

TANZANIA'S GROWTH EXPERIENCE FOLLOWING ECONOMIC REFORMS: AN ANALYTICAL COMPARISON WITH VIETNAM

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Abstract

Tanzania and Vietnam have been managed on centralized bureaucratic lines for decades, but both countries have now embarked on market reforms in the last two decades. This paper, first, traces the major trends in the economic transformation of Tanzania following reforms, and compares with the Vietnam experience with specific focus on agriculture and industry. Secondly, it explores the lessons that the experience of Vietnam provides to inform the growth strategies in Tanzania. It is demonstrated that in both countries the socialist experiment failed in later years to generate the anticipated growth and economic development mainly due to weaknesses inherent in the instruments used to implement the ideology itself. The industrial sector dominated by parastatals became grossly inefficient and could not generate enough foreign exchange through exports, or produce enough goods to meet domestic demands. While Tanzania approached economic reforms abandonment of agriculture in favour of private sector-led industrialization, highest priority was to develop agriculture by integrating the collective and individual sectors into an overall system emphasizing intensive cultivation and crop specialization and by employing science and technology. As a result the two countries have followed different economic trajectories with Vietnam performing far better than Tanzania.

1.0 Introduction

The history and experiences of both Tanzania and Vietnam regarding their economic policies is fundamentally characterized by a mixture of complex trends. While Vietnam went through a violent and prolonged war that creates the need and urge for reconstruction, Tanzania was paralyzed for so long that it is ready to leapfrog the development process if it can. The two countries have been managed on centralized bureaucratic lines for decades, but both countries have now embarked on market reforms, and the timing of these reforms in Vietnam and Tanzania was quite close.

Tanzania began to discuss reforms and made the first moves in the early 1980's. It adopted an economic reform program in 1986 after experiencing a steady decline in economic growth in the late 1970s that led to a financial crisis in the early 1980s. The crisis was partly a result of economic policies pursued by the country under a public sector-led economy embedded in the 1967 Arusha Declaration, and partly a result of exogenous factors, including deterioration in the terms of trade in the late 1970s and early 1980s, the collapse of the East African Community in 1977, and the war with Uganda's Iddi Amin during 1978–79.

In the 1980s, Vietnam was one of the poorest countries in the world, and throughout most of that decade there was little indication that Vietnamese households had any hope of raising their level of welfare. Its gross domestic product (GDP) per capita in 1985 is estimated to have been US\$130 per year, making it one of the world's five poorest countries (World Bank, 2004). The country made first tentative steps towards reforms in the mid-1980's, and began vigorous implementation of new policies from 1989 onwards. At the start of the 1980s, Vietnam had a command-control economy directed by the state. The *doimoi* reforms were stimulated by the recognition of Vietnam's severe economic problems of the 1980s, and the need to restructure the economic system to address these problems (Turley and Selden 1992; and Ha Huy Thanh 2000).

The purpose of this paper is two-fold. First, it traces the major trends in the economic transformation of Tanzania following reforms, and compares with the Vietnam experience. Two sectors – agriculture and industry are given specific focus. Secondly, an attempt is made to explore the lessons that the experience of Vietnam provides to inform the growth strategies in Tanzania. Substantively, the paper is influenced and builds upon the analytical work by Brian van Arkadie and Do Duc Dinh (2004).

2.0 Tanzania's Post Independence Pre-Reform Era

Immediately after independence in 1961, Tanzania adopted a series of development policies that were aimed at improving the standard of living of the majority of the population. It pursued a mixed type of economy, which entailed the coexistence of the private sector with the centrally planned economy. Government efforts were directed towards uprooting colonial interests, deprivations, and destitution from the country and therefore it spelt out national direction and relentlessly struggled to build social capital, norms and rational powers in Tanzanian society. This was viewed as a period in which a major transformation was required to build a country with strong institutions and adequate capacity to promote economic development and well being of the Tanzanians.

On average, the first decade of Tanzania's independence was characterized by a positive rate of economic growth averaging 6% per year between 1960 and 1970. Inflation was low and the balance of trade was in surplus. During this period Tanzania's economic performance was above the average in Sub-Saharan Africa. To enhance equity, social services (education, health, and rural water supply systems) received high priority in government funding and were therefore offered freely.

In 1967, Tanzania declared (through the Arusha Declaration), to follow a socialist ideology to development, which was intended to address issues of equity and justice in the development process.

Conspicuous among the objectives of the Arusha Declaration were the gradual creation of a dominant public sector, and the evolution of a socialist income policy - equitable income distribution through various distribution measures including free provision of social services to all, nationalisation of all strategic economic activities in manufacturing industry, commerce and banking, mining, construction, export and import trade and crop marketing. Thereafter, government intervention increasingly took the form of promotion of new and consolidation of public institutions.

The socialist experiment failed in later years to generate the anticipated growth and economic development mainly due to weaknesses inherent in the instruments used to implement the ideology itself. The industrial sector dominated by parastatals became grossly inefficient and could not generate enough foreign exchange through exports, or produce enough goods to meet domestic demands. Dependence on aid to finance importation of intermediate goods increased and when domestic goods production fell short, importation by parastatals was also financed through foreign aid. The exchange rate was fixed and overtime it was extremely overvalued. Government interventions (and in some instances interference) in production and goods distribution intensified, taxes were hiked, and tax structure complex and the government intensified price controls. The environment in effect hindered competition and growth and eventually became the source of economic crisis. In no small magnitude however, exogenous economic shocks experienced in 1970s and lack of policy analysis and economic management capacity in the public service also played a role in the failure of the socialist experiment.

Between 1980 and 1985, the economic crisis persisted and for some economic variables the situation became worse. For instance, annual GDP growth declined from 2.8% between 1976 and 1980 to an average 0.7% between 1981 and 1985; real per capita GDP growth decline from 1% to -1.6% in the same period while the inflation rate

increased sharply from 13.7% to 30.2%. Public deficit and inflation rate continued to rise unabated (above 30%), in the early 1980s. Scheduled debt servicing on medium and long-term debts as a ratio of exports rose by more than 50%, and external payments ran into arrears of substantial magnitude. The manufacturing sector GDP thus fell sharply from an average of 0.6 % between 1976 and 1979 to -4.3% between 1980 and 1985. The growth in agriculture was a frail 2%, and industrial output fell by 15% per year (Mans, 1994).

3.0 Vietnam's Pre-Reform Era

When the North and South were divided politically in 1954, they also adopted different economic ideologies: communist in the North and capitalist in the South. Destruction caused by the 1954-75 Second Indochina War seriously strained Vietnam's economy. By the end of 1966, serious strains developed in the North's economy as a result of war conditions. Interruptions in electric power, the destruction of petroleum storage facilities, and labor shortages led to a slowdown in industrial and agricultural activity. The disruption of transportation routes by U.S. bombing further slowed distribution of raw materials and consumer goods. In the North, all 6 industrial cities, 28 out of 30 provincial towns, 96 out of 116 district towns, and 4,000 out of 5,788 communes were either severely damaged or destroyed. All power stations, 1,600 hydraulics works, 6 railway lines, all roads, bridges, and sea and inland ports were seriously damaged or destroyed.

The economy in the South between 1954 and 1975 became increasingly dependent on foreign aid. The United States, the foremost donor, financed the development of the military and the construction of roads, bridges, airfields and ports; supported the currency; and met the large deficit in the balance of payments. Destruction attributed to the Second Indochina War was considerable. In the South, 9,000 out of 15,000 hamlets were damaged or destroyed, 100,000 square kilometres of farmland and 50,000 square kilometers of forest lands were devastated, and 1.5 million cattle were killed

For Vietnam as a whole, the war resulted in some 1.5 million military and civilian deaths, 362,000 invalids, 1 million widows, and 800,000 orphans. The country sustained a further loss in human capital through the exodus of refugees from Vietnam after the communist victory in the South. According to the United Nations High Commission for Refugees, as of October 1982 approximately 1 million people had fled Vietnam. Among them were tens of thousands of professionals, intellectuals, technicians, and skilled workers.

Between 1976 and 1986, the then-unified country had a planned economy. The government's Second Five-Year Plan¹ (1976-1981) set extraordinarily high targets for the average annual growth rates for industry (16 to 18 percent), agriculture (8 to 10 percent), and national income (13 to 14 percent). It also gave priority to reconstruction and new construction while attempting to develop agricultural resources, to integrate the North and the South, and to proceed with communization. However, by 1979 it was clear that the Second Five-Year Plan had failed to reduce the serious problems facing the newly unified economy. Vietnam's economy remained dominated by small-scale production, low labor productivity, unemployment, material and technological shortfalls, and insufficient food and consumer goods.

The Third Five-Year Plan (1981-85) emphasized the development of agriculture and industry. Efforts were also made to decentralize planning and improve the managerial skills of government officials. The plan's highest priority, however, was to develop agriculture by integrating the collective and individual sectors into an overall system emphasizing intensive cultivation and crop specialization and by employing science and technology. Economic policy encouraged the development of the "family economy"; that is, the peasants' personal use of economic resources, including land, not being used

¹ The First Five-Year Plan (1960-65) applied to North Vietnam only

by the cooperative. Free enterprise was sanctioned, thus bringing to an end the nationalization of small enterprises and reversing former policies that had sought the complete and immediate communization of the South. The new policy especially benefited peasants (including the overwhelming majority of peasants in the South) who had refused to join cooperatives, small producers, small traders, and family businesses.

The effort to reduce the capitalist sector in the South nevertheless continued. Late in 1983, a number of import-export firms that had been created in Ho Chi Minh City (formerly Saigon) to spur the development of the export market were integrated into a single enterprise regulated by the state. At the same time, the pace of collectivization in the countryside was accelerated under the plan. By the end of 1985, 72 percent of the total number of peasant households in the South was enrolled in some form of cooperative organization.

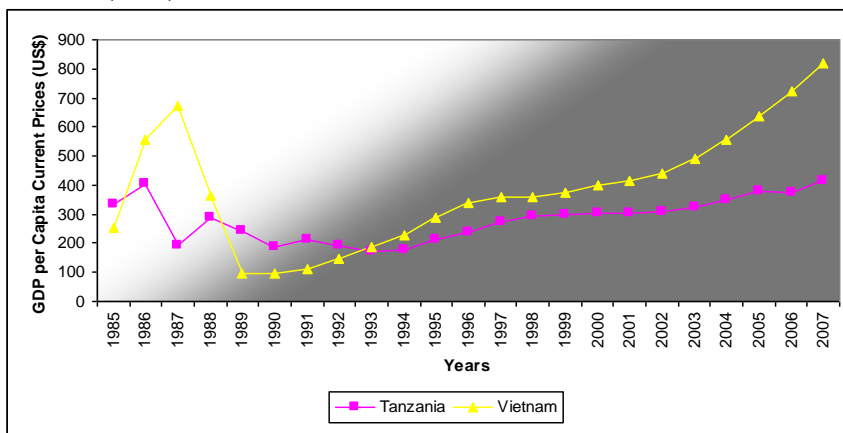
The plan also stressed the development of small-scale industry to meet Vietnam's material needs, create goods for export, and lay the foundation for the development of heavy industry. In the South, this entailed transforming some private enterprises into "state-private joint enterprises" and reorganizing some small-scale industries into cooperatives. In other cases, however, individual ownership was maintained. Investment in light industry actually decreased by 48 percent while investment in heavy industry increased by 17 percent during the first two years of the plan. Nonetheless, the increase in light-industry production outpaced that of heavy industry by 33 percent to 28 percent during the same two-year period.

4.0 Tanzania and Vietnam at the Beginning of the Reform Process

At the beginning of the reform process, the two economies had some similarities. In terms of policy orientation, both countries had, in principle, a high degree of government economic control before

initiating reforms. While Vietnam was 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.

Fig 1: Vietnam and Tanzania – GDP Per Capita, Current Prices (US\$)



Source: IMF, World Economic Outlook Data Base 2008

4.1 Reforms in Tanzania, 1986-2007

The early phase of reforms emphasized getting the prices right. It entailed dismantling a set of policies designed for a centrally-planned economy that emerged after the Arusha Declaration of 1967. Between 1986 and 1991, the government took specific measures to liberalize prices, building on the 1984 pre-reform efforts through a gradual reduction of items under price control, until all prices were liberalized and the National Price Commission (established in 1973) was abolished. Liberalization of imports initiated in 1984 accelerated as a result of the success of the own-fund import scheme. Imports through the official foreign exchange channel were progressively liberalized through the Open General License (OGL) scheme established in 1989, which covered large volumes of eligible imports and later expanded from a system of permitted goods to a “negative list” identifying items that are specifically excluded.

In line with trade liberalization, the simple average tariff declined from 32.1 percent in 1986 to 19.5 percent by 1994 and the weighted average tariff declined from 35 percent to 22.8 percent in 1988. Imports as a share of GDP increased from about 14 percent in 1986 to about 47 percent in 1994 (World Economic Outlook, 2003) By reintroducing cooperatives and allowing private sector participation in domestic trade, the government ended parastatals' monopoly in procuring, distributing, and marketing of agricultural commodities This gave producers some flexibility to export products directly, outside the official channels of the marketing boards (Lofchie 1993).

Despite considerable progress on structural reforms and institutional restructuring, weakened commitment to further reforms saw the economic program derailed between 1992 and 1995. In particular, macroeconomic stability was not achieved mainly due to the government's inability to control credit expansion to public enterprises, massive tax exemptions, poor revenue collections, and tax evasion. The large increases in tax exemptions were symptomatic of corruption and governance issues. The government's waning commitment to reforms confirmed by its laxity in public finance management ran counter to the reform program objectives. This led to erosion in donor confidence and triggered suspension of adjustment disbursements from several donors, including the World Bank.

In the mid-nineties, Tanzania resumed its reform course with a clear and sustained commitment to macro-economic stability through sound fiscal and monetary policies as the foundation for economic growth. Macro-economic stabilization was accompanied by wide ranging structural reforms, including privatization of state owned enterprises, liberalization of the agriculture sector, efforts to improve the business environment, and strengthening of public expenditure management.

4.2 Reforms in Vietnam (the DOI MOI)

In 1986 Vietnam launched a political and economic innovation campaign (Doi Moi) that introduced reforms intended to facilitate the transition from a centralized economy to a “socialist-oriented market economy.” Doi Moi combined government planning with free-market incentives. The *domoi* policy can be briefly summarized by the following guidelines: (i) transformation of a central command, subsidized economy to a multi-sectoral economy with market mechanisms and state regulations; (ii) economic development should be accompanied with social and cultural development and environmental protection; (iii) democratization of social lives, building a legal state of people, for people and by people; and (iv) accomplishing open policy in international cooperation with the spirit “Vietnam wants to be friend of all nations in the world for peace, independence and development” (CPV 1991).

For Vietnam, a country with backward economic foundations and low social development, heavily damaged by long lasting wars and centrally controlled patterns of economy, development of market economy is a major national goal. The reforms also represented a dramatic new economic experiment for the nation, to change the structure of the economy in a relatively short period. Entering the 21st century, Vietnam officially declared the goal of building the “market economy with socialist orientation” and followed this course as a coherent strategic direction (Nguyen Phu Trong 2003).

The program abolished agricultural collectives, removed price controls on agricultural goods, and enabled farmers to sell their goods in the marketplace. It encouraged the establishment of private businesses and foreign investment, including foreign-owned enterprises. By the late 1990s, the success of the business and agricultural reforms ushered in under Doi Moi was evident. More than 30,000 private businesses had been created, and the economy was growing at an annual rate of more than 7 percent.

While the country has shifted towards a more market-oriented economy, the Vietnamese government still continues to hold a tight rein over major sectors of the economy, such as the banking system, state-owned enterprises, and areas of foreign trade. The July 13, 2000, signing of the Bilateral Trade Agreement (BTA) between the U.S. and Vietnam was a significant milestone for Vietnam's economy. The BTA provided for Normal Trade Relations (NTR) status of Vietnamese goods in the U.S. market. Access to the U.S. market allowed Vietnam to hasten its transformation into a manufacturing-based, export-oriented economy. It would also concomitantly attract foreign investment to Vietnam, not only from the U.S., but also from Europe, Asia, and other regions.

In 2001 the Vietnamese Communist Party (VCP) approved a 10-year economic plan that enhanced the role of the private sector while reaffirming the primacy of the state. In 2003 the private sector accounted for more than one-quarter of all industrial output, and the private sector's contribution was expanding more rapidly than the public sector's (18.7 percent versus 12.4 percent growth from 2002 to 2003). Growth then rose to 6% to 7% in 2000-02 even against the background of global recession, making it the world's second-fastest growing economy. Simultaneously, investment grew threefold and domestic savings quintupled. Vietnam had an average growth in GDP of 7.1% per year from 2000 to 2004. The GDP growth was 8.4% in 2005, the second largest growth in Asia, trailing only China's. Government figures of GDP growth in 2006, was 8.17%.

5.0 Comparing Reform Outcomes

Tanzania's reform process has been gradual and at best cautious but steady. The changes in the economic policy regime led to increased levels of economic activity stemming from liberalization efforts, availability of consumer goods, and market determined producer prices. Economic performance improved, albeit gradually. GDP growth averaged about 4 percent per year between 1987 and 1992, reversing the real per capita income decline experienced in the early

1980s. Official Development Assistance (ODA) rose sharply to US\$1.08 billion in 1991 from US\$666 million in 1986, reflecting resumption of donor inflows in support of economic reforms. Although the rate of inflation declined slightly, it remained high (above 30 percent), fueled mainly by growth in domestic credit reflecting lending to loss-making agricultural marketing boards and cooperative unions, which continued to exert influence. The revival of the industrial sector was not achieved (Table 1).

Table 1: GDP % Growth per annum (at constant 1992 prices) and Inflation 1987 – 1995

Indicator	1987	1988	1989	1990	1991	1992	1993	1994	1995
Overall GDP	7.0	4.4	2.6	6.2	2.8	1.8	0.4	1.4	3.6
Agriculture	1.3	2.2	3.9	5.5	3.6	1.2	3.1	2.1	5.8
Manufacturing	4.1	3.1	5.2	4.1	1.9	-4.0	0.6	-0.2	1.6
Annual Rate of Inflation	-	31.8	30.3	35.8	28.7	21.8	24.0	35.5	27.4

Source: Economic Surveys (various years)

As a result of the temporary setback in macroeconomic policy during the first half of the 1990s, GDP growth averaged less than 2 percent per year between 1991 and 1995, reversing real per capita GDP growth attained during the preceding six years. Meanwhile, gains made earlier in reducing inflation were reversed: inflation rose from about 22 percent in 1992 to 37 percent in 1994.

Macroeconomic stability was achieved in the late 1990s. Inflation was reduced from about 30 percent in the 1980s and early 1990s to single digits in late 1990s, when severe fiscal imbalances were brought under control through prudent fiscal management; inflation in 2006 was 7.3 percent. Acceleration of structural and institutional reforms, as well as creation of new institutions, led to improvement in the investment climate, and increased Foreign Direct Investment (FDI) flows.

Table 2: Selected Economic Indicators 1994 – 2002

Indicator	1994	1995	1996	1997	1998	1999	2000	2001	2002
GDP Growth per annum (%)	1.4	3.6	4.2	3.3	4.0	4.7	4.9	5.7	6.2
Annual rate of inflation	35.5	27.4	21.0	16.1	12.9	7.8	6.0	5.1	4.3
Fiscal deficit as % of GDP (before and after grants)									
-	-5.9	-5.4	-2.8	-3.1	-6.0	-8.1	-5.6	-6.3	-8.2
- Before grants	-3.1	-3.3	0.2	0.2	-1.6	-3.3	-1.7	-1.6	-1.7
- After grants									
FDI in USD millions	50.0	150.0	148.5	157.8	292.7	517.4	463.4	327.2	283.8
Official reserves in months of imports	1.9	1.6	2.7	3.2	4.5	5.2	6.2	6.8	7.9
External Public Debt in % of GDP	147.6	130.0	116.6	103.0	91.5	80.4	72.7	67.3	68.6

Source: Economic Surveys and the Bank of Tanzania Publications (various years)

Government revenue, excluding grants, improved from about 11.8 percent of GDP in 1993 to 13.5 percent of GDP in 1996. However, the revenue ratio to GDP declined to 12 percent in 1999. It has since stabilized around 13 percent. The overall deficit excluding grants improved from 7.5 percent of GDP to 2.8 over the same period. During this period, GDP growth rate reached 6.2 percent in 2002, up from 3.6 percent in 1995, and growth in per capita GDP accelerated to 4.2 percent in 2002. The balance of payments improved significantly, largely because of the resumption of large donor inflows and export earnings—particularly from nontraditional exports such as gold, gemstones, and fish products. Overall gross foreign reserves rose from the equivalent of 1.6 months of imports at the end of December 1995 to more than 6 months of imports at the end of December 2002.

Tanzania's sustained commitment to economic reforms triggered its eligibility for debt relief under the enhanced Heavily Indebted Poor

Countries (HIPC) Initiative in April 2000, making it one of the first countries to reach the completion point and to benefit from irrevocable and substantial debt reduction. Debt reduction in turn paved the way for additional donor inflows. The additional resources, including from the HIPC debt reduction, allowed the government to increase budgetary expenditure allocations to social sectors which led to visible improvements in public service delivery, in particular education and health.

The more recent trends in key macroeconomic indicators provide a mixed picture (Table 3). Inflation rates, fiscal deficits, and the trade balance have shown signs of slippage since 2002/03. In addition, while there has been an increase in credit to the private sector, it remains limited to a small number of firms, and a large portion of bank liquidity is invested in government securities. The spread between lending and savings rates continue to be high, reflecting a continuation of high cost of borrowing from commercial banks, and low incentives for those saving. There has been a slowdown in FDIs, most of which remain heavily concentrated in the natural resource sector with minimum spillovers to other parts of the economy.

Table 3: Selected Economic Indicators 2002 – 2006

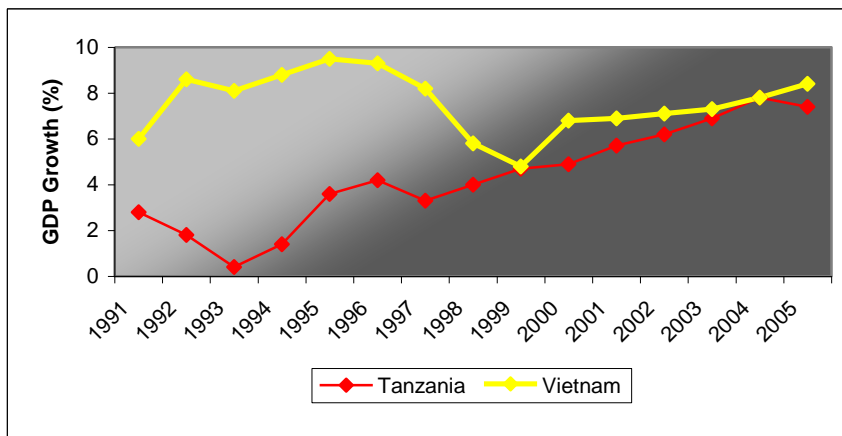
Indicator	2002	2003	2004	2005	2006
GDP Growth per annum (%)*	7.2	6.9	7.8	7.4	6.7
Annual rate of inflation	4.3	5.3	4.7	5.0	7.3
Central government revenue as % of GDP	2001/2 12.8	2002/3 13.4	2003/4 13.1	2004/5 14.2	2005/6 14.5
Fiscal deficit as % of GDP (before and after grants)	2001/2	2002/3	2003/4	2004/5	2005/6
- Before grants	-8.2	-11.2	-11.8	-13.5	-13.8
- After grants	-1.7	- 4.0	- 4.5	- 6.6	-5.4
External debt service as % of exports	2001/2 11.9	2002/3 7.3	2003/4 4.5	2004/5 4.5	2005/6 3.0
Exports as % of GDP	2001/2 16.2	2002/3 17.3	2003/4 24.1	2004/5 22.3	2005/6 21.9

* At constant 2001 Prices

Source: Economic Surveys and the Bank of Tanzania Publications (various years)

Although the Tanzanian economy has responded positively to reforms, and the country is currently seen as one of the more successful reforming African economies, performance in terms of growth – both the level of growth and acceleration compared with earlier years of crisis has been less dramatic than in the case of Vietnam. All the indicators suggest that Vietnam has been significantly more successful than Tanzania. During the 1990's Vietnam enjoyed a very high growth rate both in comparison to developing countries at a similar income level and to other transitional economies (with the exception of China).

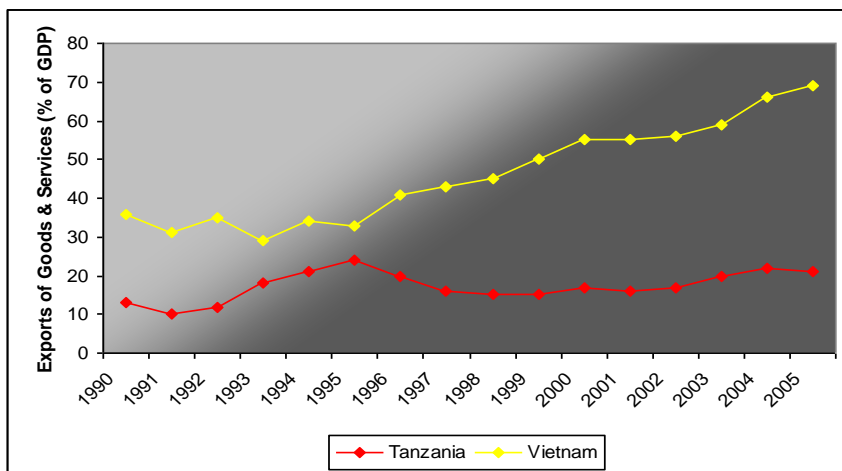
Fig. 2: GDP Growth in Tanzania and Vietnam (1991-2005)



Source: Vietnam IMF Country Reports (various years); Economic Survey (various years)

Vietnam also experienced very high rates of export growth based on fast output growth in agriculture and industry (Van Arkadie and Do Duc Dinh, 2004). The considerably transformed structure of a number of industries led to the development of certain key products. A number of industrial and export processing zones with many production establishments using modern technologies were established. Along with the development of large-scale industrial establishments, the government attached great importance to the development of small and medium-sized enterprises with a view to creating more employment and raising incomes (The Socialist Republic of Vietnam, 2003). Tanzania on the other hand has not achieved the buoyant and diversified export growth of the kind that has powered the Vietnamese performance (see Fig. 3).

Fig. 3: Exports of Goods and Services in Tanzania and Vietnam (1990-2005)



Source: IMF, World Economic Outlook Data Base 2008

Deep changes in Vietnam's 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 multilateral aid institutions before 1993. GDP per capita was \$206 US in 1990, increasing to \$423 US in 2004. In terms of purchasing price parity (PPP) measures, Vietnam's GDP per capita was approximately \$2500 in 2003, which represents a major advance in living conditions. From the early 1990s to 2005, poverty declined from about 50 percent to 29 percent of the population. However, progress varied geographically, with most prosperity concentrated in urban areas, particularly in and around Ho Chi Minh City. In general, rural areas also made progress, as rural households living in poverty declined from 66 percent of the total in 1993 to 36 percent in 2002. By contrast, concentrations of poverty remained in certain rural areas, particularly the northwest, north-central coast, and central highlands.

5.0 Sectoral Growth and Structural Transformation

The modern concept of transformation recognizes that with development in country economies, the share of the agricultural sector will shrink, leaving space for expansion of the industrial and service sectors. Indeed as economic development takes place the importance of agriculture drops. This has been well described by Kuznets (1966) and Chenery and Taylor (1968) in their classical works on the evolving structure of economies. In Vietnam, though the agricultural sector was growing rapidly, 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.

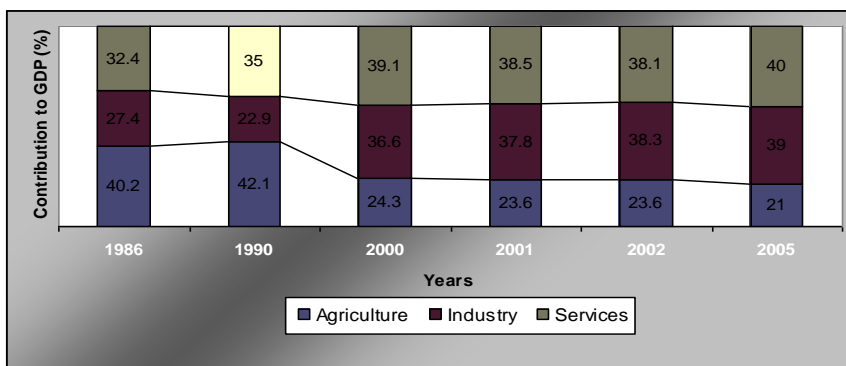
Table 4: Sectoral Average Growth in Vietnam

Economic activity	1985-88	1988-94	1994-2000
Agriculture	1.8	3.9	4.4
Industry	8.1	7.5	11.1
Services	3.6	8.5	6.4
Total GDP	2.0	5.0	5.7

Vietnam's 2001-2010 Socio-Economic Development Strategy, Vietnam's Directions and Tasks of 2001-2005 Socio-Economic Development Plan; VER, March 2003.

These facts illustrate a high rate of structural shift towards industry in Vietnam, and also that this shift in shares is supported by growth of the agricultural sector.

Fig 4: Structural Transformation in Vietnam

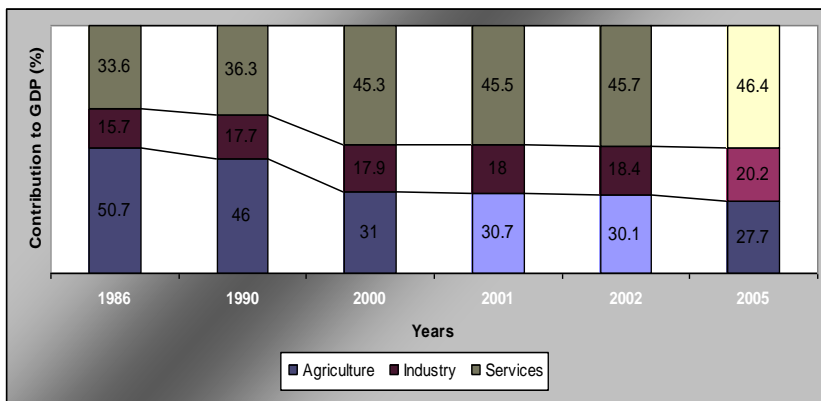


Source: Vietnam’s 2001-2010 Socio-Economic Development Strategy, ND 21 April 2001; Vietnam’s Directions and Tasks of 2001-2005 Socio-Economic Development Plan, ND 22 April, 2001; VER, March 2003.

Tanzania’s agriculture contribution to GDP has also dropped (although slightly less than Vietnam) from around 30% in the late 1990s to about 28% in 2005². Non-manufacturing and non agro-based industries, (i.e. construction, and mining) have increased their contribution to GDP. These sectors’ growths, however, have had minimal welfare benefits, as their value chains are yet to augur into the nascent domestic processing and service systems. Contribution of the service sector has increased significantly.

² This is contribution based on 2001 prices as the base year. If measured at 1991 prices, then it has dropped from an average of 50% to 45%. The declining trend of agriculture’s contribution to GDP is apparent irrespective of base year and methods of measurement.

Fig 5: Structural Transformation in Tanzania



Source: Economic Surveys (various years)

6.0 Performance of the Agricultural Sectors

In Tanzania, stated policies that guided government activity in the agricultural sector can be summarized as follows:

- Reversing price distortions and recuperating losses due to inefficient (state-run) processing and marketing industries.
- Using the market rate of exchange for agricultural exports.
- Revitalizing export-processing industries through divestiture and encouragement of private sector participation.
- Continued reduction of state participation and control in produce marketing and input supply.

Other, more generalized policy intentions stated but which have never yet been fully implemented on the ground were to (i) improve the Government's ability to design and implement market based incentives for agricultural production, processing and inputs supply; (ii) improve the functioning of markets for all factors of production, (iii) induce technological change by improving the efficiency of

input supply markets and by increasing the effectiveness of Government's agricultural extension and research services.

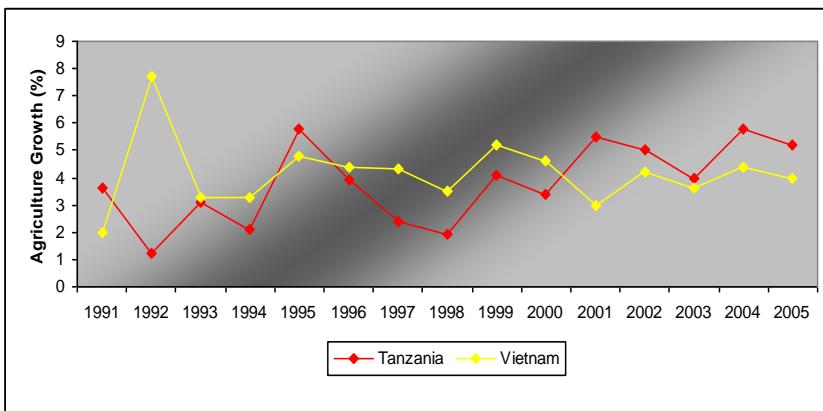
Overall sector performance in Tanzania during the post-reform period 1985-2005 was respectable but not outstanding. Agricultural GDP grew by 3.5 percent per year over 1985-90; 3.3 percent over 1990-1998, and 4 percent over 1998-2005. In the early period, food crop production grew quickly in response to domestic market liberalization, while export production was stagnant. By 1990, the increased food availability had eliminated the need for food imports. However, weak marketing and poor distribution chain hindered an increase in food supplies in urban areas (Mwase and Ndulu, 2008). The non-traditional agricultural export sector increased five-fold between 1985 and 1991 (Mans 1994). Since 1990, food crop production growth slowed to approximately the rate of population growth, while export crops posted an impressive 7.7 percent rate of growth. Export liberalization and exchange rate depreciation improved the incentives for export crop production, and Tanzanian farmers responded well in spite of continuing institutional and credit problems in the sector.

Vietnam is a largely agrarian society, with two-thirds of the labor force working in agriculture, forestry, and fisheries (FAO 2005). In Vietnam, reforms in agriculture and rural areas helped to increase rapidly agricultural output. Per capita food production was boosted from 303 kg in 1990 to 444 kg in 2000, and revenues from agricultural exports more than quadrupled from US\$ 1 billion in 1990 to US\$ 4.3 billion in 2000. Agricultural growth rates increased from an average of 1.8% between 1985 and 1988, to 3.9% between 1988 and 1994, and 4.4% between 1994 and 2000.

Although rice, the country's single most important crop, has always played an important role in the Vietnamese economy, the economic reforms shifted agricultural production away from subsistence towards cash cropping. As a consequence, Vietnam has gone from

being a rice importer in the 1980s to the world's second largest rice exporter, after Thailand. Rice production increased by about 1 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, thus allowing the country to save hard currency that would have been needed for food imports.

Fig. 6: Agriculture Growth in Tanzania and Vietnam (1991-2005)



Source: Vietnam IMF Country Reports (various years); Economic Survey (various years)

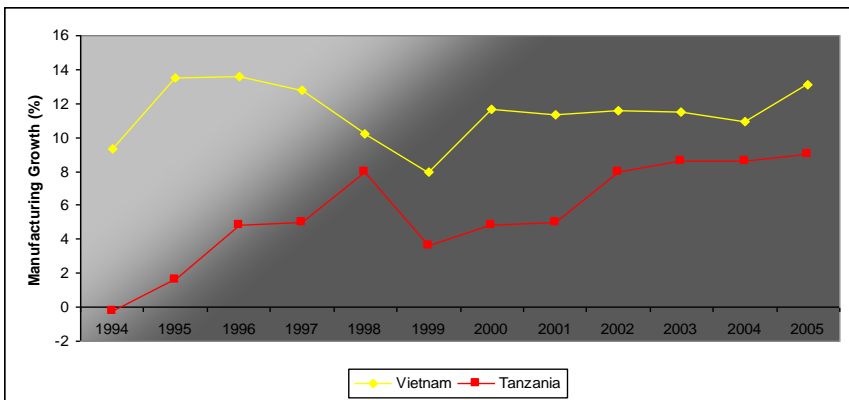
7.0 Performance of the Industrial Sector

In Tanzania, the performance of the industrial sector in the pre-reform period was characterized by gross inefficiencies, low (and sometimes negative) output growth, low capacity utilization, low productivity and poor export performance (Shitundu and Mjema, 1995). That performance was mainly attributed by internal factors

(i.e. the highly regulated environment (in terms of policies and institutions) in which the sector was operating, as well as external factors. Tanzania’s industrial output showed relatively low growth rates in the early years of reforms (1990s) but has shown large increases in recent years³.

In Vietnam, statistics reveal high growth rates in the industrial sector at the time when the *Doi Moi* policies were adopted, and increased at a lively rate throughout the reform period. However, it seems that manufacturing industry performed better than mining and construction.

Fig. 7: Growth in Manufacturing - Tanzania and Vietnam (1991-2005)



Source: Vietnam IMF Country Reports (various years); Economic Survey (various years)

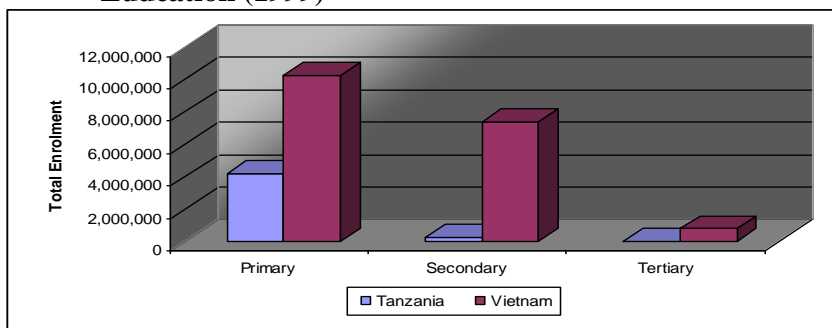
³ Industry includes Mining and Quarrying, Manufacturing, Electricity and Water and Construction

Explaining the Difference

- **Human Capital Development**

One area in which Viet Nam had a clear lead over Tanzania in the pre and post -reform period was in relation to investment in human capital. There was a good deal of effort in technical and professional training, that involved active utilization of opportunities for technical training abroad, as well as development of national technical training capacity. This had begun even in the early stages of independence struggle. 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. Adult literacy rates were at 87.6% in 1989 and had reached 90% in 1999, while for Tanzania, they were at 59% in 1988 and only reached 69% in 2002 (UNESCO- Institute of Statistics, 2008). By 1999, while the population of Vietnam was only slightly more than double that of Tanzania⁴, secondary school enrolment in the latter country was only about 4 percent that of the former, and tertiary enrolment about 2 percent. Comparison in enrolment figures for the key disciplines at tertiary level also reveals a striking difference (See Figures 8 & 9).

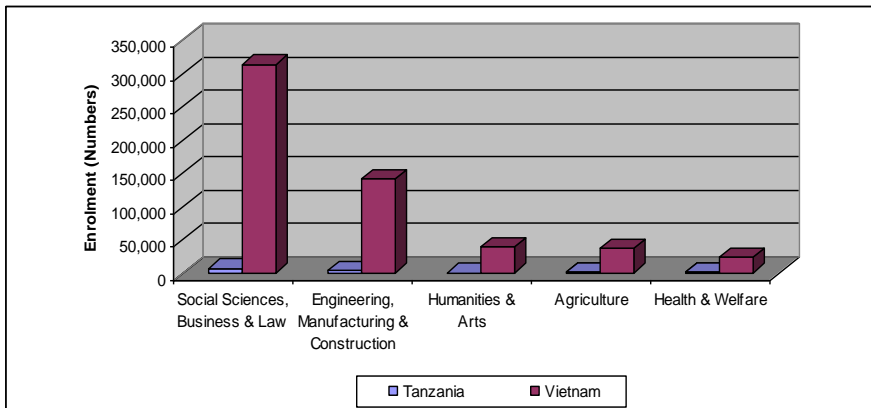
Fig 8: Enrolments in Primary, Secondary and Tertiary Education (1999)



Source: UNESCO- Institute of Statistics, 2008

⁴ Vietnam's population was at 77 million compared to 33 million in Tanzania.

Fig 9: Enrolments in Various Disciplines at Tertiary Level (1999)



Source: UNESCO- Institute of Statistics, 2008

Competitive advantage is based on continuing efforts, at the level of the firm and the economy, to enhance capabilities to add value to basic resources and commodities, penetrating new and more profitable markets. Higher value added processes tend to require higher levels of education. In management and technical education, this is a matter of skills and knowledge pertaining to day to day operation of a business, design and set-up of production processes, and world markets which are gained partly from formal education; but even more from learning-by-doing.

Vietnam was successful in developing and utilizing 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. By comparison, Tanzania's economy at the inception of reforms did not have a sound base of adequately qualified and trained work force that is essential for rapid economic growth and effective diversification of its production and export bases.

- ***Agricultural Sector Initiatives***

In Tanzania, generally reforms in the agricultural sector opened up markets by formally allowing private traders to invest in marketing and processing. However, there haven't been efficient operations within the liberalized markets. Many problems cited in different studies indicate gross inefficiency in the production and marketing systems such that most of the farmers have not captured the full potential benefits of their production regimes despite operating under a liberalized market scenario (see Cooksey, 2002; Kashuliza and Mbiha 1995; Meertens, 2000; Rweyemamu 2002).

The withdrawal of the state from Tanzanian agriculture left a void particularly in rural areas. This can be seen as a transitional problem in moving to a market-oriented system, but after two decades, ***the growth of the institutional and legal environment necessary to nurture the growth of economic transactions under market principles has been slow.*** There is a clear need for faster progress in creating a reliable and enforceable regulatory environment for internal and external agricultural trade, including measures and standards.

Market reforms have been associated with declining access and use of agricultural inputs. This is largely due to the disappearance of credit and input providing state institutions, and the low participation of the private sector in the supply of agricultural inputs and purchase of crops particularly from remote rural areas. Remoteness can be as much a question of "poor infrastructure" and "poor transportation" as of pure distance. It is worth noting the impact that remoteness has (largely through increased transportation costs) in inflating input

costs and depressing output prices making the use of purchased inputs, such as improved seeds, inorganic fertilizer and crop protection chemicals, uneconomic. The ratio of average crop producer prices to farm gate fertilizer prices dropped from 1.4 in 1985-89 to 0.4 in 1998 for maize; from 2.2 to 0.6 for paddy; and from 1.6 to 0.8 for wheat (Havnevik, et al 2008).

With very modest increases in labor productivity and yields almost stagnant, Tanzania's agricultural growth has been derived largely from land expansion by farms using traditional technology, with little evidence of improved technical inputs and management practices. (World Bank, 2007) The contribution of agricultural research and extension was limited by several factors. First, services generally focused on increasing production through short-term technical packages, without paying attention to farmers' circumstances, markets, and sustainability. Despite various attempts to strengthen them, the linkages between research, extension and training have remained weak, and collaboration between public and private partners limited. Disproportionate emphasis was placed on generation and dissemination of technology, and less on empowerment (both intellectually and financially) of farmers to adopt the technology. As a consequence of weak linkages within the system, research does not always address priorities of greatest potential impact to the production systems. Technical breakthroughs do not yield good economic returns, and promising technologies remain on the shelf due to lack of knowledge or financing for adoption.

In Vietnam, agricultural development has combined household farming with concentrated areas of larger-scale specialized production. Key supporting policies include 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 (Van Arkadie and Do Duc Dinh, 2004). There has also been progress in reforming agricultural marketing and strengthening processing. While improvements are still needed, a lot more has been done compared to Tanzania.

Total government expenditure increased almost fourfold over the 1990s. Agriculture's share of total government expenditure fluctuated from year to year around an average level of 10 percent (Barker et al, 2004). In contrast, reforms in Tanzania attracted support of development partners at a time when priorities within the development community were shifting toward investments in the social sectors. The overall pattern shows a sharp decline in budgetary support to agriculture. For example, the real allocation to the sector in 1997-98 was about one third the average annual values in the 1991-92 to 1993-94 periods. The 1999-2000 budget was also almost one third lower in real terms than the average of the allocations in the first three years of the period (World Bank, 2000).

Vietnamese agriculture is not more mechanized to any great extent, but there is a sharp contrast between the highly intensive irrigated agriculture of Vietnam, and the more extensive, rain-fed agriculture of Tanzania. Over dependence on rain fed agriculture in Tanzania has been a major constraint to sustainable increase in crop production. While there is an abundance of water in rivers and lakes, there is very limited application of irrigated agriculture. Of the 10.7 million ha under cultivation, only 150,000 ha is irrigated representing less than 15% of the estimated irrigation potential of about 1 million ha.

Viet Nam has a clear edge over Tanzania in the effective public provision of basic infrastructure servicing agriculture (notably water and transport). Likewise, the continued functioning of organizations 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.

- ***Industrial Sector Initiatives***

In Tanzania, policies that were deployed following economic reforms had mixed results. Reforming the macroeconomic environment had largely worked in favor of the industrial sector especially in stimulating exports, but hurt the sector in terms of high lending rates. Trade liberalization sharpened competition and is perhaps the most criticized policy by local manufacturers in terms of failure of government to promote “fair” competition. While it was intended to promote efficiency, quality and availability of varieties, the form of trade liberalization pursued has seen the promotion of an influx of non-essential imports (thus taxing the foreign exchange base of the nation), and loopholes and leakages (deliberate misspecification of imports and under-declaration). This put competing domestic manufacturers at a disadvantage. Privatization was well intended to address failures of the state in managing public enterprises. Slow progress has been mainly attributed to lack of effective demand by potential local buyers and less attraction to foreign buyers due to accumulated debts and non-viability of the candidate enterprises.

There were a number of instruments and strategies that were missed. The ushering in of liberal reforms in 1986 was supposed to go hand-in-hand with strategies of new technologies and capabilities. However, this came as an afterthought almost a decade later. Even the Science and Technology Policy of 1996 does not address adequately how sectors, sub-sectors or firms could be helped to gain capabilities in crucial areas such as processing, standardization and quality control, packaging, technology adaptation and innovation. The Sustainable Industrial Development Policy (SIDP) of 1996 acknowledges that the labour force in Tanzania’s industrial sector is of poor quality, with inadequate technical, managerial, and

entrepreneurial skills to meet the challenges of an advanced industrial culture (pp. 25-26), and further that human resources development has not been given emphasis in national strategies (URT 1996). This was an error for which the East Asian experience provides enough lessons.

Poor basic infrastructure (which includes roads, airways, communication etc.) remains a critical constraint to industrial development in Tanzania. Low capacity utilization is associated with poor delivery of services by the utilities such as water and electricity. The supply of these utilities has been irregular, forcing industries to run at sub-optimal levels or incur additional costs of generators and water pumps. No industry can run smoothly in such an environment, hence a contributing factor to the poor performance of the industrial sector in Tanzania despite reforms.

Vietnam's pre-reform industrialization efforts seem to have laid the foundation for sustained industrial growth. Part of the difference reflects the human development factor, whereby Viet Nam had a clear lead in terms of investment in human capital.

In the pre-reform period, Vietnam, like Tanzania used State Enterprise as the chosen vehicle for industrial development. The efficiency of the Vietnamese SOE sector has been subject to criticism, as it is seen to have used a disproportionate share of scarce capital and foreign exchange resources. It has been argued that much of the "success" of this sector reflects large government subsidies, which had negative consequences to the economy as a whole (World Bank, 2004). Nevertheless important segments of the Vietnamese SOE sector, produced successfully and have survived. Vietnamese development is the apparent success of a significant numbers of State enterprises in adapting to the market, entering into joint ventures with foreign investors, changing their output mix, and exporting successfully. In a 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 Tanzanian monopolistic State enterprises.

During the reform period, SOEs in Vietnam have continued to play an important role as part of the “multisectoral 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 privatizing parastatals has resulted in the private sector becoming dominant in the Tanzanian economy.

Generally, 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, 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.

8.0 Impact of External Factors in Supporting Growth

The impact of policy interventions (however good) may be mediated by the exogenous environment. It is argued that powerful exogenous factors contributed to the expansion of the Vietnamese economy (Van Arkadie and Dinh, 2004). The most important would probably

be its regional location and the trajectory of the regional economy, and the timing of natural resource (oil) exploitation.

In terms of geography, Vietnam is adjacent to the region which was in the midst of a sustained boom (until the crisis of 1997). There was a spillover of capital and entrepreneurial energy from dynamic neighbors. Moreover, international investors were on the look-out for new Asian Tigers. By comparison, Tanzania, like many other African countries is constrained by geographical disadvantages. Distance from its primary markets and the high transport intensities of her products (low value-high weight and sparsely produced are major impediments to production and trade. Frankel and Romer (1999) find that distance strongly undermines growth due to its impact on international trade. The median transport costs for intra-African trade, at \$ 7,600 for a 40 foot container, are almost the same as for imports from the rest of the world (involving much longer distance), and it is \$ 2,000 more than for intraregional trade in other developing regions. Nominal freight rates on African exports are normally much higher than those on similar goods shipped from outside the region (AfDB, 1999). For example, freight charges on African exports to the United States as proportion of CIF value are on average approximately 20 percent higher than for comparable goods from other low income countries.

In terms of timing of natural resource exploitation, 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. In comparison, the mineral boom in Tanzania came much later in the reform process. 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.

9.0 The Role of Foreign Aid

Donors have played a very active role in Tanzania's development spending throughout the pre-reform and reform periods. Since independence, Tanzania has been one of the largest recipients of aid in Sub-Saharan Africa in absolute terms. Tanzania's share of total aid from all the Development Assistance Committee (DAC) countries was 8.3 per cent during the 1970s, and the country then was the largest recipient of aid in Sub-Saharan Africa. This share started to decline in 1981 and by 1985 it was down to 5.8 per cent. Nevertheless, Tanzania still ranked as the second largest aid beneficiary of aid after the Sudan during the 1980s. More remarkable is that even in the mid-1980s, when the policy environment was very poor in Tanzania, it received more than twice as much as did Ghana, which at that time was considered to be *the* reformer. This suggests that there is a high degree of inertia in aid flows. Once they are committed, it is difficult to cut a country loose. Also in the 1990s Tanzania ranked second in SSA, marginally behind Mozambique (Bigsten et al., 2001).

More recent trends reveal that Tanzania still receives considerably more aid as a percentage of GDP than most other countries in the region. In 2004, it received around \$1.75bn in net ODA (making it the third largest recipient in Africa, in absolute terms), equivalent to almost \$48 per capita. This means that in 2004, ODA accounted for over 16% of GNI⁵, and was equivalent to around 40% of government expenditure: 80% of the development budget and 20% of the recurrent budget. More than 50 official donor agencies operate in Tanzania (URT, 2006).

Official Development Assistance played little role in the acceleration of growth in Vietnam, and therefore the comparison with Tanzania does not say a lot for the positive impact of ODA. In fact, the period in which reform was initiated with particular vigor and the acceleration in growth began was characterized by sharp declines in

⁵ Statistics from OECD DAC, available at www.oecd.org/dac

external assistance, as support from the CMEA countries collapsed and was not yet replaced by flows from DAC members (Van Arkadie and Dinh, 2004).

10. Private Capital Flows

The role of foreign private capital flows as a source of development finance in both Tanzania and Vietnam has been increasing. There are three main types of private foreign capital flows into these countries: direct investment, portfolio investment and bank lending. The limited development of financial and equity markets has meant that foreign portfolio investment has been insignificant so far in both countries. 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. Foreign Direct Investment (FDI) is the least volatile flow and is considered, by far, the most effective for enhancing growth in these countries.

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. 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, 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.

Tanzania's comparative advantage in attracting FDIs lies more in its natural resources endowments. Apart from mining and tourism, there is very little export-oriented FDI in other sectors of the economy. Most of the non-natural resource FDI and a majority of privatized firms are geared to supplying the domestic market. FDI flows into infrastructure are still minimal (UNCTAD, 2007). Thus, FDI inflows into Tanzania are predominantly resource seeking, reinforcing

commodity-dependent export profiles. This lends FDI into the country a peculiarly enclave character, whereby predominantly green fields and capital-intensive investment is de-linked from the domestic economy and profits are not reinvested. UNCTAD argues that this holds a further danger of state capture by powerful Multi-National Corporations (MNC) interests geared towards resource-extraction at the possible expense of manufacturing interests, thereby undermining diversification strategies. There is also the possibility that large-scale profit repatriation could undermine the balance of payments.

11.0 Conclusion

This paper recommends learning from history and from diverse experiences to guide Tanzania's growth diagnostic work and strategies for scaling up growth. The experience of Vietnam provides a few lessons to inform the growth strategies in Tanzania. While both Tanzania and Vietnam economies have responded positively to reforms with steady improvement in economic performance, the level of growth and acceleration in the former has been less dramatic than in the case of the latter.

Sustained growth depends on key functions that need to be fulfilled over time: Accumulation of physical and human capital, efficiency in the allocation of resources, and adoption of technology. Although lower levels of investment are important for explaining Tanzania's slower growth, it is the slower productivity growth that more sharply distinguishes growth performance from that of Vietnam. This situation clearly calls for looking beyond creating conditions for attracting new investors to more explicitly pursuing measures that help to raise productivity of existing and new investment.

The comparison between Vietnam and Tanzania 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. Investment in skill formation (higher education) for enhanced productivity and competitiveness is necessary. The potential comparative advantage of low wages in Tanzania can be nullified by low productivity. Surveys of investors show that labor is not cheap where productivity is low.

Tanzania and its population are still highly dependent on agriculture for food, exports, and income earning more broadly. Productivity in this sector lags far behind the phenomenal progress made in Vietnam and should be a key target for raising overall productivity. In general, production has fluctuated around low levels for most food and cash crops. Similarly, productivity has remained low, especially among smallholder farmers who constitute the majority of agricultural producers in Tanzania. A combination of low production, low productivity, and low quality of agricultural produce has significant limiting effects on rural growth and therefore on poverty reduction. Major factors contributing to this situation include low levels of education and literacy amongst smallholder farmers, limited private investments and weak institutional arrangements for promoting systems of support for production, extension, transportation, processing and marketing.

The use of knowledge and innovation in the agricultural sector must be encouraged. Although Tanzania may have lost ground in markets for some traditional crops, there may still be opportunity to gaining competitive advantage by strategically positioning Tanzania within global value chains to take advantage of technological developments made elsewhere. Active policy support is necessary to induce organizational innovation to enable farmers to integrate into global value chains. Integrated producer schemes in tea and sugarcane have managed to use such innovative systems to raise productivity levels of small holders and to show that when enabled, foreign direct

investment which works with the local private sector can promote knowledge and innovation for increased productivity and incomes.

The industrial sector is an example of the contradiction between a “right” macroeconomic environment and a disappointing sectoral performance. Emerging from being the worst affected during the economic crises (despite massive public investments), the sector did not recover in the immediate post crisis era. The main reforms in the industrial sector in Tanzania evolved around restructuring activities and liberalizing the investment climate, and an important distinction with Vietnam is the fact that in the latter development is attributed to the success of a significant numbers of State enterprises in adapting to the market, entering into joint ventures with foreign investors, changing their output mix, and exporting successfully. While there were mild achievements in a few industries in Tanzania, the rest were either stagnant or worse off, and the potential for output growth and export performance are far from being exhausted. The ushering in of reforms did not go hand in hand with strategies of new technologies and capabilities. The only way exports can compete in the world economy is through new technologies. Also, no industry can run smoothly in an environment where the whole range of basic infrastructure (including roads, airways, railways, and communication) and infrastructural inputs (water and power) leaves a lot to be desired.

While there could be disputes about the importance of individual and specific policies, in general growth will be promoted by the policy package of macroeconomic stability, government spending that is not excessive and is well focused on public goods including infrastructure, openness to foreign trade and FDI, private property rights, and sound rule of law.

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