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Economic Reform in Tanzania and Vietnam: A Comparative Commentary

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ECONOMIC REFORM IN TANZANIA AND VIETNAM: A Comparative Commentary

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***Prefatory note**: Both of us have been involved in various aspects of economic reform in Tanzania and Vietnam. Brian, a British economist, first worked in Tanzania in the mid-1960, and has worked there, on and off, since 1981 on various aspects of economic policy, and since 1989 has also been involved in Vietnam, on average spending about three months a year there. Dinh, a Vietnamese economist, has been involved in Tanzania during the past two years under the Project on Globalisation and East Africa. From time to time we are asked in Tanzania about the reasons for Vietnam's apparent success (a matter of some immediate concern, given the impact of the extraordinary expansion of Vietnamese coffee exports on the world coffee market). We have often attempted informal responses; the purpose of this commentary is to see if we can address the comparative experience of Vietnam and Tanzania a little more systematically. These comments discuss both the impact of policies on economic performance, and the impact of economic experience on policy formulation in the two countries.*

Abstract:

The economic reforms in Tanzania and Vietnam represent the two typical cases of transition economies in Asia and Africa, particularrly the transformation of the two developing economies from the planned to the market mechanism. In this paper, the two authors, Brian - a British economist and Dinh - a Vietnamese economist, have, basing on a comparative approach, enquired into various economic and social aspects of the economic reforms in the two countries, including the demographic transition, the change in population growth, the investment in human capital, the growth of GDP, the structural sransformation, the linkage between gricultural growth, rural development, food production and poverty alleviation, the reform in the industrial sector and the state enterprises, the change of ownership , the role of the State, the capital formation, the role of the domestic savings, foreign aid, investment and trade, the gains and losses from globalisation, with an aim to find the answer to the question why in the two cases, Tanzania seemed to follow the donors' guidance better than Vietnam, but achieved smaller successes?

Keywords: Reform vesus Renovation; Fast Liberalisation vs Step-by-Step Transformation; Privatisation vs Equitisation; Multi-Sector Ownership vs Private Ownership Bias; Industrialisation vs Agriculture-Driven Growth; Active State vs Passive State.

JEL Codes: E6, F41, F43, H11, N10, N15, N17, O11, O53, O55, O57, P52

1.0 INTRODUCTION

The purpose of the paper is to explore the lessons that emerge from comparison of the Vietnamese and Tanzanian experiences with economic reform.

The timing of the reforms in Vietnam and Tanzania was quite close. Tanzania began to discuss reform and made the first moves towards reform in the early 1980's, and put in place an explicit reform program in 1985, and has continued the process since. Vietnam made first tentative steps in the mid-1980's, and began vigorous implementation of new policies from 1989 onwards. In both countries, reform programs continue.

At the beginning of the reform process, the two economies had some similarities: while Vietnam is more populous (with more than twice the population of Tanzania), its GDP per capita was at a similar level to that of Tanzania at the end of the 1980's, and it had a similar level of urbanisation. Both countries had, in principle, a high degree of government economic control before initiating reform. Therefore there is a plausible enough basis for comparison.
One point of difference was that Vietnam was member of the CMEA (the old socialist trading system, involving the former Soviet Union and the Eastern European members of the former Soviet bloc) as well as being a less developed economy – these comments also therefore offer some points of comparison with other reforming ex-CMEA economies as well as with other developing countries.

Table 1: Population and Education[1] (Data is for 2002 unless otherwise stated)

	Viet Nam	Tanzania
Population		
Population – millions	80	34.6
Pop. Density (people per squ. K.)	238	39
Crude birth rate (per 1,000-1999)	20	40
Crude death rate (per 1,000-1999)	6	17
Pop. Growth rate (1980-99) %	1.9	3
Education		
Adult Illiteracy – male >15 (1999)	5	16
Adult Illiteracy – female > 15 (1999)	9	34
Secondary enrolment % (1997)	57	6
Tertiary enrolment % (1997)	7	1

In comparing economic performance, all the indicators suggest that Vietnam has been significantly more successful than Tanzania. This is particularly reflected in the very high rates of export growth achieved by Vietnam, based on fast output growth in agriculture and industry. [2]

Although the Tanzanian economy has responded positively to reform, and Tanzania is currently seen as one of the more successful reforming African economies, it has by no means yet been billed as a star performer. Performance in terms of growth – both the level of growth and acceleration compared with earlier years of crisis – and poverty alleviation have been less dramatic than in the case of Vietnam.

During the 1990's Vietnam enjoyed a very high growth rate and a remarkable reduction in poverty, both in comparison to developing countries at a similar income level and to other transitional economies (with the exception of China). Deep changes in the economic system were implemented without a decline in economic activity, the economy growing despite the sudden collapse of Soviet aid, the U.S. boycott and the absence of financial assistance from the

[1] Sources for this and other tables are: World Development Indicators 2001, World Development Report 1990, (both World Bank); UN-Govt. of Viet Nam: Report on the Economy of Viet Nam, 1989; Vietnam Statistical Yearbook 1994, Statistical Publishing House; Tanzania 2002 Population Census, ESRF Quarterly Economic Review, Jan.-Mar. 2003.

[2] For an overview of the Vietnamese reform process and economic performance see Brian Van Arkadie and Raymond Mallon Vietnam: A Transition Tiger? (2003)

multilateral aid institutions before 1993. The success of Vietnam in that period contrasted with the deep contraction which generally accompanied reform in the other CMEA economies.

Tanzania has had some success in stabilizing the economy and has generated a modest level of growth in per capita incomes. However, it has remained heavily dependent on external assistance and has not yet achieved the buoyant and diversified export growth of the kind that has powered the Vietnamese performance.

From the point of view of reform-mongers, it would be neat if it could be demonstrated that Vietnam's success resulted from more vigorous implementation of reform than in Tanzania. However, this does not jump out as a conclusion from the revue of experience.

In some areas, Vietnam has been less energetic in implementing donor-promoted reforms than Tanzania. In donor tutorials, euphemistically entitled "policy dialogue", there have been areas of persistent nagging, where donors have felt that the Vietnamese policy regime has had failings. The most persistent areas of criticism have related to the reform of State Enterprises and the regulatory environment for foreign investment. More recently, issues of governance and corruption have received increased emphasis.

By and large, the record suggests that the often predicted dire consequences of failure to reform more vigorously in such directions have not materialised, suggesting that some parts of the donor reform agenda may be less relevant that proponents claim.

Table 2: GDP Growth

	1987	1990	1995	2000	2001	2002	2003[a]
GDP growth rates (%):							
Vietnam Tanzania	3.4 4.4[b]	2.3 6.2	9.5 3.6	6.7 4.9	6.84 5.7	7.04 6.2	7-7.5 6.3
GDP per capita (US$):							
Vietnam Tanzania [c]	- -	150 189	- 272 [d]	- 285	416 288	- 289[e]	

[a] Projected.

[b] 1988.

[c] At current prices.

[d] 1998.

[e] Provisional data.

2.0 THE IMPACT OF EXOGENOUS FACTORS

A key question for economists faced with this difference in performance is how far is it to be explained by differences in economic policy?

The heart of the problem of interpreting the impact of policy lies in the separation of the policy effects from the influence of factors exogenous to the policy framework. Even if there is a convincing case to be made for particular policy interventions, their impact may be mediated by the exogenous environment. One consequence is that the experience may not be readily transferable to a different context.

Powerful exogenous factors that supported the expansion of the Vietnamese economy included its regional location and the trajectory of the regional economy, the timing of natural resource (oil) exploitation, the entrepreneurial vitality of the Vietnamese, a sizeable and dynamic emigrant community, and the onset of peace. Yet the acceleration of growth also began with strongly negative exogenous factors, such as the economic consequences of the demise of the Soviet Union and the CMEA and the effects of the US embargo.

Mineral wealth can also be seen as an exogenous factor, although successful exploitation and the impact of increased revenues depend on policy.

The development of Viet Nam’s oil resources contributed to rapid export growth during the late 1980s and 1990s. In particular, oil revenues came on stream at a critical moment in the transition when Soviet support was faltering. New oil and gas resources continue to be found, and will be significant contributors to economic growth and budget revenue for at least the medium term, but not in such quantities as to generate a “Dutch disease” effect.

Tanzania has begun to enjoy the effects of a mineral boom later in its reform process, with the gold boom that is currently gathering momentum. With the weak performance in other exports, gold and precious stones is now the leading export growth area, and is fast becoming the dominant component in export trade. This export growth is likely to enliven the Tanzanian growth performance, but also carries a risk of “Dutch disease” infection.

Geographical location is of obvious significance for the comparison. Vietnam is adjacent to the region which was in the midst of a sustained boom (until the crisis of 1997). There was a spill-over of capital and entrepreneurial energy from dynamic neighbours. Moreover, international investors were on the look-out for new Asian Tigers.
By comparison, even an optimal policy regime in Africa is likely to be faced with investor scepticism in light of negative perceptions of the region. This may be changing, as with the end of apartheid, links have been created with the South African economy, so that Tanzania has begun to be critically influenced by the strong linkages developing with the South African economy.

Another set of issues relates to the nature of the inheritance from the pre-reform period. The introduction of the *Doi Moi* reforms began in the second half of the 1980’s, and the acceleration in growth began in the early 1990’s, suggesting a strong causal relationship. However, that leaves open the issue of how far were the foundations of the Vietnamese performance laid in the pre-reform period. Should aspects of policy in the pre-*Doi Moi* be interpreted as important inputs into the later successes, or should that period be seen simply as an era of mistaken policy, that failed to realise inherent potential and held back the achievement of growth? If important building blocks of later success were laid in the pre-*Doi Moi* period, in what particular respects did pre-reform Vietnam differ from pre-reform Tanzania?

3.0 TWO CRUCIAL DIFFERENCES IN THE PRE-REFORM ECONOMIES

Two areas in which characteristics of the pre-reform economies contributed to the overall differences in performance relate to investment in human capital and the related factor of demographic transition.

3.1 Investment in Human Capital

One area in which Viet Nam had a clear lead over Tanzania in the pre-reform period was in relation to investment in human capital. By the late 1980's, the population was better educated, and had a longer life expectancy, than is typical of countries with similar average per capita incomes, including Tanzania.

A strong commitment to investment in human capital in Vietnam included a comprehensive basic education program, resulting in very high levels of literacy in rural as well as urban areas, and for women as well as men. It made Vietnam into a society with widespread adult literacy. By the mid-1970's, Tanzania had made a similar commitment, when it introduced universal primary education. However, in the Tanzanian case, the onset of economic crisis at the end of the 1970's resulted in a setback in the educational program, so that after a brief period of universal coverage, enrolments declined. As a result, by 2000 Tanzania still had an adult illiteracy rate of 25%, whereas in Viet Nam it had been brought down to 7%.[3]

In Viet Nam, there was also a good deal of effort in technical and professional training, that involved active utilisation of opportunities for technical training abroad, as well as development

[3] World Development Report, 2003.

of national technical training capacity. This had begun even in the early stages of independence struggle.[4]

By comparison, when Tanzania began to pursue ambitious industrialisation goals in the mid-1970's its technical and professional cadres were still pitifully small (Tanzania had come to independence with a tiny educated elite, even by comparative regional standards).[5]

Vietnam was successful in developing and utilising a robust capability in intermediate technology, constructing buildings and other physical facilities and producing goods for the domestic market cheaply and of appropriate standard for a low income market, while more recently beginning to adapt its technology to the more demanding standards required for export markets. Investment in human capital paid off in terms of the receptivity to technical change and the economic opportunities emerging in the reform period. Effective delivery of education and health care have also contributed to the speedy demographic transition.

3.2 Demographic Transition

At the outset of the Doi Moi process, Viet Nam had a demographic advantage, as its demographic transition was more advanced than is typical of countries at comparable income levels A strong commitment to basic health care, including child health, resulted in much better statistics for mortality and life expectancy than are usually found in a country with such a low per capita income level.

The 1989 population census indicated that fertility rates had declined for some decades. The crude birth rate (CBR) decreased from 45 per thousand (1955-59) to 31 per thousand (1985-89). A further decline from 30.1 in 1988-89 to 19.9 was reported in the 1999 Census.[6] Declining fertility reflects a widespread adoption of family planning. Thus by 1989, the population growth rate was characteristic of the middle stage of demographic transition, with mortality rates having

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4 Vu Tat Boi, now retired in his mid-70's. tells the story of walking to China with about 100 other youths in the early 1950's to receive a technical training which led him to become a manager of a State Enterprise in mid-career.

5 See the World Bank report on Tanganyika just prior to independence, The Economy of Tanganyika.

6 Statistical Data of Vietnam Socio-Economy 1975-2000 Statistical Publishing House, General Statistical Office, 2000.

fallen to low levels, and fertility rates beginning to decline. The inter-censal population growth rate (1979-1989) was estimated to be 2.1% per annum. The 1999 Census revealed an annual inter-censal growth rate of 1.7 % (1989-1999), with a continuing fall through the past decade, to an 1.4% estimated in 1999[7].

By comparison, although Tanzania made a strong commitment in principle to basic health care and preventative medicine, and in the 1970's was an African pioneer in developing such a strategy, the achievement fell far short of the program goals. One result is that Tanzania is still at a much earlier stage of demographic transition. The population growth rate remains at 2.8/2.9%. Life expectancy at birth is estimated at 44 (compared to 69 in Vietnam), with an under-5 mortality rate of 149 per thousand (34 in Vietnam). The fertility rate is 5.6 children per woman (2.3 in Vietnam).

In Vietnam there has been a clear transition in the age profile of the population. At the 1989 Census the profile was a pyramid, with each five year cohort larger than the next older group.[8] By 1999, this profile had changed in a crucial fashion, with a 5-9 year old cohort smaller than the 10-14 group, and the 0-4 cohort showing an even sharper drop in size. In Tanzania, by contrast, it is estimated that 47% of the population is still below 15 years of age.[9]

In Viet Nam, the government has had an active population policy, discouraging families of more than two children, but without any draconian controls. The decline in the birth rate also reflected the success of health policies that reduced infant mortality, and the achievement of high educational enrolments. As a result of the demographic transition, Viet Nam is now experiencing a virtuous circle, in which a declining population growth rate is making it easier to achieve increases in per capita income, which in turn is associated with a further decline in birth rates. In Tanzania, the government has not pursued an active population policy.

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7 The 1999 Population Census indicated a crude birth rate of 19.9 per thousand (compared to 30.1 in 1989) and a crude death rate of 5.6 per thousand (compared to 8.0 in 1989).

8 Except for the male groups who were 45-54 at that time, which had been severely depleted by war deaths.

9 The Economic Survey 2001; results of the 2002 Population Census are just becoming available, but are not incorporated in this essay.

4.0 DIFFERENCES IN PERFORMANCE IN THE PRODUCTIVE SECTORS

4.1 The Rural Sector and Agricultural Growth

In 1990, of the estimated 66 million population in Vietnam, only 19.5% (12.9 million) were estimated to reside in urban areas. At the beginning of the 1990's, Viet Nam's economic structure, like Tanzania's, was characteristic of a low income developing economy. Of the total estimated Vietnamese active labour force in 1992 of 31.8 million, 23.0 million (72%) were engaged in agriculture and little more than one tenth in industry. In 1990, agriculture and fisheries still accounted for two fifths (39%) of GDP. Even by 1999 (according to the April 1999 Population and Housing Census) only 24% of the 76.6 million population was recorded as living in urban areas, a ratio that had only changed slowly over the previous decade.

The Vietnamese experience confirms the importance of agricultural transformation as a component of successful growth in a low income country with a predominantly rural population. This is, of course, not in any sense an original or surprising conclusion. However, are there also lessons to be learnt about how transformation is to be achieved?

In both Viet Nam and Tanzania, the rural nature of the economy and the dominant role of household units in agriculture production, meant that although the economies were technically not very advanced, they demonstrated resilience in the face of change and dislocation in the macro-economy and responded well to market opportunities.

In Viet Nam, in early 1980's, it proved relatively easy to reform and shift the agricultural system in the direction of market oriented family based farming. Moreover, a decentralized rural economy provided a useful base for the development of small-scale trading and craft activities, the local arteries of an emerging market system.

In Tanzania, despite the diversion of Ujamaa, the production system had remained based on the household, so that the two systems are not dissimilar in terms of the importance of the small family farm. What had set back Tanzanian agriculture in the pre-reform period was the dislocation of the trading system, and the farming system responded swiftly to the opportunities provided through the liberalisation of trade, particularly in relation to food crops.

In both countries, the liberalisation of agricultural export trade has been relatively slow and ambiguous, but the system seems to have performed better in Viet Nam, partly a manifestation of the more effective operation of State enterprise in Viet Nam, discussed below.

A key question concerns the greater success of Viet Nam in generating accelerated growth in agricultural productivity. At first sight the overall data do not suggest the difference is that dramatic: agricultural productivity as measured in value added per agricultural worker increased from (1995) US$179 in 1988/90 to $189 in 1998/2000 in Tanzania, and from $181 to $240 over the same period in Viet Nam.[10] However, although this difference does not appear so great in absolute terms, it resulted in an enormous difference in the growth of the exportable surplus from agriculture.[11] The result in the case of Viet Nam, was the movement from being on the edge of famine, to becoming one of the three leading exporters of rice, and its extraordinary emergence as a leading coffee exporter.

Tanzanian agriculture has not done badly in comparative regional terms – food production has grown along with population, the country has not experienced food supply crises in recent years, although it still has to import large quantities in years when the rains are poor, and there has been some export revival, but nothing comparable to the Vietnamese success.

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10 World Development Report 2993, table 3. Although such macro-data on agriculture are always subject to question, the picture that emerges is consistent with other observations of agriculture in the two countries.

11 The point can be illustrated by a simple arithmetical example. If, in both countries, the national requirement for agricultural products was the equivalent of, say, $160 per agricultural worker, then the exportable surplus would have increased from $19 to $29 in Tanzania and from $21 to $80 in Viet Nam – a difference between an increase of around 50% and a four-fold growth.

One possible hypothesis to explain the difference in performance relates to the contrast between highly intensive irrigated agriculture of Vietnam, and the more extensive, rain-fed agriculture of Tanzania.

Historically, the dominant economic activity in the Vietnamese countryside was paddy production. Rice is by far the most important food crop, with rice paddy covering 74% of the cultivated area. Paddy production accounted for some 45% of the Gross Value of Agricultural Product in 1992. As a result of increases in multiple cropping and of productivity growth, rice production has more than doubled since 1980. Over a period of 10 years, 1987-97, average yield increased from 2.7 tons/ha to 3.8.[12]

Cropped land per capita is low (0.10 hectares per person, compared with 0.21 in India and 0.37 in Thailand - but more than Bangladesh with 0.08 hectares per capita).[13] The ratio of cultivatable agriculture land is amongst the lowest of all developing Asian economies. Despite this constraint, Vietnam has emerged as a leading agricultural exporter, and has made considerable progress in diversifying agriculture exports in recent years. By comparison, Tanzania has 0.17 hectares per person, but little large-scale irrigation. A rough calculation from World Development Indicators data suggests that by the end of the 1990's the value of agricultural output per hectare of arable land was of the order of 2.3 higher in Vietnam than Tanzania.[14]

Vietnam has increased rice production by about million tonnes of rice each year, turning it from a food-deficient country and importer of around 0.5-1 million tonnes a year in the pre-reform period to be an exporter of 3-3.5 million tonnes of rice a year. It has also become a large exporter of coffee, rubber, cashew nut, tea, pepper, and fish-farming products, as well as developing a range of products for the domestic market, such as maize, cotton, soy bean, sugar cane and dairy, allowing the country to save hard currency for other purposes that would have been need for food imports.

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[12] Average annual yield figures cover wide regional differences, e.g. in 1992 ranging, from 2.4 in the Central Highlands and 4.0 tonnes per hectare in the Red River Delta (1992). Variations between provinces are even greater, ranging from 1.5 to 5.0 tonnes per hectare.

[13] Based on data from the early 1990's.

[14] Based on data on value of agricultural value added per agricultural worker (1998-2000) and people per square mile of arable land (2000).

A comprehensive analysis of the sources of agricultural growth in Viet Nam is still awaited, and indeed for many knowledgeable commentators the success has been a surprise (one view current in the early nineties was that the first burst of growth was a response to liberalisation that would run out of steam very soon).

Some positive characteristics Vietnam shares with Tanzania, including a fairly egalitarian system of land-holding which provides access to land for most rural households. Beginning with reforms in the early 1980's, the use of market instruments to co-ordinate and provide incentives to farm households stimulated growth in both countries – efficient, functioning markets are especially important as an economic co-ordinating mechanism for small-holder agriculture – but it is difficult to judge which country has more efficient rural markets.

Where Viet Nam has a clear edge is in the effective public provision of basic infrastructure servicing agriculture (notably water and transport). Likewise, the continued functioning of organisations responsible for research and distribution of farm inputs (by a mix of private and public enterprise) underpinned productivity growth - the support system is probably sub-optimal but nevertheless is capable of handling some key developmental tasks, and in general performs at a much higher level than the Tanzanian system.

On the other hand, Vietnamese agriculture is not more mechanised to any great extent. The big difference is irrigation. The importance of irrigation is not only its immediate effect on productivity but its indirect effect in reducing the risks of innovation and high input use techniques.

The contrast between the irrigated agriculture of many Asian countries and the rain-fed agriculture of much of Africa is quite profound, having important social as well as agricultural consequences – typically in much of Asia the more developed areas are the lowlands, with less developed areas (populated by "ethnic minorities" or "hill tribes") in the highland areas. In Eastern Africa the reverse holds, the highlands being the more developed areas.

It should be noted, however, that innovation and progress in Tanzanian agriculture may be greater than is suggested by the mediocre performance in agricultural exports. Sustained high rates of growth of paddy production are changing the composition of Tanzanian food supply significantly, and there has been substantial innovation in horticulture and fruit production, resulting in a thriving rural-urban trade and fast-growing but incompletely recorded exports to regional markets. However, much of this change appears to have been spontaneous. Official efforts to sponsor productivity improvement (e.g. through many World Bank projects) have had little apparent impact.

Another area where Viet Nam might have an edge is in relation to rural-rural migration. Fluid population movement in rural areas has been conducive both to growth and poverty alleviation – e.g. the encouragement of migration and investment to open up new areas for tree crop production.

Thus a key factor explaining the difference in performance is Vietnam’s agricultural success in expanding and diversifying production that has resulted both in low-cost food supply and strong expansion in production of agricultural exports.

Agricultural development in Vietnam has combined household farming with concentrated areas of larger-scale specialized production. Key supporting policies have included land tenure reform (the development of long-term and stable land use rights), high priority for investment in maintenance and extension of the irrigation system, the strengthening of the research capacity feeding into an extension system that transfers new technologies (particular new seeds and breeds) to smallholders, and infrastructure investment which has opened up new areas for the expansion of export crop production. While improvements are still needed there has also been progress in reforming agricultural marketing and strengthening processing. The next steps in agricultural development seek to promote greater efficiency and quality improvements to increase competitiveness domestic and international markets.

Dramatic crop growth and diversification in Vietnam contrasts to the much smaller changes in the composition of agricultural output in Tanzania. After two decades of reform, there has been no dramatic increase in the supply of food stapes, available data suggesting that staple food production remains more or less at around 7 million tonnes. Given dependence on rain-fed agriculture in poor production years Tanzania still has to import substantial quantities of food - in 2003 domestic food supply was expected to meet only 90 percent of the country's requirements, leaving a deficit of ten percent to be bridged through importation, including 350,000 tonnes of maize, 223,000 tonnes of wheat, 167,500 tonnes of rice, and the Government has had to set aside shs. 8.0 billion to be allocated for emergency relief (QER, April-June, 2003, p.1-2). On a more positive note, however, there has been some success in diversification into horticultural products and fruits.

Table 3: Food Production (Million tonnes)

	1975	1980	1985	1990	1995	2000	2001	2002[(a)]	2003[(b)]
Total food production:									
Vietnam	11.4	14.4	18.2	19.9	26.1	34.5	34.3	35.8	
Tanzania					7.4[(c)]	7.7	7.4	7.82	
Main crop:									
Vietnam (Paddy)	10.3	11.6	15.8	19.2	24.9	32.5	32.1	33.6	34.6
Tanzania (cereals)					3.7[(d)]	3.7		4.02	

[a)] Estimated.
[b)] Projected.
[c)] 1997.
[d)] 1998.

Sources: Vietnam's General Department of Statistics; VER, March 2001, p.41, Jan. 2003, p.41, August 2003, p.28; QER, Tanzania, Jan.-Mar.2001, p.8, Oct.-Dec., 2001, pp.1.

4.2 The Industrial Sector and State Enterprise

A critical difference between Vietnam and Tanzania has been the differing performances of their industrial sectors. Despite some transitional difficulties, in Vietnam industrial output increased at a lively rate throughout the reform period and, of particular importance, has made a significant contribution to Vietnam's buoyant export performance. By contrast, in Tanzania reform has not yet generated any revival in industrial output, and Tanzania has yet to produce significant industrial exports.

This difference in performance may be attributed both to differences in the pre-reform period and differing reform strategies. Whereas Vietnam's pre-reform industrialisation efforts seem to have laid the foundation for sustained industrial growth, the bulk of the industrial investments made by Tanzania made little sustained contribution to economic growth.

Part of the difference in the pre-reform period reflects the human development factor. In retrospect, the Tanzanian industrialisation in the 1970's can be seen as involving a naïve "turn-key" project approach, under which, often with donor support, it was assumed that the building of factories would itself be sufficient to generate industrial growth. Too little attention was given to the requirements of management or technical capacity.[15]

In the pre-reform period, both countries used State Enterprise as the chosen vehicle for industrial development. However, the difference in performance in the state enterprise sectors suggests that using the term "state enterprises" as though it describes a fairly homogeneous reality throughout the ex-communist and developing world can be highly misleading.

Although the efficiency of the Vietnamese SOE sector has been subject to searching criticism, as it is seen to have used a disproportionate share of scarce capital and foreign exchange resources, nevertheless important segments produced successfully and have survived. For those who believe in the general principle that SOE's cannot perform, one of the paradoxes of contemporary Vietnamese development is the apparent success of significant numbers of State enterprise in adapting to the market, entering into joint ventures with foreign investors, changing their output mix, exporting successfully, etc.

In the late 1980's, before the onset of aggressive reform, it was evident that the Vietnamese model of SOE had its own characteristics. In Vietnam's decentralized system, many State enterprises competed with each other, having significant autonomy in practice, being owned by many different agencies of the State - all adding up to a social form which was certainly not private capital, but equally in important respects did not conform to the image of a Soviet (or Tanzanian) monopolistic State enterprise.

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15 Examples of the failures of this approach are many, the most extreme case being the ill-fated, World Bank funded Morogoro shoe factory. An interesting contrast in outcomes, which deserves a systematic comparative case study, relates to the two large Swedish funded paper projects. Neither were well-conceived or designed, but in the event the Viet Nam project produces paper whereas the Tanzanian project does not.

The rather chaotic organisation of Vietnamese State owned business in the pre-reform period could have been seen as a failure of planning (because of the gap between stated goals and performance), but subsequently it has appeared as a merit. There was a high degree of economic autonomy exercised by the various political levels below the central government and the system also accommodated a remarkable diversity of behaviour by publicly owned enterprises, providing opportunities for genuine entrepreneurship at the early stages of the reform process, particularly at the provincial and more local levels. The high degree of provincial and State enterprise autonomy (rather surprising in a supposedly centralized regime) had partly resulted from the strategic requirements of a long war, including the need to decentralise capacity in the face of bombing and the logic of conducting guerrilla warfare. The upshot was that the manager of a State enterprise often had freedom of manoeuvre, and the potential to reap benefits from successful performance.

The provinces always seem to have gone their own way to some degree in managing the enterprises they "owned" (and no doubt that was also true of the Army) and the incidence of open inflation during the Central Planning period suggests that the price control system was a good deal less effective than in Eastern Europe.

During the reform period, SOEs have continued to play an important role as part of the “multi-sectoral economy”, through which the government seeks to mobilize all segments of society to achieve high rates of development. Through this policy, both SOEs and private firms are welcome, though the State sector is assigned the leading role. This “leading role” confirms the continuing importance of the SOEs in the Vietnamese economy. This contrast sharply with Tanzania, where a process of dismantling and privatising parastatals has resulted in the private sector becoming dominant in the Tanzanian economy.

In Vietnam, the SOEs have undergone dramatic reforms, but have not subject been to comprehensive privatisation, which was seen to have potential negative results, such as the loss of State property and the impoverishment of the workers, which it was feared would result in social disturbance. The private sector is still weak in Vietnam (as indeed it is in Tanzania), so that it was feared that down-playing the role of the State sector would lead to the reduction in the momentum of growth.

The reform of SOEs in Vietnam has been carried out through various means, including reorganisation (reducing the number of enterprises substantially), equitisation[16], and the selling and lease of some assets. SOEs have been encouraged to participate in joint ventures with foreign investors. Efforts have also been made to introduce greater financial discipline. The abolition of direct subsidies and the end of price controls fairly rapidly exposed State enterprises to much greater competition. While there are still problems of loss-making and inefficiency in many State enterprises, reforms have worked to improve the efficiency of the operations of many enterprises.

The number of SOEs was dramatically reduced with the first sharp drop from 12,000 to 5,000 in 2002. Since then reduction has been slower and is expected to result in around 3,000 firms by 2005.

Among these SOEs roughly 30 percent have adapted well to the market economy and make profits, 40 percent break-even and 30 percent make losses.

Over 90 percent of FDI's joint ventures have been between Vietnam's SOEs and foreign companies, which has creat5ed new industries and helped existing industries to improve productivity and to access new markets and technology.

By comparison, Tanzania has conducted a much faster reform of SOEs, mostly through privatisation. In seven years, 330 out of 395 firms targeted for privatisation were divested – an average of more than one every ten days (*The Express, August 2003, Special Copy for SADC Summit 2003*).

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[16] Equitisation involves a change in legal form, with the introduction of share-ownership, but not necessarily an immediate substantial transfer of share ownership to private owners.

In Vietnam the reform of large SOEs, particularly those in the areas of infrastructure and public goods, has been very cautious – in practice none of the big industrial firms or public utilities have been privatised. In Tanzania SOEs have been privatised in all sectors. Even TANESCO, the national electric power company, has been placed under a two year management contract by a foreign company for two years and is being prepared for privatisation in the coming three years.

Although Tanzania did not have an effective centralized command economy, neither did it encourage initiative by State Enterprise managers. The management system could be described as one centralized bureaucratic inertia, neither rewarding success nor punishing failure.

There may also be more intangible, social factors affecting the supply of entrepreneurship, with greater latent potential in Vietnam for commercial entrepreneurship, once opportunities became available and a lively commercial response of management which transformed segments of the publicly owned sectors.[17] The reform process therefore had a strong spontaneous element, with fledgling entrepreneurs taking the initiative ahead of policy changes. By contrast, In Tanzania while there is good supply of entrepreneurial initiative in the small-scale, informal sector, larger scale entrepreneurship remains the province of the minority communities.

Thus in the reform period, after an initial slow start Tanzania has vigorously embraced privatization, whereas it is in the area of enterprise policy that the Vietnamese authorities have been mostly persistently subject to criticism. Ownership reform has been slow. However, so far this has not acted as a drag on growth in the way predicted by external commentators. While it is not difficult to come across horror stories of inefficiency, there are also many examples of successful joint ventures and productive contributions made by the sector.

This may be because of the competitive environment faced by many State Enterprises and a degree of decentralisation that permits innovation by State Enterprise managers. This suggests that a competitive environment may be a more important factor in determining performance than the nature of ownership – an outcome more consistent with the Lange-Lerner model of

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[17] See Entrepreneurship in Vietnam: transformation and dynamics, edited by Per Ronnas and Bhargavi Ramamurthy, Nordic Institute of Asian Studies (2001) for an excellent empirical study of Vietnamese entrepreneurial vitality.

combining decentralised public ownership with efficient allocation than with Kornai's view that the soft budget constraint, and its deplorable consequences for efficiency, is the virtual inevitable outcome of widespread public ownership.

One response of critics to this evidence of successful growth despite the slowness of enterprise reform is that on the one hand growth would have been even faster with more conducive policies and that in the harsher international business climate following the 1997 regional crisis failure to reform more vigorously will hold up future development.

An alternative explanation, that is not very helpful to those looking for transferable lessons, is that if the "animal spirits" of business enterprise are sufficiently lively, the policy environment may not be of primary importance (aggressive entrepreneurs, public and private, domestic and foreign, may be able to get round unhelpful regulations.) This is unhelpful, because from the point of view of the economic policy-maker the supply of entrepreneurship is largely exogenous. However, it certainly should give rise to a careful evaluation of underlying entrepreneurial capacities and opportunities when judging the potential efficacy of policies – there are surely countries that have implemented "open door" policies only to discover the lack of applicants to enter.

In Viet Nam, while through much of the reform period, the design of the business regulatory environment was not conducive to private sector development; in practice the system accommodated vigorous private sector growth. No doubt the regulatory system has imposed hidden costs on private business, both in the pecuniary sense of the "envelopes" to be passed to officials, and in the transactions costs of handling bureaucracy. Also, ambiguities regarding the official attitudes towards private wealth have probably led some successful business people to be secretive. Nevertheless, the growth of the non-State sector has been lively, and the extent of informal business activity was evidenced by the rapid registration of businesses when procedures were simplified under the new (2001) business law.

The emphasis on a continuing leading role for SOE's has not discouraged the rapid growth of the private sector. The Vietnamese experience suggests the possibility of developing a lively private sector, through liberalisation, without resorting to significant privatisation, at least in the early reform stage. The vitality of the Vietnamese private sector was demonstrated when, after two years of implementing the Law on Enterprises, 55,000 new enterprises have been registered with the total registered capital of US$6.7 billion. The new law has provided a more stable environment for the growth of private business.

One difficulty in drawing lessons is that the informal characteristics of the institutions and understanding of the economic “rules of the game” is quite as important as the formal institutions. Moreover, having a reasonably predictable political environment and civil order may be as important as appropriate legislation and legal systems.

In the post-1997 setting, it was interesting to speculate whether the onset of hard times in the international economy would be taken as a spur to intensified reform in Viet Nam, or as a call for greater caution, especially in terms of external capital flows. On the one hand, it could be argued that faster reform was needed in an increasingly competitive environment to attract limited international investment. On the other hand, further and aggressive liberalisation might left the economy excessively exposed to the consequences of international economic instability (as a corollary, just as the slow pace of banking reform insulated the Vietnamese economy from some of the worst impacts of the post 1997 East Asian down-turn). In the event, Vietnam weathered the post-1997 crisis quite well and it did not seem to have any great impact on the pace of reform.

In pursuing the comparison between the two countries, the contrast in experience suggests the question of whether there was an alternative, preferable reform path to the rather doctrinaire trade liberalisation, privatization policies implemented by the Tanzanian.[18] However, most of the Tanzanian parastatals were in such a sad shape by the late 1980’s, and a malaise of bureaucratic inertia so embedded, that a more nuanced or gradualist approach to enterprise reform might have been difficult to achieve. The result is that in the economy emerging from the reform process

[18] Dr. Do Duc Dinh, deputy head of the Institute of World Economy, in Hanoi has been a visitor to the Economic and Social Research Foundation in Tanzania during 2002. He is a leading proponent of reform in Viet Nam, but has observed that in Tanzania privatization has been implemented more as a doctrine than as a judgment based on pragmatic assessment of the merits of each privatization.

there is very little indigenous Tanzanian presence in the ownership, control or leadership of the industrial and large scale commercial sector. Meanwhile in Vietnam indigenous ownership, leadership and entrepreneurship are dominant factors in business.

Table 4: Vietnam's GDP Shares by Ownership (%)

Year/Ownership	Public	Non-Public[(a)]	FDI
1991	29.25	70.75	-
1995	40.20	53.50	6.30
2000 [(b)]	39.00	47.7	13.30

[a)] Non-public sectors include people's businesses, cooperatives and mixed economies.
[b)] Estimated.
Source: Vietnam's World Economic Problems, August 2000.

4.3 Structural Transformation

The development of the two national economies may be addressed not only in terms of rates of economic growth achieved, but also in terms of the structural transformation required to sustain long-term development.

In discussions of strategy in Vietnam two patterns of structural transformation have been addressed.

The first was that one mostly discussed during the 1950s and 1960s, in line with thinking in the planned economies, in which structural change was seen as involving shifts between two sectors, i.e. agriculture to industry

The modern and market-oriented concept of transformation recognises that economy included not only agriculture and industry, but also the service sector. With development, the share of the first sector will shrink, leaving space for the second and the third to expand.

Applying both of these two patterns of structural transformation to the economies of Tanzania and Vietnam, it is evident that in the case of Tanzania the structure has remained almost the same during the reform period, with agriculture's share slightly changed from 48.7% in 1987 to 47.5% in 2002, manufacturing from 8.9% in 1987 to 13.1% in 2002,, while in Vietnam though agriculture grew at a rate of 4.5% to 5% per year, higher than the rates of 3% to 4% a year in Tanzania, its share in GDP dropped nearly a half from 40.2% in 1986 to 23.6% in 2002, leaving space for the share of industry to expand from 27.4% to 38.3% and services from 32.4% to 40% in the same years. These facts illustrate the higher rate of structural shift towards industry in Vietnam, but also that this shift in shares is supported by a higher rate of agricultural growth – the Green Revolution supporting the Industrial Revolution,

Table 5: Structural Transformation (%)

	1986	1990	2000	2001	2002	2005[(a)]
Industry:						
Vietnam Tanzania[(b)]	27.4 8.9[(c)]	22.9 8.8	36.6 7.5	37.8 -	38.3 13.1[(d)]	39 -
Agriculture:						
Vietnam Tanzania	40.2 48.7[(c)]	42.1 47.9	24.3 45.1	23.6 48.0	23.6 47.5	21[(e)] -
Service:						
Vietnam Tanzania	32.4 -	35.0 -	39.1 -	38.5 -	38.1 -	40 -

a) Estimated.
b) Tanzania: Manufacturing.
c) 1987.
d) Besides, mining is of 15% and construction 11%.
e) Projected.

Sources: Vietnam's 2001-2010 Socio-Economic Development Strategy, ND 21 April 2001; Vietnam's Directions and Tasks of 2001-2005 Socio-Economic Development Plan, ND 22 April, 2001; VER, March 2003; QER Tanzania, April-June 2003; Samuel M. Wangwe, Brian Van Arkadie, 2000, Pp. 2, 8, 29; Beatrice Kalinda Mkenda, 2002, Table 2.1, p. 6; The Guardian, Friday, 19 April 2002; George Kabelwa: South African FDI into East Africa: The case of Tanzania, ESRF Globalisation and East Africa Project, Dar es Salaam, 2002, p.

5.0 THE ROLE OF THE STATE

The lessons to be learnt from the experience of the two countries about the appropriate role of the State are not simple and are certainly subject to alternative interpretations.

There were similarities. In both cases, the pre-reform planning system was quite ineffective even in its own terms. Despite the adoption of the vocabulary of Central Planning, neither Vietnamese nor the Tanzanian economy was ever effectively subjected to the disciplines of a centralized command economy. This meant in both cases that the response of the economy to market reforms was more rapid than in economies where there was a deeper experience of working central controls.

Another shared feature of the Vietnamese and Tanzanian reform processes relates to the inter-play between political and economic reform. While changes in economic policy were, no doubt, associated with shifts in political position and balance of forces within the two regimes, in both cases there was substantial continuity in the political system, processes of profound change in economic life being introduced and managed by an ongoing political regime.

In the case of Tanzania, there was more apparent political change, as the transition in political leadership with the retirement of President Nyerere in 1985 shifted the ideological tone and political style of the regime of CCM (Chama Cha Mapinduzi – the Party of Revolution), and the subsequent shift to multi-party politics involved a more apparent change in political regime than anything seen in Vietnam. Nevertheless, CCM has continued to play a hegemonic role in Tanzanian politics, and there have been significant continuities in the political leadership.

The comparative success of reform in the two cases might be taken as evidence that, far from political change being a prerequisite of economic reform, economic reform may be more readily implemented under conditions of political continuity, if the regime is willing to espouse reform.

The stability and continuity of the two regimes reflect their national legitimacy. CCM emerged from TANU (The Tanganyika African National Union), the unchallenged independence movement – the creation of the one party state had been a *de jure* recognition of a *de facto* reality. The communist movement in Vietnam was also a national independence movement, which meant that to be nationalist was not to be anti-party.
The way the Communist system developed in Viet Nam was quite distinctive. Although the formal structure of the Communist Party and the leading role it is assigned constitutionally can be seen as applying a Soviet blue-print, the way the system worked in practice reflected a process of endogenous, organic growth which was built up during three decades of rather special political and military struggle. The system of decision-making through consensus building and balancing interests (e.g. regional and organisational – party, army and State) has sometimes

delayed change, but by the same token reforms have been built on a pragmatic response to problems and, in terms of contemporary jargon, have been nationally “owned”.

This is a far from trivial point, because if building consensus is accepted as normal, then there have to be significant differences of view accepted as a normal part of the political life, so that the system can be interpreted as operating on the basis of some sort of pluralism, or the tolerance of a multiplicity of views..

Although on occasions when faced with crisis, the Vietnamese authorities have acted swiftly and decisively (as in the implementation of macroeconomic stabilization measures in 1989), the typical approach to economic reform has been cautious, emphasising learning by doing, (the Vietnamese term “step by step” approach encapsulates the underlying philosophy). The official approach has been pragmatic, formal reforms often accommodating informal change.

As the process of policy formulation and consensus building is only partially public, it is characteristic of the Vietnamese reform process that decisive movements in policy are sometimes followed by periods of apparent inaction, which are interpreted by some outsiders as reflecting unwillingness to carry the process further, or worse as evidence of the victory of shadowy forces opposing change. And yet, in the event, when agreement is arrived at and change happens, it has often been decisive and in striking contrast to the expectations of pessimistic commentators.

Such an approach can be contrasted with a more radical, “big bang” approach to reform. While radical, revolutionary change may have virtues when it is the only way to sweep away vested interests and inappropriate institutions, there are also well-known dangers of attempting social engineering through the application of theoretical or utopian blue-prints.[19]

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[19] These dangers were pointed out forcefully by the philosopher Karl Popper (e.g. in The Open Society and its enemies, 1945) in a critique of left and right totalitarianism.

Those who advocate the uncritical and immediate implementation of models of the market economy, based on abstract notions of the optimum, may have more in common with doctrinaire approaches to social engineering than with the more gradual, experimental and pragmatic processes of institutional development that have typically characterized the historical development of market economies.

The historical paradox is that while periods of revolutionary change have often been the prelude to the successful development of market economies, following the revolutionary period the successful development of market institutions demands a more pragmatic, gradual approach.

While some similar features can be observed in the culture and practice of the CCM, the party benefited and suffered from the crucial role played by Nyerere, even in the decade following his retirement. Nyerere had given the country a distinctive political rhetoric and in the early successful years following the Arusha declaration, a sense of national coherence and pride. However, he was not adept at responding to economic crisis, and the regime did not succeed in fashioning its own reform program. Reform, when it came, therefore represented a defeat for the established ideology.

Reform has been well-enough received in Tanzania, for its evident benefit in terms of economic revival, and some members of the technical elite have been enthusiastic in embracing a virtual laissez-faire vision of economic policy. However, although the CCM regime has remained firmly in place, and there is little sign of it being challenged yet by the fragmented opposition under the multi-party system, the retirement and death of Nyerere have left an ideological vacuum, indicative of the degree to which he had dominated political thinking for a generation.

The pre-reform Vietnamese State has been described as a “weak state” in terms of its economic management capability by some commentators (e.g. Fforde and de Vylder), because of failures to effectively implement stated policy intentions during the pre-reform period. However, the measured nature, continuity and national ownership of the policy-making process are characteristics of a strong State.

Tanzania was more obviously a severely weakened State. At the low-point of its economic difficulties (by 1983) its economic management capacity was eroded. The system became increasingly debilitated by over-reliance on ODA. It was not capable of the sort of decisive actions which enabled the Vietnamese to regain control of their macroeconomic situation in 1989, in the absence of strong donor support. In these terms, Vietnam clearly had a strong edge over Tanzania.

Based on the Vietnamese experience, a balanced view is suggested about the appropriate degree of government intervention in the economy, Vietnam has combined a willingness to shift vigorously in the direction of using market policy instruments and establishing a fairly orthodox macroeconomic stance, at the same time as maintaining an active role of the State, not only actively investing its own resources in infrastructure and human resource development, but also retaining an active State Enterprise sector and providing strong planning and policy guidance regarding medium-term growth goals. Vietnam has replicated what could be seen as an East Asian model of the developmental state, which is both flexible in the use of market instruments, but pragmatic about the requirements for active State intervention when required to implement national development goals.

By comparison, in Tanzania there has been a much more considerable withdrawal of government from the economy. Excessive dependence on ODA has meant that most government development projects are donor funded. There has been some government effort to identify longer term development goals ("vision") and to respond to donor thinking by fashioning its own poverty reduction program (PRSP – Poverty Reduction Strategy Paper), but it would be an exaggeration to claim that government has yet been able to re-assert control over its development program, or that there is much sign of capability to design and implement development programs independently from the donors. And because of the dependence on donor thinking, programs tend to respond to contemporary donor fashion, rather than national priorities.

The Tanzanian economy has responded quite well to liberalisation, but even with the great emphasis on private sector development, there will be a need for more coherent and vigorous government investment programs in infrastructure and human resource development to maintain growth momentum. And the absence of developmental capacity may render it difficult for the government to respond creatively to demands for more indigenous involvement in the economy, which will almost certainly be one response to current patterns of development.

This commentary is not about political goals or the merits of alternative political institutions. However, in recent years issues of "good governance" have played an important part in the development literature. Insofar as the governance agenda is about asserting a particular set of political values and promoting Western political institutions, it lies outside the economic policy issues that are the focus of this commentary. However, a particular view of governance is currently being promoted as an appropriate means of achieving economic development with equity.[20] What light does the experience of the two countries throw on the relationship between political institutions and growth with equity?

Over the past fifteen years, Viet Nam has achieved a high growth rate and poverty reduction under the aegis of a one-party Communist state, suggesting that political liberalisation is not a necessary condition for successful economic reform or poverty alleviation. Indeed, the argument might even be taken one step further, with the counter-historical hypothesis that if abrupt political change had been attempted alongside the economic changes, instability and uncertainty could have reduced the growth potential. Some care is required in expressing the logic of this argument, because to argue that the particular institutions of the one-party Vietnamese state facilitated the economic transition is not to argue that a one-party political system is either a necessary or sufficient condition for successful development. Countries can and do achieve growth and poverty alleviation under one-party and multi-party systems, while other countries have failed to achieve growth using one or other option.

The conclusion therefore is that although it is the understandable and normal stuff of politics to espouse one or other set of political values as desirable and to promote particular political institutions that reflect those values, it is highly questionable if any particular political model can be justified as a vehicle for economic growth. Experiences in East Asia in this regard are very mixed.

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[20] See for example making government work for poor people – building state capability UK Department of International Development, September 2001.

In the case of Tanzania, the movement to a multi-party system responded to international (donor) expectations, but also reflected the view of Nyerere himself that the Tanzanian one-party State was becoming corrupt and decadent. He was even of the view that it would have been healthy for CCM to spend a period out of office, until he made the judgement that the likely alternatives at that time (1995) would have been disastrous. However, by the early-1980's CCM seemed no longer capable of the initiative required to respond to the economic crisis.

However, the costs and benefits of moving to multi-party politics are still not clear. An open press and the potential of electoral challenge act to constrain government behaviour. However, the need to fund party politics may itself be a source of corruption. Moreover, it may be some long time before there is a fully functioning multi-party system, in the sense of government shifting between parties at election-time, while the role of CCM as a mobilizing agency has diminished.

Of course, terms such as "one-party" and "multi-party" each encompass a wide range of political practice, and it may be that the particular way political institutions are managed is as important as the apparent constitutional forms.

In some respects, the way the Vietnamese state operates in practice has been adjusted from received doctrine and adapted to the Vietnamese conditions, the State has managed to combine a high degree of authority and legitimacy for national institutions, while accommodating a considerable degree of autonomy in practice at the local level (both in local government and in publicly owned businesses).

The successful Vietnamese performance over the past decade in alleviating poverty is capable of alternative interpretations, which can lend support to varying approaches to poverty reduction strategies.

One possible interpretation is that going for growth is an effective poverty alleviation strategy in countries starting with reasonably egalitarian institutions (e.g. land access). In a country with pervasive poverty, economic growth must be a necessary pre-condition to widespread poverty reduction, and at that stage of growth (Vietnam in the early 1990s) it did not make sense to divert resources from high growth potential investments to low potential investments on distributional grounds. To be sustainable, poverty alleviation should be about the development of productive capacity, rather than redistributive welfare measures.

Market liberalisation, because it promoted high growth, also supported fast poverty alleviation. In particular, market reforms were a key input into the acceleration of agricultural growth, much of it based on the household farm, a critical factor in reducing rural poverty, while the fast growth of the small and medium sized enterprise generated widespread income opportunities.

In Tanzania, a significantly lower growth rate has so far generated much less impressive poverty reduction, and recent data suggests a growing gap between urban dwellers, who have reaped the main benefits from reform in the past decade, and those in the countryside, who have faced stagnating per capita incomes.

Some aspects of the market led growth strategy may create difficulties for poverty alleviation in the future. In Viet Nam, despite the improvements in rural incomes, the absolute gap between urban and rural incomes is widening persistently and substantially.

6.0 CAPITAL FORMATION

What light does the comparative experience throw on the role of internal and external finances, or the role of capital formation, as one of the decisive factors determining the success or failure of reform?

In Tanzania, the days of self-reliance (a slogan of the Arusha Declaration, 1967) are long since gone, and the current expectation is that public development projects will be funded from foreign aid, while foreign investment will be the main source of private capital formation.

In Vietnam the idea of “enhancing internal forces” (phat huy noi luc) has been so repeatedly stressed that it even raised scepticism among a number of people, particularly not a few foreign investors, donors and analysts. But the record indicates that Vietnam has in practice had a much greater reliance on the national (including overseas Vietnamese) contribution to capital formation than has been the case in Tanzania.

The assessment of the role of foreign aid, private foreign investment, foreign trade, domestic savings and other sources of finance will help clarify the difference in perceptions and results achieved in Tanzania and Vietnam.

6.1 The Role of Foreign Aid

Foreign official development assistance played little role in the acceleration of growth in Vietnam. In fact, the period in which reform was initiated with particular vigour and the acceleration in growth began was characterised by sharp declines in external assistance, as support from the CMEA countries collapsed and was not yet replaced by flows from DAC members. Indeed, the subsequent growth in foreign assistance flows coincided with a slackening of the growth rate (although a causal relationship is not be to inferred, as that also saw the onset of the East Asian economic crisis).

A plausible case has been made that technical assistance provided an important input into the reform process. However, this was not associated with aid conditionality and therefore did not erode national ownership of policies.

On the other hand, donors have played a very active role in Tanzanian policy-making, public finance and development spending throughout the pre-reform and reform periods. The comparison does not say a lot for the positive impact of ODA.

It is now recognised that for policies to be effectively implemented they need to be “nationally owned”. This requires more than a formal approval of documents by political authorities. It implies that policies emerge from a national process of decision-making that is embedded in an authoritative set of national political institutions. This is necessary to ensure that policies are embedded in local realities and to create the commitment to implement and persist with policies over the longer-term.

One by-product of the nature of the Vietnamese governmental system was that the policy process remained under national control. At the critical period (1989-94), access to external financial assistance was minor, so that any external advice that was sought was judged on its merits rather than being accepted grudgingly as a means of unlocking donor coffers. The national ownership of policy was unequivocal. When donor conditionality emerged as a factor in the policy-making process it was not very effective in accelerating reform. The Vietnamese have managed the donors rather well so far.

This contrasts with Tanzania, where the failure to craft an effective national response to economic crisis in the period 1978-84 and the excessive degree of aid dependence resulted in a donor-led policy-making process.

In the case of Vietnam, policies emerged from its characteristic political process. Sometimes this involves time consuming consensus building and consultation with key interests in the Vietnamese political system. All the major reforms that have been adopted have been subject to that process, and when adopted have carried authority and legitimacy in terms of the established political system. Moreover, while the Vietnamese have been willing to listen to external advice and have been keen to study external experiences, they have not been willing simply to implement externally designed policy packages, so that it can be reasonably claimed that the policies adopted have been “home grown”.

Much of the donor debate about policy in Vietnam revolves around the willingness or unwillingness of the Vietnamese authorities to implement external advice. However, a degree of caution in implementing external advice is eminently sensible, because such advice is quite often wrong, in Vietnam and elsewhere.

There are a number of reasons why this is often the case[21]. One is that visiting missions, the purveyors of advice, often have too little time (and some times too little interest) to understand local conditions and too readily conclude that local arrangements are inferior. Indeed, as consultants are paid to propose innovations, it is not surprising if advisory reports advocate changes irrespective of their objective merits. And what is even worse, advisory missions often advocate institutions merely because they are familiar to the visiting experts, without noting the range of plausible options available.[22]

External commentators are also sometimes slow to recognise that in some areas even if reform is urgently required, it may be difficult to craft viable reform packages. In this respect it is striking that the apparent inertia in reforming the banking system and public administration in Viet Nam is in line with international experience and reflects basic realities that make reforms in those two areas particularly difficult to implement.

Another difficulty arises from the rather foolish susceptibility of the donor community to global shifts in fashion in relation to such issues as structural adjustment, poverty alleviation, governance, decentralisation, gender, Comprehensive Development Frameworks, etc. As such shifts typically reflect the changes in the political influences that come to bear on aid policy in the developed countries, or changes in the leadership of key donor agencies, it is unlikely that such fashions will be particularly well adapted to the needs of any particular developing country.

Indeed, as developing countries vary in so many respects crucial for the choice of appropriate policies, it must certainly be the case that general policy prescriptions are unlikely to be as universally applicable as frequently implied by donor-sponsored advice.

By now, many donors have recognised, at least in principle, that aid dependence in Tanzania went too far, and efforts are underway to restore a greater degree of Tanzanian control over its

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[21] Many years ago Dudley Seers wrote a piece on "Why visiting economists fail" which covered the same ground and led to the riposte, "Why failed economists visit".

[22] One senior public health official noted that he has received three different advisory missions from different countries, all of which advocated big but very different institutional changes, in each case incorporating aspects of their own experience or ideology. In no case did the visiting missions seek to identify the positive aspects of the Vietnamese system, despite the fact that Vietnamese health statistics are relatively good by international comparative standards given Viet Nam's per capital income level.

development process, but it remains true that policy is strongly influenced by donors, dependence of foreign consultants and technical assistance is still excessive and virtually all government development projects are donor funded and designed, a contrast to the situation in Vietnam where a good deal of public investment is still funded from the national budget and budgetary priorities are still substantially controlled by the Vietnamese authorities.

In Vietnam, there is no evidence that attempts to introduce pervasive conditionality[23], particularly by the Bretton Woods institutions, has accelerated or improved the reform process. Vietnam has benefited from "national ownership" of the reform process and from a high degree of self-reliance at the critical moments in its development. Whether Vietnam will now suffer from its increasing use of ODA is a matter for speculation. Perhaps Vietnamese institutions are strong enough to withstand the process of infantilisation which typically results from donor attempts to control national policy-making processes.

In fact ODA flows to Vietnam represent only a fraction of total foreign capital inflows, US$1.5 billion of disbursed ODA compared to a total of US$24.7 billion foreign exchange availability in 2002. To date, out of the total US$22 billion of ODA committed to Vietnam, US$11 billion has been disbursed. Vietnam's total external debt was estimated roughly at US$15 billion in 2002 compared to US$40 billion of GDP and $16 billion of export in the same year. Based on the criteria set by the World Bank, IMF and other international agencies, total foreign debt over GDP (TFD/GDP) of a country should not exceed 80%, and total foreign debt over export (TFD/EX) should not be higher than 220% of the country's export, Even having been granted debt relief under the HIPC conditions, by the third quarter of the 2002/2003 fiscal year Tanzania's external debt was still in the order of US$7,916.2 million, as much as 87% of Tanzania's GDP – US$9,099.0 million and nearly 900% of US$902.5 million of Tanzania's export in 2002 (Bank of Tanzania Economic Bulletin, Mar. 31, 2003). In these terms, Vietnam is clearly less vulnerable to international pressures than Tanzania.

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[23] The World Bank IDA Poverty Reduction Support Credit of $250 million, agreed in 2001, includes a Policy Matrix with over fifty policy actions to be implemented over the coming three years. Given the success of the Vietnamese without such support and policy conditionality, this sort of comprehensive donor guidance might seem gratuitous, if not arrogant. The explanation seems to lie in the internal process of the World Bank, where the management seems to require the purchase of a policy matrix commensurate with the size of a credit.

The reason why Vietnam is less susceptible to donor influence can also be explained in part by the low level of donors' funding in the Government budget (less than 20%), while in Tanzania after nearly two decades of reform, donors' funding still covers nearly half (or 45%) of the Government budget (QER, April-June 2003, p.11).

6.2 The Impact of Private Foreign Investment

Private foreign investment is making an impact on growth in both countries. Because of the more vigorous privatization, the rapid growth in the mining sector and the active interest of South African capital, private foreign investment is now playing a leading role in Tanzanian economic growth.

In Vietnam, private foreign direct investment has played a useful role mainly in two ways. Foreign investment, particularly from other economies in the region, was important in promoting the fast growth in labour intensive industrial exports, something which has not yet happened in Tanzania.

In Vietnam, foreign investment was also important in providing know-how and finance for the fast growth in energy exports – but with the State Enterprise still playing an important role (unlike in Tanzania, where large-scale gold mining is entirely a matter for foreign business).

The impact of foreign investment in real estate development in Vietnam was more ambiguous, as it stimulated a property boom which led to severe excess capacity in some areas (notably hotels). Also investment in import substitution industries led to high cost, excess capacity in some industries (e.g. car assembly), although that was not important enough to undermine overall industrial performance.

The limited development of financial and equity markets has meant that foreign portfolio investment has been insignificant so far in both cases. While that may have limited access to external funding, it also shielded the economies from speculative flows and limited the impact of the East Asian financial crisis in the case of Vietnam.

To evaluate the impact of FDI, it is necessary to examine not only the size of the flow, but also the nature of the contribution of FDI to the development of the economy, particularly in the transfer of technology and building of industrial capacity. In these areas there are obvious differences between Tanzania and Vietnam. In Tanzania FDI has increased at a faster pace than that of Vietnam but from a lower base, growing over ten times over 10 years, from US$47 million in 1990 to US$767 million in 2000, while in Vietnam it grew only by 3 times, from US$839 million to US$2,400 million in the same period. However, the nature and contribution of FDI differed, FDI in Vietnam having so far had a more positive impact than in Tanzania.

In Vietnam most of FDI have been in new investments through joint ventures with Vietnamese firms (80% of projects), and the largest part of it has been in manufacturing. In Tanzania many FDI projects have been to cover the divestiture of privatised SOEs, funding a change of ownership rather than the setting-up of new capacity, while new investments have concentrated mainly in the mining sector, not in manufacturing.

Nearly half of the total FDI registered (licensed) capital of US$38.9 billion in Vietnam has been realised in actual investments, which have contributed to one eighth of the country’s GDP, one fifth of its total investment, a quarter of its export value and almost two fifth of its total industrial value. By comparison, FDI’s contribution to the development of Tanzania has been less clear. A number of privatised firms have performed well, contributing to ta revenues and growth in output, while others have contributed little. The most obvious impact of FDI on Tanzanian exports has come from mining investment.

Table 6: FDI (US$ millions / % of GDP)

	1988	1990	1995	2000	2001	2002
Committed:						
Vietnam Tanzania[(a)]	372	839 47.2	7,309 263.4	2,400 767.7	2,500 1,637.7	1,400 2,154.4
Realized:						
Vietnam Tanzania	60	150	2,743	2,200	2,300	2,100
% of GDP[(b)]						
Vietnam Tanzania[(a)]	- -	- -	6.3 [(c)] -	13.3 7.9 [(d)]		

[a)] Total foreign investment, of which FDI is usually made up of three/fourth.
[b)] Actual FDI as % of GDP.
[c)] 1994 was the first year FDI was separately calculated in Vietnam, and it was 6.41% of GDP.
[d)] 1999.
Source: Vietnam's 2000 Economic Report, CIEM, March 2001; Vietnam's World Economic Problems, August 2000; Vietnam's 2000 Economic Report, CIEM, March 2001; VER, June 2003, p.43; QER, Tanzania, Oct.-Dec. 2001, front page and p.14; Tanzania Investment Report, December, 2001.

6.3 Comparative Aspect of Globalisation: Exports, Tourism, Remittances and Other Sources of Foreign Exchange

The impact of globalisation is rarely unequivocally positive or negative. Countries that have the capacity and will to grasp the opportunities, to harvest the fruits and to minimize the negative impacts, can benefit from globalisation. The potential benefits are also strongly affected by geographical location in relation to the international economy. Available evidence suggests both that Vietnam has done better at grasping opportunities than Tanzania and has had advantages in terms of geographical locaction..

Both Tanzania and Vietnam are relatively small economies, and are therefore necessarily fairly trade dependent. Trade is one of the most important areas reflecting success in managing the open economy. In this area, Vietnam has been much more successful than Tanzania in expanding trade. Vietnam's total value of foreign trade of US$36.4 billion in 2002 is almost equal to its GDP, while Tanzanian trade of over US$2 billion is just less than 30% of its GDP. In the past 15 years Vietnam has successfully integrated into regional and world markets, implementing commitments made within the framework of AFTA to reduce tariffs to 0-5% by 2006, gradually liberalizing the trade and investment regime within the framework of APEC, normalizing relations and signing the Bilateral Trade Agreement with the United States, signing trade agreements with EU, and initiating negotiations for WTO accession.

While Tanzania has participate in the EAC, SADC and other regional arrangements, these have so far not had the sort of dynamic impact of regional trade agreements in Asia. This is not so much the result of differences in policy, as a result in difference in economic dynamism in the two regions. However, although Tanzania enjoys more preferential access to US and EU markets than Vietnam, it has not succeeded in exploiting trading opportunities in a similar fashion to the exporting successes of Vietnam. Vietnam has been able to grasp the opportunities of the regional and world markets to expand exports of both agricultural and industrial products, including rice, oil, marine products, garments shoes and textiles, coffee, tea, rubber, cashew nuts, electronics and others. The success of Vietnam in quickly grasping market opportunities was illustrated following the implementation of the Vietnam - US Bilateral Trade Agreement, with Vietnam’s exports to the United States doubling every year since the Agreement was finalized, increasing from less than half a billion USD in 2000 to an expected volume of US$2 billion this year (2003). By comparison, even when the US market was opened to Tanzania on a preferential basis through AGOA there was little response due to the lack of national export capacity. These weaknesses have limited Tanzanian gains from globalisation. The lack of responsiveness of the Tanzanian economy to international markets has left the economy vulnerable to negative movements in the terms of trade, and deterioration in markets for Tanzania’s traditional exports such as cotton, tea, coffee and cashew nuts (in the last two cases partly resulting from the rapid expansion of Vietnamese exports).

Table 7: Foreign Trade (US$ billions)

Value/Year	1981	1985	1990	1995	2000	2001[(a)]	2002[(a)]
Total:							
Vietnam Tanzania	1.7	2.1	4.3	13.6	29.5	31.2	36.4
Export:							
Vietnam Tanzania	0.4	0.6	1.8	5.4 0.588[(b)]	14.3 0.663	15.0 0.776	16.7 0.902
Import:							
Vietnam Tanzania	1.4	1.6	2.5	8.2 1.382[(b)]	15.2 1.367	16.2 1.560	19.7 1.511
Balance:							
Vietnam Tanzania	-1.0	-1.0	-0.7	-2.7 -0.793[(b)]	-0.9 -0.704	-1.2 -0.715	-3.0 -0.715

[a)] Estimated.
[b)] 1998.
Source: Vietnam's Ministry of Trade; General Department of Statistics; Vietnam's 2000 Economic Report, CIEM, March 2001, pp. 39-43; World Economic Problems, August 2000; VER, January and March 2003; Bank of Tanzania Economic Bulletin, March 31, 2003.

Beside trade, FDI and ODA, there are other opportunities for developing countries to take advantage of globalisation, providing they have the know-how. In Vietnam tourism and remittances have made important contributions. During the reform years Vietnam has developed tourism from half a billion USD in 1990 to US$1.5 billion in 2002, and has sent some 300,000 workers and professionals to work abroad, mostly to Asian, African and Middle East countries who, in their turn, have sent back to the country about US$1.5 billion a year. Remittances of US$1.5 billion a year are also sent by the three million Overseas Vietnamese who stay mainly in North America, Europe and Australia, bringing total remittances to US$3 billion a year, nearly equal to the amount of realized FDI plus disbursed ODA (of the order of US$3.6 billion in 2002). These earnings have contributed positively to the healthy balance of payment of the country, and helped Vietnam to minimize the impact of the 1997-8 Asian financial crisis on the economy.

Tanzania has substantially benefited from tourism with its earnings increased over 6 times in ten years, from US$120 million in 1992 to US$750 million in 2002, compared to a total value of Tanzanian exports of US$902.5 million in the same year, an encouraging achievement that requires further promotion. However, it seems likely that differences in the structure of the tourist industry in the two countries results in more of the value added being reaped within the national economy in Vietnam than in Tanzania.

Table 8: Vietnam's Foreign Capital Supplies and Demands (US$ billions)

	1990	*1995*	*2000*	*2001*	*2002*
SUPPLIES:					
Export	*1.815*	*5.449*	*14.300*	*15.0*	*16.7*
FDI (a)	*0.152*	*2.743*	*2.200*	*2.3*	*2.1*
ODA (b)	*-*	*0.73*	*1.600*	*1.5*	*1.5*
Remittance (c,d)	*0.50*	*1.00*	*2.95*	*3.0*	*3.2*
Tourism (d)	*0.5*	*0.8*	*1.2*	*1.4*	*1.5*
TOTAL	*2.967*	*10.722*	*22.250*	*23.2*	*25.0*
DEMANDS:					
Import	*2.474*	*8.155*	*15.200*	*16.2*	*19.2*
Debt Service (d)	*0*	*0.5*	*1.0*	*1.5*	*1.8*
TOTAL	*2.474*	*8.655*	*16.200*	*17.7*	*20.0*
***BALANCE** (e)*	*0.493*	*2.067*	*6.050*	*5.5*	*4.0*

[a)] Realized FDI.
[b)] Disbursed ODA.
[c)] Remittances by Overseas Vietnamese and Vietnamese workers abroad (figures for 2000 were $1.7 and $1.25 billions respectively) – Estimate.
[d)] Estimated.
[e)] Supply over Demand.
Source: VER April 2001, p.13; Vietnam News 08 June 2001; Nhan Dan 13 Dec. 2000; and sources collected by the author.

6.4 Domestic Savings

The last but very important issue to be discussed in this paper is the mobilisation of internal resources. Vietnam has been increasingly successful in this regard, with increases in household income and successes in private business ventures increasing the rate of private savings, while the State has continued to contribute to national saving, by ensuring that a significant proportion of public and State enterprise investment is nationally funded. In Tanzania there has been an improvement in private savings, but public investment has remained dependant on external funding.

There are many factors contributing to the size and effective use of domestic savings, including the policy environment which influences the attractiveness of investment. One set of factors which influence willingness to save and make savings available for investment purposes is the development of the financial and banking system.

In Vietnam, institutional change of the banking and financial system started from a single-tier State banking system, with few financial institutions, and required the development of a commercial banking system almost from scratch, and market reforms which affected its operation and management. Other key policies included the move to positive real interest rates with appropriate spreads between borrowing and lending rates, exchange rate liberalization and the gradual rationalisation of the corporate tax system. There is still a need for more progress in improving the operation of the State owned banking sector and developing new financial instruments and deepening the structure of financial intermediation. Given the very high rate of growth in the real economy, there is a continuing need to develop the financial system to accommodate the needs of an increasingly sophisticated economy.

However, much has been achieved. The principle of real positive interest rate was implemented in 1992, deposit rates were liberalized in 1996, and lending rates were freed in June 2002. Exchange rates shifted from a fixed multiple rate system governed by administrative measures to a flexible and market-based regulated mechanism, and corporate tax rates have been gradually reduced from around 40% at the beginning of the reform to 32% few years ago and 28% in 2003. These measures contributed to the reduction in inflation, encouraged families to commit a larger part of their savings to deposit in the banks, to stimulate firms to borrow money to invest and to help reduce tax evasion. As a result, the inflation rates in Vietnam declined from over 800% by the mid of 1980s to 4% in 2002 and the savings rates increased from 15% of GDP in 1991 to 34% in 2002.

Tanzania has also had some success in reforming financial, banking and foreign exchange system, There has been considerable success in reducing inflation rates from around 35% by the beginning of the reform to 4.5% in 2002, and savings rates have increased very marginally from 6.5% of Tanzania's GDP in 1998 to 12.7% in 2002, but this remains a much less impressive improvement than that achieved in Vietnam. However, there are still weaknesses manifested in continuing negative real deposit rates, with nominal rates ranging from 2% to 3% against the inflation rates of 4% to 5% per annum, and with excessive spreads, as lending rates are 15% to

16%. Negative real deposit rates combined with high lending rates inhibits the financial system from playing a fully effective role in financial intermediation.

Table 9: Inflation and Savings Rates (%)

	1986	1990	1995	2000	2001	2002	2003[a]
Inflation:							
Vietnam	875	67.1	12.7	-0.6	0.8	4	5
Tanzania	35[b]		12.8[c]	5.9	5.2	4.5	4
Savings:							
Vietnam		15[d]	27.1	27	33.7	34.0	35
Tanzania			6.5[c]	11.6	11.1	12.7	

a) Projected.
b) Estimated.
c) 1998.
d) 1991.
Source: Vietnam's General Department of Statistics; Vietnam' s2001-2010 Socio-Economic Development Strategy, ND 21 April 2001; VER, March 2001, February 2002, March 2003, p.9; Vietnam's Economic Studies, April 2001; QER Tanzania, April-June 2003; Bank of Tanzania Economic Bulletin, March 31, 2003.

7.0 SOME CONCLUSIONS

At the Conference "Vietnam – Africa: Opportunities Cooperation and Development in the 21st Century" held in Hanoi in May 2003 Vietnam's Prime Minister Phan Van Khai commented that "In the last 16 years and more of carrying out economic, social and administrative reforms, Vietnam has recorded encouraging achievements. As compared to 1986, in 2002 Vietnam's GDP grew by 2.9 times, export by 21 times, school enrolment by 1.4 times, higher education by 5 times, and life expectancy increased from 65 to 68 years." (Conference Proceedings, P.17).

Compared to Vietnam, although Tanzania has achieved an economic growth of 4% to 5% per year, the country's social problems, poverty, disease and low level of education have not been tackled through an effective strategy. Perhaps most depressing has been decline of life expectancy from 60 years at the height of the 1970s to 50.05 years in 1990, then 47.15 years in 1998, and 49 years old currently (M. Pigato, 2001, p.16), mainly resulting from the HIV/Aids pandemic.

Of course, lessons to be learnt from comparative historical experience of national policies and growth will always be somewhat tentative and speculative. In that spirit, the authors offer the following conclusions, the first three of which are fairly obvious and non-controversial, the last three points are possibly more contentions.

1. The comparison demonstrates the importance of sustained investment in human capital. Vietnam made such an effort over the long-term, even through periods of great difficulty, and this has paid off. Tanzania started from a very weak base at independence, and has made some progress, but this is still insufficient, both in terms of mass literacy and the development of managerial and technical cadres.
2. The experience of both countries has demonstrated the effectiveness of market-orientated reforms.
3. The comparison points up the crucial importance of technical progress in agriculture at the early stages of industrialisation. The great success in increasing Vietnamese agricultural productivity is in contrast with limited progress in this regard in Tanzania. The experience suggests that market based reforms contribute to agricultural progress, but are not sufficient – they need to be backed up with substantial public investment in rural infrastructure and a strong institutional framework to provide improved technology and services, involving a judicious mix of public and private initiatives.
4. In developing the economy, it is the Vietnamese view that industrialisation is a key factor (in Vietnamese terms an *industrialisation-oriented structural transformation* is a crucial need). However, the transformation of the economy from an agrarian base toward an industrial and service base requires the increase in agricultural productivity discussed in the previous paragraph. It also requires breakthroughs in export-led industrial growth. The Vietnamese emphasis on industrialisation contrasts with the Tanzanian de-emphasis on this issue during the reform period, in light of the failures of attempts to industrialise under the so-called "Basic Industrialisation Strategy" in the 1970's and the fact that attention to industrialisation is no longer very fashionable in the international circles that tend to influence Tanzania policy.. Tanzanian policy-makers will need to re-visit this issue.
5. Internal capital mobilisation and expanding foreign exchange earnings are cornerstones of development. Without a high domestic savings rate and expanding foreign exchange earnings, the economy continues to be dependent on foreign assistance and underdevelopment persists. There is a need in Tanzania to give *greater emphasis to domestic saving, export promotion and other forms of self-help mobilisation of resources*

and to confront the issue of foreign aid dependency to be able to grasp the opportunities of globalisation.

6. It has been evident that the particular mix of private and public initiative promoted in Vietnam (in Vietnamese terminology developing the *multi-sectoral economy* of Vietnam under “renovation” (“Doi Moi”)) has done better than the almost exclusively private-ownership bias in Tanzania under reform, and the earlier State-owned bias in both countries during the pre-reform period. The multi-sector approach adopted in Vietnam has the clear advantages of maintaining the continuity of development, preserving available productive capacity and national management capabilities, while attracting additional resources through joint ventures and new business investments. When the private sector is weak, it is wrong to advise a country to virtually abandon its State sector – such advice destroys the leaking house at the very moment it needs maintenance and renovation.

   Tanzania has thoroughly dismantled the State-owned sector through privatisation, whereas in Vietnam under the “transformation process toward the market economy” the State sector has continued to play a very active role. Although Vietnamese economic policy shifted from being *over-active and over-controlling* it has continued to play a more active development role than in Tanzania, where the State has moved too far in the direction of passivity, retreating from an active role in development.

   However, for the multi-sectoral economy to work, it needs a policy environment that stimulates a positive performance from the State sector. To meet this requirement, in Vietnam the State has limited direct interventions into business activities of State enterprises, has tried to improve the efficiency of SOEs through equitisation (i.e. giving State enterprises considerable autonomy short of privatisation) and focused on management through laws, regulations and the macroeconomic tools of the market economy, encouraging enterprises to compete on an equal footing in response to market signals. Though Vietnamese SOEs face many problems, the fact that only 30% of the SOEs in Vietnam continue to make losses indicates the potential for SOEs to contribute to development in the multi-sectoral economy.

   In comparing the two economies, it is probably fair to say that Tanzania, after initial hesitancy, has adopted an almost doctrinaire commitment to thorough market reform and privatisation, while Vietnam has adopted a more nuanced, pragmatic approach. The utilization of the market mechanism in the management of the State has been defined as one of the three pillars on which the renovation in Vietnam has rested, but the second is defined as the development of the multi-sectoral economy (i.e. making active use of *both* State and private and household enterprise). The third pillar is the “proactive integration of the Vietnamese economy into the international economy characterized by multilateralisation and diversification”.

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