Tanzania-Vietnam: Ticking over-Dazzling success.

Jan Kees van Donge.

ABSTRACT

1. Tanzania and Vietnam were both confronted in the mid 1980s with an acute foreign exchange crisis that was rooted in a collapse of agricultural production. The reason for this collapse was in both countries seen as a lack of incentives. Liberalisation and the working of markets were seen as the solution.

2. Tanzania solved its foreign exchange crisis in 1985–first turning point– through an agreement with the IMF and consequently with the whole donor community. It implied considerable liberalisation, notably a freedom to trade that was already hesitantly going on since 1982. This resulted however not in macro economic stabilisation. The state sector was draining the economy through the monopoly National Commercial Bank. The currency was sliding continuously. After 1985 – the election of a new president, Mkapa, -second turning point- a new agreement with the IFIs was reached that led to an independent central bank, liberalisation of the banking sector and stabilisation of the currency.

3. Vietnam solved its foreign exchange crisis in the mid eighties –first turning point– through a large influx of foreign investment collected by state owned enterprises. At the same time a process of agrarian liberalisation dismantling collective production was set in train. A fundamental difference between Tanzania and Vietnam is that: in Tanzania macro economic stability took ten years to materialise and then led to a dismantling of the state owned sectors while in Vietnam macro economic stabilisation and therefore hard budget constraints were carried out in the state sector concurrently with introducing market forces. Vietnam still has a large state sector.

4. The outcomes of these reforms in monetary terms is strikingly different. (a) Although there is no shortage of foreign exchange anymore, Tanzania is still aid dependent, especially for financing the government budget. Despite a growth in new exports and tourism there is a persistent deficit on the current account which is made up for in Foreign Direct Investment and Overseas Development Assistance. If donor flows would fall away, the likelihood of new instability because of monetary financed budget deficits is big. (b) Vietnam has also a persistent, but relatively small, deficit on the current account. That has over decades been made up by Foreign Direct Investment originating from the East Asian region. There has been an increasing inflow of ODA, but this remains minor as compared to Tanzania. Exports have grown spectacularly, but imports kept up with this trend. Despite the fact that Tanzania has much lower growth rates than Tanzania, both countries continue to have a weakness in the Balance of Payments.
5. The outcomes of reforms in terms of the real economy are also strikingly different as well.

   (a) The sectors propelling economic growth in Tanzania are mining and tourism. Both sectors have a high component of imported inputs. Mining employs few people, while tourism is much more labour intensive. The latter is however concentrated in few regions. Industrial development has been halted since liberalisation. Most importantly growth has been slow in agriculture. Output figures have been stagnant after a first small spurt after liberalisation. That is the sector where most people find employment. The stagnation of the traditional export crops –coffee, cotton, tea etc.- has been fluctuating around a low mean. Those are the crops that provide cash income for smallholders. Rural Tanzania has therefore experienced very little poverty alleviation while this has been considerable in urban areas.

   (b) Poverty alleviation in Vietnam has been spectacular, also in large parts of rural Vietnam. This poverty alleviation was mostly carried by a tremendous supply response to liberalisation in agriculture. Vietnam turned from a country that was marginally self-sufficient and often was short of rice into a major rice exporter. Other agricultural crops –coffee, cashews- expanded as well spectacularly. Industrial exports –especially in the garment industry through foreign investment- took also off in a big way. However, the value added by the firms in Vietnam was relatively little. It had a beneficial effect on employment, but in a relatively small elite of the labour force. The Vietnamese economic success is concurrent with the coming on stream of oil production in Vietnam. This has loosened the foreign exchange and budgetary constraint in the economy.

6. The introduction of market forces is the major explanation for Vietnamese success. Prolongation of the success is then seen as dependent on introducing more market forces. However, the state sector is still large and is often in joint ventures with foreign direct investment. State influence is a major institutional factor that is under researched in Vietnam. It is however particularly evident in the rice sector where big state companies still play a major mediating role in regulating exports, interregional trade, maintaining floor prices for farmers and releasing rice on the market when consumer prices rise. This has a major effect on poverty alleviation as it helps to maintain farmer income and support the budgets of the poor rice consumers. A major challenge for further research is to identify the particular institutional structures that bridge private and state enterprise.

7. The stagnation in rural Tanzania is also regularly explained as a result of continuing state influence. However, an explanation that stresses neglect of rural Tanzania may be more enlightening. Food supply in rural Tanzania is for example most problematic and around 40% of the rural population is considered to be undernourished. State allocation of resources to rural Tanzania may be of prime importance. The major challenge for further research is to understand the stagnation of recovery of the traditional export crops, as these are the major
sources of cash for smallholders. Connected to this is a study of the interlocking markets for food.
Differential supply responses to liberalization and poverty alleviation in Vietnam and Tanzania.* #

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* This paper relies to a great extent on the graphs made by ms. Ursula Oberst. The analysis of the rice trade in Vietnam relies on the work done by Ngo Thi Men, Hanoi Economic University.
# This paper needs additional evidence where sentences have been highlighted. The use of the English language needs editing. References to internet sources are incomplete. Comments welcome. jdonge@ascleiden.nl
This paper offers a comparison of the development trajectories of Tanzania and Vietnam since the early 1980s. Then, both countries had a socialist orientation in which state institutions were seen as the main means to accumulate capital and bring economic growth. In both countries this strategy resulted during the 1980s in a deadlock as economic growth did not materialize. Both countries embarked therefore on economic reform liberalising the economy. The results have been very different in terms of economic growth: GDP per capita was in 1988, at the beginning of the reform period, higher in Tanzania (US$ 255) than in Vietnam (US$ 210). Around 1992 both countries had the same GDP per capita in 1992. Thereafter the difference widened and in 2006 Vietnamese GDP per capita (US$ 575) was considerably higher than that of Tanzania (US$ 334). The growth in Vietnamese GDP per capita is almost exponential in nature, whereas Tanzanian growth is moving gently upwards in a much more erratic fashion.

**FIGURE 1**

**COMPARISON OF GDP PER CAPITA IN TANZANIA AND VIETNAM**

GDP per capita (constant 2000 US $)

![Graph comparing GDP per capita between Tanzania and Vietnam](image)

Source: World Bank: World Development Indicators

The purpose of this paper is to understand these different development outcomes in the light of the policies that have been embarked upon. That may be looked at sceptically, because there are many reasons to argue that the Vietnamese and the Tanzanian economy are so different that it does not make sense to compare them. For example, the agrarian sector may be dominant in both economies and therefore it provides an unavoidable focus
for comparison. However in Vietnam rice farming is central and a large area is under irrigation, while in Tanzania the main source of food is maize, secondly cultivation is extensive rather than intensive and thirdly it is rain fed. Nevertheless there is a clear focus of comparison in the challenge that needed a policy response in the 1980s. Both countries were dealing with foreign exchange crises. A major cause of these crises is a collapse in agricultural production. This stagnation or decline in the agricultural sectors was explained as resulting from a lack of incentives.¹

The foreign exchange crisis emerged in Tanzania in the late 1970s and reached its crisis point in the early eighties. The logical consequence was to draw upon loans of the International Monetary Fund. However the Tanzanian government did not accept the conditionality that was required: it resisted especially liberalizing the exchange rate. They drew in this conflict especially on support from the Nordic countries and to a lesser extent the Netherlands. However, increasingly these like-minded donors lost faith in Tanzania’s development strategy and combined with internal pressure this led in the mid eighties to an accommodation with the donor community. However it was not before 1995 that a genuine agreement emerged. (White and Dijkistra, 2003)

In Vietnam the acute foreign crisis situation emerged through international political developments. After the American war was they were cut off form most Western aid – Sweden was a notable exception- and the country had no access to the international financial institutions. Vietnam's relations with China went definitely sour after the 1978-armed conflict. The country's pariah status in the West was reinforced after the occupation of Cambodia. Its major international relations were therefore with the Soviet led Council of Mutual Economic Cooperation (COMECON). That was a substantial source of aid and investments were made in a perspective of regional specialization in crops like coffee, rubber etc. However in the late eighties, these countries were facing increasing economic problems and the Soviet-Union collapsed.

¹ This approach is related to the one advocated by Dani Rodrik (2007): studying the historical development of particular economies in their cultural setting so that general themes can emerge instead of arguing from a general framework.
Fforde (2007) collected recollections of this period among Vietnamese managers. Their inside view articulate the foreign exchange crisis sharply:

The danger that the Soviet system was about to collapse had direct implications for the very existence of the Vietnamese Communist Party. The leadership could not reverse course any longer (to centralization, van Donge), but has to continue renovation to preserve the system and attract foreign capital. (p.202)

In the words of managers of State Owned enterprises:

We were looking for a way to setting up joint ventures with overseas, stimulating exports and imports (either directly or via trading companies) so as to compensate for the resources no longer supplied by the state. (p.202)

In both countries, this foreign exchange crisis was intimately linked to the performance of the agricultural sector. This is not surprising as both countries had and still have primarily agricultural economies. Tanzanian export earnings came virtually wholly from export crops such as sisal, tea, coffee, cashew nuts and lesser-known ones such as pulses and sesame seeds. Tanzania chose a development path of heavy state intervention after the Arusha declaration in 1967. That did not affect agricultural output until about 1970. After 1970 there was a fast decline of output in this sector. (Svendsen, 1986; 68, Van Donge, 1994) In Vietnam, the crisis was primarily in producing the staple food rice. In 1989 government was faced with a near famine and had to appeal for international food aid.

The cause for the poor performance of the agricultural sector was seen as a problem of incentives. In Tanzania this was in some cases combined with a drastic fall in prices, most notably with respect to sisal. A second factor was a drive towards agricultural collectivisation, albeit that the collective farm in Tanzania was always an addition to and not a replacement of the private farm. However, a more convincing explanation of this decline was the widening gap between producer prices paid by state marketing boards and the world market price. Farmers were taxed through state agricultural marketing and they reacted by a drop in production. This led to a decline in export earnings and this was a major cause of the foreign exchange crisis. (Ellis, 1983)
In Vietnam, the crisis was primarily in producing the staple food rice. The collapse in rice production was seen as caused by a lack of incentives:

“Peasant households had very low incentives to push up agricultural production as terms of trade for agriculture were declining and the share contributing to the cooperative was increasing. As inflation was too high, peasant lost their incentives to work on cooperative land and to exchange with state trading agencies because the procurement prices were fixed at a low level. In addition taxes on agriculture were complained to be too high As a result peasant household received only 13-15 percent of the crops” (Nguyen Do, 2006. p.82)

The Vietnamese government attempted to collectivise the agricultural sector comprehensively and there was a great resistance against this from below. This was directed against mismanagement in these collectives as well as against collectivization as such. This resistance led regularly to production crises that were followed by reform giving concessions to individual initiative. These were then often reversed by attempts to recentralize. (Kerkvliet, 2005) Food imports from COMECON countries were resorted to in case of production crises and this way out was no longer there in the late eighties.

In both countries economic liberalization was expected to lead to a supply response of farmers as incentives were restored. Such a response occurred massively and dramatically in the Vietnamese economy, but it led in Tanzania only to a hesitant and partial recovery of production. This can be illustrated by the comparative development of food production shown in Figure 2. Vietnamese food production starts from a lower base than is the case in Tanzania. It increases however in a linear fashion and overtakes Tanzania’s growth in about 2001. Tanzania’s food production has also an upward trend but not only is growth less steep, it is also more erratic than in Vietnam.
FIGURE 2
COMPARISON OF GROWTH IN FOOD PRODUCTION TANZANIA AND VIETNAM

Production Index Numbers - Food Production

Source: Faostat.

In the next two sections first the major development outcomes in Tanzania and Vietnam in response to these crises are described. First this will be done in macro-economic terms and this is followed by looking at development in the real economy. Thereafter the paper looks for explanations in a comparative perspective.

Development outcomes in Tanzania in macro-economic indicators.
There is no foreign exchange crisis anymore in Tanzania since 1995. After the election of a new president, agreement was reached between the Tanzanian government and the donor community to tackle the major causes of macro economic instability. Crucial was an end to the soft budget constraints that were monetarily financed at the government owned National Commercial Bank. (Eriksson, 1998) The Bank of Tanzania became a much more independent actor regulating the currency. (White and Dijkstra, 2002) In return donor funds came again available and the Bank Tanzania had for example in the period 1999-2006 on average funds to finance about 7 months of import. That is high compared to a general norm of 3 months. (www.BOT-TZ Balance of payments html.)
Tanzania’s Balance of Payments shows a different structure than before 1995. Striking is a rapid growth of non-traditional export earnings. Rising from 242.1 million US dollars in 1999 to 1,455.9 million US dollars in 2006. A large part of this increase is due to a boom in gold: whereas in 1999 gold contributed 14.4 per cent of Tanzania’s non-traditional exports, this became 53.1 per cent in 2006. Secondly there has been considerable growth in tourism: its earnings increased over 6 times in ten years, from US$120 million to US$750 million in 2002. (Van Arkadie and Do Duc Dinh, 2004) That growth occurred mostly during the 1990s, but it has persisted at a slower pace. It contributed in the period 1999 on average a quarter to the income from goods and services. For example in 2005 that was 28%. (Van Buren, 2006)

Receipts from tourism give Tanzania since 2001 a positive balance on services, but the current account as a whole remains negative. Whereas the deficit on the balance of goods was US$ 872.1 million in 1999, it grew to US$ 3864.1 million in 2006. Imports grew fast as well and from a bigger base than exports.

Imports of capital goods are probably for a large part financed by foreign direct investment which averaged US$ 405 million a year in the period 1999-2006. However, the major means to the balance of payments came of the form of budget support for the Tanzanian government. That is partly to do with financing development expenditure, but also to manage the national debt. The latter is also meliorated through the HIPC initiative and debt forgiveness. Tanzania remains a heavily indebted country, albeit that the debt is slowly decreasing from a high of 89.5% of GDP in 1999 to 72% in 2006. (www.BOT-TZ Economic and financial indicators.)

Donor dependency is however particularly strong in the degree to which current government financing depends upon foreign grants. This is shown in Table I and it is striking that there is no declining trend and that it may be a structural dependency.
### Table I

Degree of foreign financing of the Tanzanian Government budget 1999-2006

<table>
<thead>
<tr>
<th>Year</th>
<th>99/00</th>
<th>00/01</th>
<th>01/02</th>
<th>02/03</th>
<th>03/04</th>
<th>04/05</th>
<th>05/06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Expenditure Ratio to GDP</td>
<td>11.0</td>
<td>11.9</td>
<td>13.0</td>
<td>12.9</td>
<td>17.1</td>
<td>15.1</td>
<td>17.5</td>
</tr>
<tr>
<td>Grants Ratio to GDP</td>
<td>3.7</td>
<td>4.3</td>
<td>3.2</td>
<td>3.7</td>
<td>6.7</td>
<td>7.4</td>
<td>6.7</td>
</tr>
<tr>
<td>% of Foreign Grants in Financing Government Expenditure</td>
<td>33.6</td>
<td>36.1</td>
<td>24.6</td>
<td>28.7</td>
<td>39.2</td>
<td>40.0</td>
<td>38.2</td>
</tr>
</tbody>
</table>

Source: Bank of Tanzania: Economic and financial Indicators.

If donor funds would fall away, the Tanzanian government has a major crisis in financing its operations. E.g. in 2006 Overseas Development Assistance furnished 50% of all government expenditure. (Van Buren, 2007) The likelihood of a return to monetary financing is then great with the predictable consequences of inflation and a free fall of the currency. There is no longer a crisis in foreign exchange in Tanzania but the solution is not sustainable.

**Development outcomes in Vietnam in macro economic terms.**

In some respects the Vietnamese macro-economic situation is quite different from Tanzania. Total external debt in 2006 was 32.2% of GDP, compared to 72% in Tanzania. There is also not an aid dependency like in Tanzania as shown in the following table.

### Table II

Overseas Development Assistance as % of GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>Tanzania</th>
<th>Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>15.7%</td>
<td>4.1%</td>
</tr>
<tr>
<td>2005</td>
<td>12.0%</td>
<td>3.7%</td>
</tr>
<tr>
<td>2006</td>
<td>14.5%</td>
<td>3.1%</td>
</tr>
</tbody>
</table>

Source: OECD-DAC
The amount of foreign aid for Vietnam has increased considerably in recent years, but it remains relatively low. It started also from a low base: When Vietnam embarked upon liberalization there were no donor credits waiting. Vietnam was in the late eighties a pariah nation. Vietnamese State Owned Enterprises got the explicit mandate to search for foreign direct investment, but they could not turn to Europe or America. They built up relations within Southeast and East Asia to break through its international isolation. Up till today the major sources of FDI are in Korea, Singapore, Taiwan, Japan rather than Europe or the USA. The importance of FDI in Vietnamese development is clear from the ratio of FDI stock/GDP rising from, 4% in 1990 to 50.6% in 2003. (Le Thai, p.3)

Most of this was in the form of joint ventures: there were formal and informal pressures to work together with Vietnamese State Enterprises.

This reliance on FDI was necessary because Vietnam has a persistent deficit on the current account. A comparison of the FDI inflow with the deficit on the current account shows that FDI inflow amply compensates this deficit.

**Table III**

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance on Current Account</td>
<td>672</td>
<td>-418</td>
<td>-1,946</td>
<td>-1,702</td>
<td>-473</td>
<td>-797</td>
<td>-1,253</td>
</tr>
<tr>
<td>Direct foreign investment</td>
<td>1,250</td>
<td>2,045</td>
<td>1,900</td>
<td>1,900</td>
<td>2,350</td>
<td>2,650</td>
<td>3,120</td>
</tr>
</tbody>
</table>

Source: http://siteresources.worldbank.org

However, Vietnam has not faced its foreign exchange crisis by merely absorbing foreign capital: its exports have also increased impressively. The magnitude of those changes in comparison to Vietnam is shown in Table IV. The table shows in Vietnam as well as in Tanzania the concurrent steep rise in imports.
Concern about sustainability is therefore also in Vietnam relevant. Especially the extreme dependence upon FDI to develop the economy is considered a weakness. A Vietnamese voice formulates this strongly:

“For years the balance of payments has been quite stable as the trade deficit was somewhat offset by capital inflows, including foreign investment. From 2002 to 2006 the trade deficit accounted for around 10% annual gross domestic product (GDP). However, it reached a whopping US$ 12.4 billion last year, or 17.5% of GDP”. And the first quarter of this year, the trade deficit exceeded $7.4 billion”. (thanniennews.com)

**Development outcomes in the Tanzanian real economy.**

Tanzania reached macro-economic stabilization after an agreement with the donors in 1995. This restored economic growth. Average annual growth in the period 1997-07 was 6.1 percent as compared to 2.1 percent in the decade before that (1987-97). There has been a small decrease in poverty in the 1990s by about 3 percent and this was relatively big in Dar es Salaam: ten percent. (Table V) The crucial question in Tanzanian development policy since 2000 is why does a good track record in macro economic terms not translate into a decrease in poverty? Why did economic growth not benefit the rural sector and consequently why did it not result in growth in agriculture. (World Bank, 2002)
Growth ’appears to be founded on only a fraction of the real economy. There has been a surge in mining and tourism, but these developments take place in enclaves with relatively few linkages to the rest of the economy. That is strikingly the case in the mining sector. Large scale mines –to Tanzanian standards- have been developed with generous tax concessions. They are capital intensive and they employ skilled personnel; that is often not Tanzanian. In 2002 the mines employed only 1% of the labour force while contributing 14% to GDP. Tourism usually has obvious important linkages to the local economy, for example, personnel and purchasing foodstuff. However many of these linkages are located abroad because of the consumer taste of tourists. Its enclave character is reinforced by the big foreign influence in the sector. Out of the 281 licensed tour operators in 2007, 247 were Tanzanian and only 34 were foreign. However, these 34 operators were responsible for between 70% and 80% of tourist arrivals. (Van Buren, 2007) ²

² There is an argument that tourism has strong internal linkages and considerable employment effects. (RAWG, 2002?), However, that insight is based on modeling and not on empirical research. It also overlooks that tourism is concentrated in a relatively small part of Tanzania.

Table V
Poverty data from Tanzanian Household Budget Surveys

<table>
<thead>
<tr>
<th>% of pop. Below Poverty Line</th>
<th>Mainland Tanzania</th>
<th>Dar es Salaam</th>
<th>Other Urban Areas</th>
<th>Rural Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991/2</td>
<td>38.6</td>
<td>28.1</td>
<td>35.0</td>
<td>40.8</td>
</tr>
<tr>
<td>2000/1</td>
<td>35.6</td>
<td>17.6</td>
<td>32.2</td>
<td>38.6</td>
</tr>
</tbody>
</table>

Source: Demombynes and Hoogeveen, 2007
When Tanzania embarked on economic liberalization, it was expected that this should lead to higher producer prices and more agricultural output. A supply response was especially expected after dismantling the state marketing boards. Thus supply response has been disappointing. Usually there was some recovery but thereafter it settled in a low equilibrium. Crops like coffee, cotton, cashew etc. were expected to revive and bring cash in rural Tanzanian households. There has, however not been a big increase in proceeds from these –traditional export- crops. These brought in the period 1999-2006 on average US$ 271 million to the Balance of payments as compared to an average growth during the period in non traditional exports of US$ 878.1 per year. (www.BOT-TZ Balance of payments html.) The latter share is growing, while the former remains stagnant. Some influence of low prices is mentioned, but it is not merely a matter of monetary income. The traditional export crops have also stagnated in volume. Some supply responses occurred in the immediate period after liberalization, but these were not sustained:

“Most cash crop production levels, such as for tea, tobacco, sisal and coffee, have fluctuated around 50 million tons a year. Only cotton and cashews have recorded significant jumps in production. Cashew production increased in 1999 to about 130 million tons but has since declined to an average of 100 million tons a year. Cotton production, although increasing in the mid 1990s, subsequently declined steadily until it began to increase slowly after 2000 and then it rapidly increased in 2004” (RAWG, 2005 p.79)

Food production in Tanzania has also been oscillating around a relatively low equilibrium. (RAW, 2005)

The place of agriculture in livelihoods is also changing considerably: because non-farm income has become very important. Ellis and Mdoe (2003) found in villages in Morogoro region:

“Overall, across the sample villages, 50% of household incomes are derived from crop and livestock sources, and 50% from nonfarm sources comprising wage labour, nonfarm self-employment and remittances.’ The relative contribution of
crops to total income declines across the income ranges, while that of wage income changes little. There is no doubt from the evidence that becoming better off in rural Tanzania involves becoming less reliant on agriculture within a diverse livelihood strategy”” (p.14)

Urbanization is another sign of the declining importance of agriculture in livelihoods. Tanzania’s urban population increased considerably: In the period 1985-2007 it rose from about 15% till about 25%. The drift to the cities is understandable as poverty is reducing there faster than in rural Tanzania. There is of course still considerable poverty there: unemployment in Dar es Salaam increased in the period 1990-2005 from 22 per cent to 26 per cent and from 6 percent to 10 per cent in other urban areas. Much of the employment is in the informal sector –casual work or petty trading. (RAWG, 2003) Wuyts (2001) argued cogently that this informal sector lacks productivity growth linking it with other sectors. It is either fuelled by foreign aid or by very advantageous terms of trade with the rural sector. Tanzanian urbanisation is not in tandem with a process of industrialization. On the contrary, the contribution of industry to the Value Added in the GDP remains stagnant as is clear in figure 3. These figures include the growth of the mining industry and imply therefore a sharp decline in manufacturing.

Economic growth returned to Tanzania after liberalization, but the quality of that growth is questionable. Mining and tourism are the sectors in which the major part of this growth is located. These tend to be enclave economies with few linkages in the Tanzanian economy. The effects of growth on the majority of Tanzanians have been limited and it only had a minor effect on poverty reduction.
Development outcomes in the Vietnamese real economy.

The rapid decrease in poverty is the most striking difference between the Tanzanian and Vietnamese development trajectories. Baulch and Masset (2003) analyzed the movements in and out of poverty status in two Living Standards Surveys in 1993 and 1998 these data sets:

"Just over one fifth of individuals moved out of moderate poverty between 1992-93 and 1997-98, while another 7% escaped from food poverty. In contrast, just over 4% of individuals fell into either moderate or food poverty over this period" (p.443)

Poverty analysts argue mostly that decrease of poverty is mainly associated with market integration. A regional decomposition of the poverty trends will then show that outlying areas are doing less well than areas that are near a hub of business activity. This is evident in the following statement on the least poor districts:
In the north, these districts correspond largely to the Red river Delta region, with its intensive irrigated rice sector. In the Southeast, most of the districts are relatively prosperous, reflecting proximity to Ho Chi Minh City. Similarly, in the Mekong Delta most of the district are relatively well off except for a few coastal districts and one on the Cambodian border (these are known as poor areas with large numbers of Khmer farmers). (Minot: p.13)

Vietnam is like Tanzania still overwhelmingly an agricultural country. Like in Tanzania, only one quarter of it population lives in urban areas. But the place of agriculture in the structure of the Vietnamese economy has changed considerably since 1990. In 1990 agriculture comprised 39 percent of GDP, industry 23 percent, and services 38%. In 2006, the share of services was still the same, but agriculture had declined to 20% and industry’s share had risen to 40%.

This is directly linked to the export success in industrial products. Textiles and garments is the major component in this sector that sector grew between 1989 and 1996 from US$ 68.1 million to 1338.2 million. Miscellaneous manufactured goods (36%) provided the largest share of exports in 2003 despite the large volume of agricultural exports and the value of oil. The export success is linked to foreign direct investment, but not necessarily so. For example in 2002, non-oil exports comprised 37.9% of GDP. FDI was responsible for 12.9% and the domestic sector for 25%. However the distinction may be spurious in Vietnam as most foreign firms operate in some kind of relationship with a Vietnamese State Owned firm,

There is undoubtedly a poverty alleviating effect of the development of an industrial export sector driven by FDI, but it is limited. It may be an enclave economy

In Vietnam FDI may also stimulate an enclave economy that is poorly linked to the rest of society. The garment industry in particular is heavily dependent upon imports and had during the period 1990-96 a consistent Net Trade Ratio (exports minus the needed imports) of 90%. (Hill, 2000) FDI is concentrated around the main cities and it does
employ mainly skilled labour. There is very little movement of labour from the FDI firms to domestic firms. (Le Thai, 2006)

Therefore, much more significant for poverty reduction has been through the development in agriculture which is not driven by FDI. Unlike in Tanzania there has been a massive supply response by smallholders, initially especially in the rice sector. Whereas before liberalization Vietnam could just about feed itself in normal years, the country became in the early 1990s the third rice exporting nation and sometimes moving into second place on the world market. The main staple food is thus in ample supply and this had a major poverty alleviating effect as food is the major item in the consumption pattern of the poor. This is the case in urban as well as rural areas because many rural households are not self sufficient in food and buy rice. (Irvin, 1995)

There is phenomenal growth as well in what Vietnam calls industrial crops. Coffee production has risen exponentially and Vietnam produces now close around 800,000 tons while Tanzanian has remained stuck at 50,000 tons. Cashew production tells a similar story. (Figure 4 and 5) Aquaculture has developed fast in rice growing areas. The greatest poverty alleviating effects in Vietnam may be in the development of non-rice crops. (Benjamin and Brand 2002)
Vietnam's development trajectories since the mid 1980s is thus comprised of several
Distinct elements: the emergence of an export oriented industrial sector financed to a large extent by FDI and a massive supply response in agriculture. The latter is especially a major cause of poverty alleviation.

However there is a third element that may be crucial. Vietnamese oil production came on stream concurrently with the liberalisation process. The export success is carried as well by oil exports that comprise of about a fifth of its exports. On the other hand, Vietnam imports also a considerable amount of oil products because it has no refinery. Sixty five percent of its value on oil exports is spent on importing refined products. (Vietnam: Statistical Surveys) This has of course a major impact on ameliorating the constraints of a foreign exchange and government-financing gap.

**The problem of attribution: markets, institutions and resources.**

Brian van Arkadie and Do Duc Dinh (2004) made a comprehensive review of factors explaining the difference in development outcomes between Vietnam and Tanzania. They start from factors predating reforms: firstly, a much higher human resource potential in Vietnam and secondly, an onset in demographic transition in Vietnam. They end with a view to the future: “the proactive integration of the Vietnamese economy into the international economy characterized by multilateralisation and diversification” (no page numbering).

The perspective in this paper does not take issue with their general analysis, but it has a narrower focus than that in order to come to more insight in the relative importance of the factors mentioned. It concentrates on policy and is particularly concerned with identifying critical variables in a policy-making perspective. It aims not merely to enumerate factors but give them meaning in development debates surrounding these cases.
There are more explanations of Vietnam's supply response to liberalization than there are for the hesitant supply responses in Tanzania's economy. The literature on Vietnam since liberalization is often strident and mono causal: the market has instilled proper incentives. In that view, the Vietnamese economy can progress further, if the remnants of socialist inefficiency are taken away. Targets are: first, the continuing dominance of State Owned enterprises; second, a state owned banking sector backing up these enterprises and third regulation of the maize market through export quotas. These are seen as obstacles for the further development of an entrepreneurial class that is governed by the profit and loss account instead of administrative influence. Two examples of such reasoning: Hill (2000) argued that with respect to industrial development and Minot and Goletti (2000) have been forcefully arguing this with respect to rice.

However, there is also an argument that it may be Vietnam’s unique hybrid of state involvement in the economy with market forces rather than liberalization that has propelled the economy since 1990. The State dominated economy has not been replaced. But that it has creatively adapted. Firstly, there is a reconsideration of the period of central planning. ‘Breaking the fences’ has been a common metaphor to describe the onset of economic reform in Vietnam. Kerkvliet (2005) argues more generally that it was protest from below that led to economic reform. The centrally planned economy may also have been far more loose and decentralized than was assumed. The provincial governments had probably much more autonomy than was expected. The fact that Vietnam was faced with hyperinflation at the end of the 1990s also suggests that pricing was not a monopoly of the planners, but that there were independent economic actors as well. (Van Arkadie and Do Duc Dinh, 2004), A closely related argument is made by Painter (2005) who argues that Vietnam is not and has by far not been the monolithic entity assumed in Marxist-Leninist society. Vietnam’s development is one of a Marxist-Leninist state absorbing change and it avoided in this way rejection by its citizens.

Vietnam’s story among centrally planned economies is one of gradual change rather than the big bang. Van Arkadie en Do Duc Dinh (2004) make it a central element in their comparison:
“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”.

They argue that a competitive environment may be more important than ownership.

However, this may be qualified as it is not so much competition as hard budget controls that disciplined Vietnamese State Owned Enterprises. This argument has been made most cogently by Fforde (2007) arguing strongly that the limited autonomy given to the State Owned enterprises in the late 1980s and the reorganization of the banking system is central. It entailed a massive shift from cash flow accounting and thinking in terms of physical output to thinking about output in monetary terms and the adoption of monetary criteria for enterprise success. It is highly significant that the first objective of the *Doi Moi* reforms was: "to stabilize the economy under high inflation and serious economic imbalances" (Nguyen Do, 2006 p. 84)

Tanzania on the contrary was sluggish in establishing macro economic stabilities. The first structural adjustment agreements were concluded in 1985, but it was not until after 1995 that the exchange rate stabilised and inflation came down. In Vietnam as well as in Tanzania, economic growth returned after macro economic stabilisation. It took however ten years more in Tanzania for that to happen.

Two conclusions emerge clearly here. First, introducing market forces as such need therefore not to lead to economic growth. It appears that macro economic stabilisation is a pre-condition for that. Secondly, the embedding of market forces into institutions –in the case of Vietnam state owned- seems to be crucial as well. Given, that both countries are agricultural countries, an examination of the role of institutions in agriculture should be illuminating,
Agriculture and economic liberalization in Vietnam.

The growth in Vietnamese rice production struck the world immediately as a major result of agricultural liberalisation. The following newspaper report is typical:

"Only two years after its Communist rulers made an international appeal for emergency food aid to avert a famine, Vietnam has transformed its agricultural system, boosting productivity and catapulting itself into the unlikely position of the world's third largest rice exporter in 1989." \(^3\)

Per capita availability of milled rice (including imports and exports) was 109.5kg. in the period 1987-1990 as compared to 531kg. in the period 1997-2000. In 1987 and 1988 Vietnam was still importing a relatively modest amount of rice but in the latter period, it was a major exporter. This growth originated especially from the Mekong River Delta and was benefiting from "earlier long term investments in infrastructure projects on irrigation and drainage, soil improvements and development of regional adequate rice strains for further crop shift and intensification" (Ngo Thi Men, 2000, p.18) There was considerable investment in agriculture in the period of central planning, but it did not result in more output. It needed changes in the incentive system through the dismantling of communal production to turn the potential of these investments in increased production. (Nguyen Do Anh Tuan, 2006)

Non-Vietnamese commentators tend not to mention investment as a major factor but see merely liberalisation as the major reason for the supply response. The state is then seen as a parasitic entity They tend then to argue for more liberalisation in order to remove constraints on entrepreneurial initiative. A widely quoted report by IFPRI (Goletti, and Minot,1996) argued for example that practices restricting the rice trade led to undue surplus expropriation by State Owned Enterprises. The state monopoly of rice trade between the Mekong delta and rice deficit areas results in high profits. The difference between the lower Vietnamese price and the export price is in fact an export tax of about

30% as it is a monopoly profit. Benjamin and Brand (2002) found in two Southern districts that the rice trade was now liberalised and that this had led to market clearing raising farm incomes. Che, Kompas and Vousden (2001, 2006) argue that economic liberalization leads to productivity gains and the more liberalization there is, the stronger it is. They extend their argument to a general argument about the efficacy of market institutions and private property regimes for economic growth in Vietnam. (Tran Ti Bich, Grafton, Kompas, 2008)

However, these papers lack mostly a precise description of the institutions involved. For example:

"With the period of trade liberalization, the state market was effectively abolished, controls were largely removed from the domestic market and international trade was permitted." (Che, Kompas and Vousden, 2006; italics VD)

Such a way of formulating the issue raises the question which state controls have not been removed and what is this process of permission. Luu Thanh Duc Hai (2003) provides a precise description of actual rice marketing within the Mekong delta. He reveals a flourishing private sector of assemblers, wholesalers and millers. A very competitive environment had emerged. However, 'a major market share is still in the hands of the State Owned Enterprises and State farms. The Vietnamese market is not that private as many policy makers want us to believe' (p.103)

Two main State Owned Enterprises are involved in rice marketing, Vinafood I and Vinafood II. They dominate the export trade in rice, but not only that:

"more than 56% of white rice from State owned enterprises is exported and around 14 percent is sold to the domestic market. About 80 percent of the supply sold on the domestic market is transferred to deficit regions in the North as part of the National Food Security Program" (p.93)

Private traders can obtain export licenses, but they are minor players (e.g.6.5% in 2001). In 2008 the government imposed a complete ban on exports. The State Owned Enterprises are of course also buyers and the government wants them to buy especially when prices drop in order to maintain a floor price. (Luu, p.101)
Vietnam has embraced the idea of the market and therefore the system is often portrayed as much more ruled by price considerations than it actually is:

"The process of price formation in the market is simple. The domestic price strongly depends on international prices. The government derives a minimum export price from international rice prices. SOEs and other large millers/owners derive their price level from this minimum level. Moreover, State Owned Enterprises are encouraged to guarantee a floor price to domestic producers. At the local level the bargain process is driven by competition" (p.104)

This quotation distinguishes three processes of price formation: international prices for SOEs and large millers, floor prices that are guaranteed to domestic producers and the farm gate price that is the result of hard bargaining. The logic that connects them is not clear from this passage, for example if the export price is dominant then there is little room for farm gate bargaining.

There is probably a connection but Luu has probably the logic wrong. The export price is all determinant for controls that seek to protect the rice consumer in the first place. We have to look at the structure of the rice market to understand this.

The international rice market is very thin. Only 5-6% is traded internationally. It is far less traded than other staples such as wheat and maize. The reason is that the major rice consuming nations like China, Indonesia, India, are aiming at self-sufficiency. Due to the restricted nature of the international rice market (less than 6% of global production) and to the residual character of exchanges (producing countries produce first and foremost for their own consumption), international prices are extremely volatile depending upon bad or good harvests.

As a rule a good harvest is found in the whole region and not only in Vietnam. So when Vietnamese supply is high, export prices tend to be low. In these situations is unlikely that private traders will enter the market. When harvests in the region are poor and Vietnam has little rice to sell then export prices will tend to be high. Such high
international prices may draw rice out of Vietnam in years of poor harvest and cause rice shortages if not famine. Low international prices may lead to a glut and undermine farmer's income. Therefore it makes sense to export at a loss when prices are low and the income of farmers need to be supported. If prices are high, then exports will hike up prices further. Therefore it is makes sense to restrict exports and release stocked rice on the local market in order to protect the consumer. Luu is right to see the export price as determinant for local Vietnamese rice prices, but the mechanism leaves room for a lot of seemingly free trade. The rice consumer is not necessarily an urban consumer, also many people in rural areas buy rice. (Irvin, 1995)

The most advantageous situation for Vietnam is of course when the region has a bad harvest while Vietnam had a good one. Then one can reason that SOEs appropriate surplus through trading. The IFPRI study is based on such a year and this does not warrant generalizations. The rice market is thus thoroughly managed by the state an operates on the counter intuitive principle of limiting export when prices are high and stimulating exports when prices are low. Below are two commentators that are puzzled by this phenomenon:

For example:

**Problem: producing too much when prices down**

Vietnam has been one of the world’s biggest rice exporters in the last decade. However, it has seemed to not earn big money from rice exports as it has always sold rice when the prices went down. Experts said that it was because Vietnamese exporters were not keen on price predictions. However, it is just the tip of the iceberg, and the deep reason is that Vietnam has made every effort to produce as much as possible despite the price tendency in the world.

The statistics showed that in the last six years, when the world’s rice price did not reflect any increases, Vietnam’s paddy output increased by 10mil tonnes, reaching the record of 36mil in 2004, representing an increase of 4.2% per annum.

When the world’s prices went down, Vietnamese rice stocks were full, and it was clear that Vietnam had to offer lower prices to sell its rice. As a result, Vietnam only could export rice at the price just equal to 77% of the world’s price.

Or:

When world rice prices fell in 2000, Vietnam cut its volume of rice exports, then in 2001 sold it at a cheap price of $167.53 per tonne. It really was a bargain basement price.

Next, after 2001 which saw a decrease in rice production, 2002 saw Vietnam enjoy a bumper harvest of
2.34 million tonnes and prices recovered to $223.86 per tonne. However, Vietnam once again suddenly cut the volume of its rice exports, which then fell to $188.97 per tonne in 2003. It is irrational to hold on to millions of tonnes of rice at a time when high prices rule the market, then sell when the bottom falls out of the market.

Other factors in price formation are not mentioned either. Agricultural credit is important in Vietnam and the price of fertilizer is also regulated.

Agriculture and economic liberalisation in Tanzania.

Growth in the agricultural sector is beyond doubt crucial for poverty alleviation in countries like Vietnam and Tanzania. As agriculture is more important the poorer people are, the conclusion is obvious “Agriculture continues to be the most dependable pro-poor sector”. (RWGB, 2003) Growth in agriculture has however considerably stayed behind growth in other sectors. As said above, the fact that economic growth does not translate in rising incomes in the rural sector is seen as the major developmental challenge in Tanzania.

There is however less attention for explanations needed as to why agriculture did not grow rapidly after liberalisation. For example: the share of the world market price reaching the farmers in Tanzania receives little attention. This was before liberalization considered the main reason for the collapse of supply in export crops. The expectation was that liberalisation would result in smallholders getting a larger share of the world market price and that this would give an incentive for higher output in export crops. (Ellis, 1983) This has been realised to only a limited extent. The producer shares of export price have increased, but these are not universally impressive. Very low shares in the period 1994-1999 was for pyrethrum (21.8%) and tea (34.5%). high scores were for cashew (64.7%) and Fire cured tobacco (74.9%). However in most cases, farmers received around 50% of the export price in the period 1994-1999 as compared to a low point of 41.7% for all export crops in 1980. (RAWG, 2003)

Export crops have not been the major source of cash income for smallholders that these could have been and could have been. It is thus not surprising that output of traditional export crops has been stagnant as mentioned above. Cooksey (2003) argued that
liberalization has not fundamentally changed the pattern of exploitation of peasants by the political-bureaucratic class. For example: At the time of writing, only cashew nuts were bought by private traders only. In other cases it led to a move of co-operatives as main buyers alongside private buyers. In some cases his has led to a collapse of the system as farmers took out loans from the cooperative and sold to another marketing channel in order to avoid repayment. The reaction has been a move to state control again. Whereas originally the marketing boards, renamed as crop authorities, would retain only powers of regulating the market, new legislation reversed this again and gave them the power to operate on markets as well. This reassertion of state control is seen by him in conjunction with a revival of taxation of export crops by local authorities. The latter are under pressure to raise revenue locally and the marketing of export crops is a relatively easy solution. Ponte (2002) described how after liberalisation, a marketing structure failed to emerge for tobacco in Songea district. There is probably thus an institutional void in Tanzania to back up markets, whereas in Vietnam the adapted state structures provided the institutions to regulate supply and demand in a competitive manner.

Life in rural Tanzania has remained simply unattractive, as access to cash is difficult. Moreover food supply is also more problematic than is to be expected in a country that knows extensive self-provision for food. Food imports have been consistent and these have been rising in current prices since liberalisation and very fast after macro economic stabilisation. (Figure VI) Markets seem therefore not to operate as is expected.
There is as a rule sufficient food in the country in aggregate, but its distribution is unequal. That is the case geographically and as well within the general population:

"In August 2005, the proportion of districts reporting food shortages was 29 percent (34 districts). By January 2006, due to prolonged drought conditions, this percentage had risen to 65% (77 districts). (RAWG, 2006: 8)

"Malnutrition in children under-five years continues at a high rate. The rate of malnutrition has declined in the past few years, but not at the same rate as the reduction in under-five mortality. Nearly 4 children in 10 are stunted for their ages, a reflection of under-nutrition over a long period of time" (RAWG, 2006; p.19)

Figures on under nourishment in the Tanzanian population vary widely (Table VI). However, the figures indicate that under nourishment is a persistent phenomenon for a
large part of the Tanzanian population. It is reasonable to expect this to be related to poverty and therefore one can expect it to be more serious in rural Tanzania than in urban areas.

TABLE VI
Percentage of under nourishment in the total Tanzanian population

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<tr>
<td>28</td>
<td>41</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>Source: FAOSTAT</td>
<td></td>
<td></td>
<td>2002-04</td>
</tr>
<tr>
<td>37</td>
<td></td>
<td>44</td>
<td></td>
</tr>
<tr>
<td>Source: Human Development report 2007/08</td>
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The urgency of rural development so that smallholders have increased income from export crops and so that food supply increases is evident. That is recognized in Tanzanian policymaking and increasingly an institutional diagnosis is emerging that goes in the direction of contract farming:

“Efforts should be directed towards understanding and eliminating the barrier to smallholder, that continue to inhibit the growth of productivity. The objective is to transform the sector into one with high labour productivity and high quality outputs. …This way forward may require rethinking the current approach of dispersed and unorganized rural smallholder production, …limited access to information, to inputs, and to output and financial markets and high exposure to shocks –justify the consideration of alternative institutional arrangements.” (RAWG 2005; p.87)

The striking thing is that distribution of resources is not seen as the issue in Tanzania, whereas that is usually central in Vietnamese thinking. As Nguyen Do Anh Tuan found:
“In fact one main reason for high inflation and limited contribution of State Owned enterprises to the state in the pre-reform period was due to agricultural stagnation, food shortage, high relative prices of agricultural goods, and hence low profitability of SOEs. In contrast, food availability in the post-reform helped reduce inflation and set the sound base for growth of non agricultural output and employment” (p.369)

There is no equivalent study of Tanzania’s rural sector in the national economy since 1985. It may find the exact opposite of what is said here: food prices were allowed to fall to very low levels and farm incomes were low as compared to urban incomes.

**Conclusion:**

After several decades of economic reform there are strikingly different outcomes between Tanzania and Vietnam:

<table>
<thead>
<tr>
<th>Tanzania</th>
<th>Vietnam</th>
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<tr>
<td>Some decrease in poverty in urban areas and persistent poverty in rural Tanzania.</td>
<td>Overall big reduction in poverty.</td>
</tr>
<tr>
<td>Variable but continuous dependency on food imports. Persistent under nourishment in considerable part of the population.</td>
<td>No more food shortages and major rice expo</td>
</tr>
<tr>
<td>Liberalisation led an initial restoration in output of export crops followed by levelling off at a equilibrium.</td>
<td>Liberalisation was followed by crop diversification and rapid increase in output of agricultural export crops.</td>
</tr>
<tr>
<td>Rapid development in new sectors: mining and tourism.</td>
<td>Rapid growth of diversified exports as well in existing sectors (rice) as well as the development of industrial exports</td>
</tr>
<tr>
<td>These have however limited linkages in the Tanzanian economy.</td>
<td>Industrial exports have however a high import content. The employment effects of these</td>
</tr>
<tr>
<td><strong>industries are limited to relatively privileged groups.</strong></td>
<td>The foreign exchange constraint has been eased through foreign aid. However basic imbalance remain there on the current account.</td>
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<td>-----------------------------------------------------------</td>
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</tr>
<tr>
<td>Foreign Direct Investment has eased the foreign exchange constraint, but the basic imbalance on the current account remain.</td>
<td>High aid dependency, especially for financing budget. Heavily indebted, especially to the IMF.</td>
</tr>
<tr>
<td>Very high FDI stock in national economy. High dependency on continued inflow of FDI.</td>
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</table>

It is crucial to keep in mind the vulnerability of especially the macro economic indicators in Vietnam as well as Tanzania's restoration after the end of the socialist experiment in the mid 1980s. Nevertheless, Vietnam's development is much better than Tanzania's in terms of economic growth, poverty reduction, supply responses in the economy etc. This calls for an explanation of the mechanisms behind this difference:

The **first** major factor is the priority given to macro economic adjustment in Vietnam as compared to Tanzania. Growth only returned to a significant extent in Tanzania after macro economic stabilisation in 1995. Rapid growth established itself in Vietnam almost immediately after 1985 and macro economic stabilisation was essential in doi moi.

The **second** major factor seems to be the adaptation and maintenance of state institutions in Vietnam whereas full-scale economic liberalisation after 1995 took place in an institutional void in Tanzania. Whereas Vietnam imposed relatively hard budget constraints on the state sector so that it could continue to function, Tanzania failed to improve management of the state sector and soft budget constraints remained. Once the latter were implemented, the state sector folded.

The **third** major factor is the Vietnamese food policy. Through judicious state interventions, prices were moving within a price band that intended to give the farmer a bottom income and to put a ceiling on price rises in maize. The management of food exports was crucial in this. Vietnam has a well-fed population as compared to Tanzania. An ample supply of affordable food has been a major means of poverty reduction and an instrument to keep inflation down. Food supply and consumption has remained much more stochastic in Tanzania.
The **fourth** major factor is probably the rents from oil that accrued to the Vietnamese government while the Tanzanian government has far less access to rents from raw materials. The income from oil has loosened the foreign exchange and budget constraints in Vietnam. Most significant is probably that the income from oil afforded a policy of subsidising rural Vietnam that may be the essence of Vietnam's development success. Income from rents does however not in itself lead to economic success as it can also be wasted as a resource curse.

Further understanding of the divergent development paths of Tanzania and Vietnam may therefore in the first place come from rural research. In order to understand the rises in income in Vietnam and the stagnation in Tanzania. It is striking that the rise in production of export crops such as coffee and cashew nuts in Vietnam is accompanied as well by large increases in productivity. (Figures 7 and 8)

The study of smallholder peasant economies will however also need attention to the way it is embedded in the dynamics of the family and kinship. Understanding rural Tanzania and Vietnam needs further work in the tradition of Chayanov and economic anthropology.

**FIGURE 7**

Coffee, yield per hectare (kg./ha.)
FIGURE 8
Cashew nuts, with shell, yield per ha
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