving payments for services rendered abroad (factor payment) or grants (transfer payments). The latter was more applicable for Tanzania but implied continued dependency on donors. For a country's economy to grow, it needs to be able to finance imports that will lead to growth and have a sustainable balance of payments that is not inflationary and is set at a stable exchange rate.

Graph 2.5 Total imports, exports and trade balance by country (1997-2010)



Source: UN Comtrade (2011)

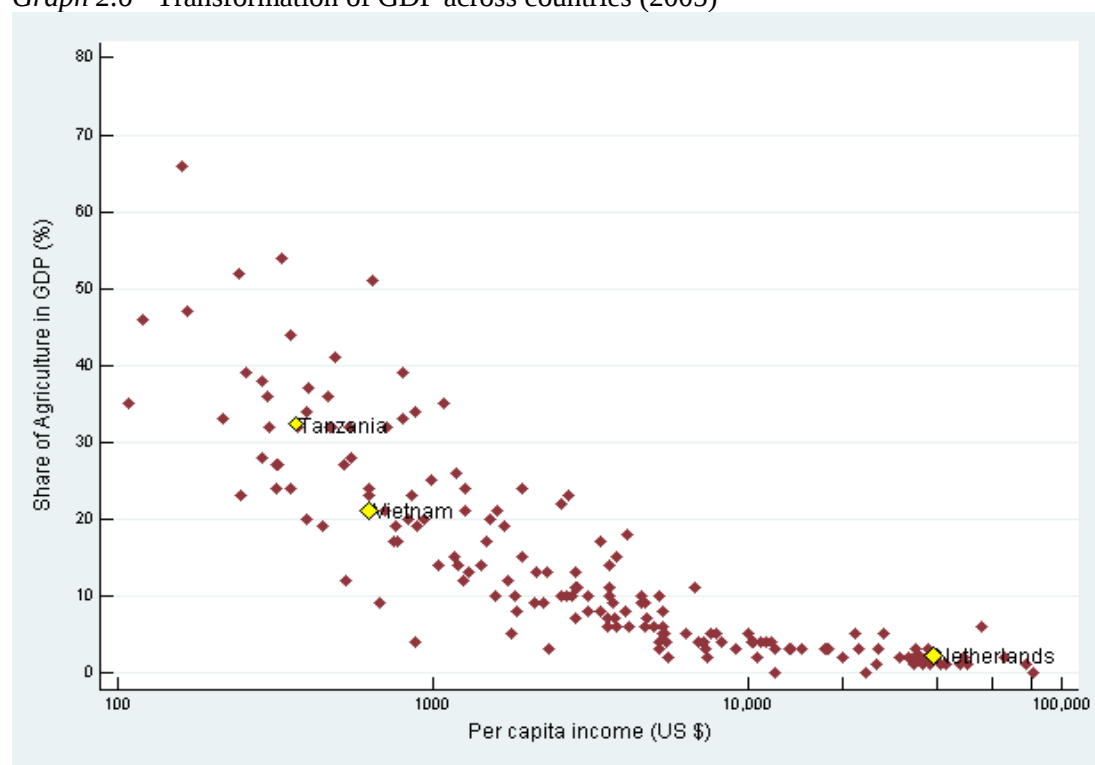
Trade is made up of many goods and is not limited to agricultural commodities, processed goods, semi-processed goods and services. As Vietnam and Tanzania are agrarian economies, the next section focuses on agriculture.

²⁴ A net importer is a country that imports more goods than it exports.

Agricultural growth

This section presents an empirical analysis of agricultural growth and the share of agriculture in GDP. At national level, agriculture's contribution to GDP generally tends to fall with an increase in per capita GDP. Graph 2.6 shows that low-income countries have a higher share of agriculture in their GDP than high-income countries. Tanzania and Vietnam with per-capita incomes of less than US\$ 1000 per person in 2005 had a 32% and 21% share of agriculture in their GDPs respectively.

Graph 2.6 Transformation of GDP across countries (2005)



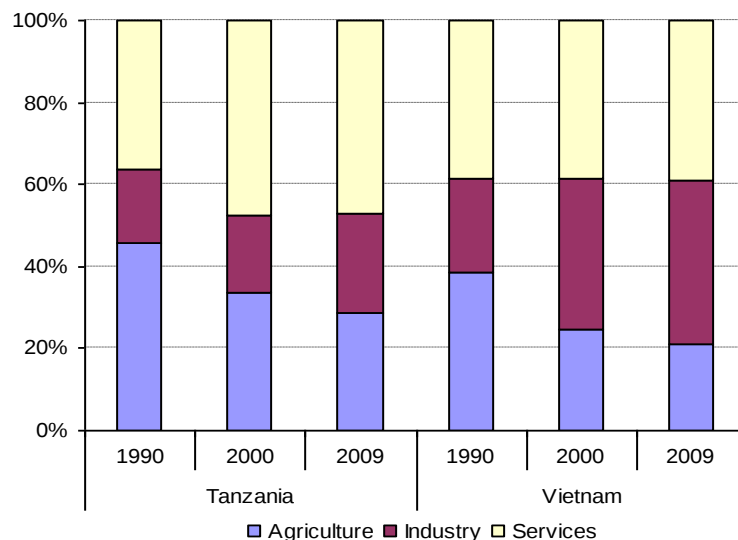
Source: World Bank, International Comparison Program database

With GDP being composed of agriculture, industry and trade, changes in the economy can be observed over time. As a country develops, the contribution agriculture makes to its GDP tends to fall while that of industry and services tends to rise. In Tanzania, agriculture's contribution to GDP was 45% in 1990 and 30% in 2009 (Graph 2.7). The contribution of agriculture to GDP has thus fallen while those of industry and the service sector are on the rise. The rise in the service sector can be mainly attributed to increased tourism (Bank of Tanzania 2011),²⁵ even

²⁵ Between 2001 and 2008, revenue from tourism almost doubled from US\$ 725 million to US\$ 1354.9 million, according to the Bank of Tanzania (2009: Table A, p. xviii). See also Table 2A3 in the Appendix.

though the rise in agriculture has not gone hand in hand with increased productivity and yields.²⁶ Since 2000, for instance, agriculture has contributed about 25% to 33% of the country's GDP and employed about 30 million people.²⁷

Graph 2.7 Percentage contributions of agriculture, industry and services to GDP in Tanzania and Vietnam (1990, 2000 and 2009)



Source: WDI, World Bank national accounts data, and OECD national accounts data files

On the other hand, agriculture's contribution to GDP in Vietnam was about 38% in 1990 and 20% in 2009 (WDI 2011). Contributions from the service sector have remained the same, while those of industry have risen. Higher contributions by the industry sector to GDP reflect the on-going mechanization and upgrading undertaken by the Vietnamese government since the mid-1980s.

Similar economic turning points (1986)

The two countries moved towards more market-based development in the 1980s, with 1986 being a crucial year for both. Tanzania's President Ali Hassan Mwinyi was in power and had the monumental task of introducing free-market policies after more than two decades of socialism. The move from socialist to capitalist ways of doing business presented new challenges as most of the concepts were still new. Tanzania's economy was performing poorly and had to comply with

²⁶ World Bank (2009: 10), contrary to the known fact that with the rise in productivity, the share of agriculture in GDP decreases because fewer inputs are needed for the same output.

²⁷ Agriculture Sample Census (2007/2008).

IFI conditionalities to get it moving. On the other hand, 1986 saw Vietnam begin to implement its *Doi Moi* and market-oriented strategies. Tanzania was taking a new path away from socialism at a time when the Vietnamese economy was also at a low level. *Doi Moi* is characterized by a move from socialist collectivization to the individual ownership of land and the freedom to produce and trade. With *Doi Moi*, Vietnam embarked on massive strategies to lift its citizens out of poverty with projects devoted to rural electrification and resettlement, among others. 1986 is thus an ideal turning point to compare the two countries.

Diverging tracks

Short-termism or market-based development through a blend of (donor-inspired) structural adjustment and *rukpa* (permission) prevailed in Tanzania. In Vietnam, reforms were internally driven by *Doi Moi*, were strategically informed and characterized by adaptive adjustment.

Initially, the new market-oriented strategies were implemented under a single-party state. With the economic changes in Tanzania, a wave of political change followed, with multiparty politics being officially adopted in 1992. Unlike Tanzania, Vietnam only undertook economic reforms and, to date, no political reforms have been implemented.

Regarding infrastructure, Tanzania had 91,049 km of roads in 2010, 7% of which were paved, according to TANROADS and PMORALG, while Vietnam had about 222,179 km in 2004, of which 19%, mainly national and provincial roads, were paved.²⁸ The road network in Vietnam has more than doubled since 1998, while Tanzania's has increased by a mere 10%. Both countries need to make massive investments to improve and expand their road networks.

A few years after adopting the new donor-inspired Structural Adjustment Programmes, Tanzania saw its crop production, especially cash crops, increase from their low levels of the mid-1980s, although these have never reached the levels seen in the 1960s and 1970s. With stagnant production, its people remained poor.²⁹ In 2007, 33% of Tanzania's population were living below the national poverty line, with poverty rates highest in rural areas: 37.6% of rural households were living below the basic needs poverty line compared with 24.1% of households in other urban areas and 16.4% in Dar es Salaam (HBS 2009).³⁰ Tanzania's main agricultural export commodities include coffee, cotton, tobacco, cashew, tea and sisal. Table 2.2 shows the production levels of five major traditional crops since the introduction of market-oriented strategies in 1986.

²⁸ www.viettraffic.com

²⁹ See Table 2A1 in the Appendix for poverty figures.

³⁰ The basic needs poverty line specifies the income required to purchase a selection of essential goods.

Table 2.2 Tanzania's export volume by commodity ('000 tonnes)

	1986	1996	2006	2009
Coffee	50.4	61.7	31.5	56.1
Cotton	31.6	81.9	5.5	100.4
Sisal	15.1	8.9	6.1	
Tea	9.5	22.0	22.4	19.2
Tobacco	7.2	24.9	25.0	33.8
Cashewnuts	17.8	118.4	66.3	99.3

Source: Bank of Tanzania and Economic Survey (2009)

Tanzania was expected to adopt liberal policies under donor guidance in 1986 although this period of 'loss-of-voice' from 1986 until mid-1995 saw the redefinition and reconstruction of sovereignty through actions by the country's aid donors (Wangwe 2004). The Economic Recovery Programme I (ERP) (1986-1989) was prepared by the government with assistance from the World Bank and the IMF. Its reforms included devaluing the currency, structural reforms, removing import controls and implementing increased management and investment in infrastructure. ERP documentation specifies four general objectives:

- Increase the output of food and export crops by providing appropriate incentives for production, improving market structures, and increasing the resources available to agriculture;
- Rehabilitate the physical infrastructure in support of directly productive activities;
- Increase capacity utilization in industry by allocating scarce foreign exchange to priority sectors and firms; and
- Restore internal and external balances by pursuing prudent fiscal, monetary, and trade policies. (URT 1986)

Once market-oriented strategies had been adopted, wage goods started reappearing on the shelves. And with permission to import goods, Tanzania once again saw an influx in all sorts of products ranging from second-hand cars to clothing. The conditionalities that were then implemented meant a halt in employment growth for the government.³¹ The private sector was now given little support from the government and Tanzania witnessed a near-total government withdrawal from agriculture with the abolition of marketing boards. Problems emerged in providing inputs for local producers, farmers and state-owned plantations and enterprises.

The ERP's second phase, from mid-1995 onwards, saw the privatization of state-owned enterprises and utilities through the Enhanced Structural Adjustment Facility (ESAF).

³¹ Since independence, and especially since the adoption of socialism, the government was the country's single biggest employer.

To understand Tanzania's performance, it is important to note the strategies that were adopted at the time and the fact that Tanzania had been receiving aid since independence from mainly bilateral donors and had been able to draw up its own development strategies. However by 1986, the aid that was being provided came for the first time with conditionalities and marked a loss of autonomy for Tanzania (Wangwe 2004). The country was required to adopt strict liberal policies and also saw a shift from bilateral aid to multilateral aid, a move from project aid to programme aid and a shift from a planned economy to a market economy. The main theme of all these recommended strategies was macroeconomic stabilization and trade. Looking at the performance of the different policies adopted, the following was noted by Wobst (2001):

- *Economic performance*: Positive (mainly non-agricultural) GDP growth resulted in single-digit inflation, import reserves of at least three months, stagnant agriculture and an increase in government revenue. There was positive GDP growth and GDP per capita of around US\$ 500 (Graphs 2.3 and 2.4). Most of the growth came from industry, mainly mining,³² tourism and communication.
- *Price and market reforms*: Producer prices were liberalized in 1991, subsidies for agricultural inputs were removed and the provision of electricity was still controlled by the state.³³
- *Import rationing*: Permission was granted to import from one's own sources.
- *Tariffs*: A harmonization of tariffs was undertaken to increase local revenue collection and some taxes, such as export taxes, were reintroduced while input subsidies were abolished. Domestic tax revenue has since declined.
- *Devaluation*: The exchange rate of the Tanzania Shilling was allowed to float and interest rates were deregulated. This was part of the liberalization process where government let go of control and allowed competition to take place.
- *Land reforms*: An equitable distribution of and access to land by all citizens was promoted (URT 1997).³⁴
- *Private banks*: In addition to privatizing the banking system, new banks were also allowed to operate.

To summarize, the range of policies that Tanzania adopted atomistically has resulted in minimal improvement in the agricultural sector and there is still a big gap between expectations concerning various policies and their proven results.

A few years after adopting its *Doi Moi* strategies, Vietnam became self-sufficient in food (rice) for the first time and today is one of the world's leading exporters of rice. Not only did it increase production, it also saw large numbers of its population climb out of poverty as a result of the country's agrarian reforms.³⁵ Only 16% of the population were still living below the national poverty

³² See Table 2A3 in the Appendix.

³³ After privatization, TANESCO (Tanzania Electric Supply Company) was managed by Net Group Solutions of South Africa between 2002 and 2006.

³⁴ Public land can be leased to any citizen who obtains the right of occupancy.

³⁵ See Table 2A1 in the Appendix for poverty figures.

line in 2008 and Vietnam was exporting rice, coffee, (shelled) cashew nuts, rubber, pepper and tea (FAOSTAT 2011). Table 2.3 shows Vietnam's production of various crops at the beginning of *Doi Moi*, after its implementation in 1998 and levels of production in 2008.

Table 2.3 Vietnam's exports of selected commodities ('000 tonnes)

	1988	1998	2008
Cashewnut	80.0	216.0	1,234.0
Coffee	42.0	409.3	1,067.4
Rubber	49.7	193.5	660.0
Pepper	6.2	28.6	127.8
Rice	17,000.0	29,145.5	38,725.1
Sugar cane	5,699.6	13,843.5	16,128.0

Source: FAOSTAT (2011).

All crops registered a marked increase in production and, with the exception of rice, their production more than tripled. While Graph 2.7 shows a decrease in agriculture's contribution to GDP, Table 2.3 shows that crop production has increased dramatically. Growth in production in Vietnam implies a link up with industry as it is not only the agricultural sector that has benefited from *Doi Moi* but also the forestry and other sectors. The question is how this came about. *Doi Moi* was meant to be a new driving force to promote agriculture by introducing favourable conditions for individuals and the private sector to increase production, processing, services and other aspects of agriculture (Tri 1990). Only profitable cooperatives were retained and the rest of the land was given to exchange teams or private holdings.

With its agrarian-supported economy, Vietnam undertook land reforms and others concerning commercial enterprises, including households. The Vietnamese Communist Party adopted the following reforms as outlined by ANZDEC Ltd *et al.* (2000: 22, 25, 34-36):

(The *Land Law of 1988* (Resolution 10 of 1988)) recognized the farm household as the basic unit of agricultural production. Farmers were allowed to buy, own, and sell agricultural inputs (...) Cooperative land was assigned to farming households for 10-15 years under different forms of contracts or bidding (...) The *Land Law of 1993* (Resolution 5 of 1993) recognized five rights (exchange, transfer, lease, inheritance, and mortgage) and a land value to serve as the basis for tax collection, compensation, and valuation of property whenever land is allocated. Land is allocated for long term use as follows: 20 years for annual crops and aquaculture and 50 years for perennial crops (...) The *1998 Amendment to the Land Law* elaborated three main features: (i) flexible ceilings of land allocation were introduced, depending on the particular local conditions, (in the Land Law of 1993, the ceilings on agricultural land were fixed at two hectares in the North and three hectares in the South; (ii) farmers

were allowed to rent land in excess of local allocation limits; and (iii) non-farmers organizations or individuals were allowed to rent land for investment purposes.

The government forced state-owned enterprises (SOE) to improve efficiency by exposing them to greater market competition and cutting their subsidies and access to low-interest credit. (This led to closure and reduction of staff employed by SOE.)

(Recognition of) commercial farms (...) more than 100,000 commercial farms characterized by large landholdings, use of permanent hired labour, and integration with markets and agro-industry.

With the exclusion of rice, all agricultural tradable products have been excluded from quota restrictions during last decade.

The Food Staple Programme was therefore given priority in its fourth five-year plan (1986-1990). According to Tri (1990: 187-188), there were five important measures:

(i) Correct determination of areas reserved for cultivation of food crops and other high-yield paddy-growing areas throughout the country; (ii) strengthening of material and technical basis for agriculture; (iii) large scale application of technological innovation in agriculture; (iv) switching towards economic accounting in the state-run food agencies, and (v) comprehensive renovation of policies towards agriculture and peasants

In summary, Vietnam's *Doi Moi* policies prioritized the productive sectors by linking them to farmers and other economic sectors.

Conclusion

Tanzania and Vietnam are both agrarian economies that adopted socialism and had poorly performing economies in the late 1970s and early 1980s. The two countries experienced resistance from their populations during the implementation of collectivization. The incentive system under collectivization failed to reward effort, and investment in manufacturing was given top priority under socialism. There was a subsequent rise in employment in the manufacturing sector in Tanzania but no rise in output was noted.

The implementation of market-oriented policies resulted in different performances. Tanzania adopted donor-inspired policies and saw growth in imports of all sorts, while there was minimal growth in the production of agricultural commodities. Poverty in the rural areas did not decrease and this reflected a failure to increase labour productivity and capital. On the other hand, home-grown, market-oriented strategies promoted growth in both the agricultural sector and industry in Vietnam, which resulted in a tremendous drop in poverty rates. Food sufficiency rose and, as a result of the implementation of its *Doi Moi* policy, Vietnam became a global exporter of several crops, including rice, pepper, cashew and rubber, to name but a few.

The cases of Vietnam and Tanzania demonstrate that integrated market-reform policies can be inclusive in all sectors. The government has a role to play in the provision of non-price incentives, structural support and infrastructure. Vietnam

doubled its road network from 1998 to 2004 but Tanzania's network increased by less than 10% in the same period. Such an increase is important as a better road network reduces the cost of linking downstream with upstream between sectors.

Free-market policies were also adopted, one with autonomy and government support (in Vietnam) and the other (in Tanzania) saw uncertainty lead to the short-termism³⁶ application of reforms. Only short-term gains and not the whole economic picture were considered in Tanzania. This period was famously known as *rukwa* (permitting) when everything happened unsystematically. This chapter has shown that the liberal reform programme in Tanzania failed: 'As well as the flexibility and competition that the market provides, successful capitalism needs careful economic management and institutions that foster cooperation and commitment' (Hunting 1995: 163). And Rodrik (2007) would argue that there is a need for the right amount of intervention from government as too little or too much can also have adverse long-term effects. A strong institutional set-up is crucial.³⁷ All these arguments shy away from the neoclassical view that markets work best and that the government should only intervene in the case of market failure.

³⁶ Hunting (1995) described the British economy as being filled with speculation and with little real investment taking place.

³⁷ Lindauer & Pritchett (2002) emphasized the need to tackle corruption, address inequality and build credible institutions.