Tanzania and Vietnam: A Comparative Political Economy of Economic Transition

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Abstract

This thesis explores the process of economic transition in two contemporary developing countries from a political economy perspective. Tanzania and Vietnam were at the forefront of the struggle to construct socialism in the twentieth century. Since the 1990s Tanzania and Vietnam have been championed by international development institutions as success stories of market liberalization, achieving growth rates above their regional averages. Yet both economies have also been associated with high levels of corruption under the continued control of the pre-reform ruling party. The pattern of economic growth cannot be adequately explained by New Institutional Economics. Instead, the thesis uses a Political Settlements framework for analysis. Features of the formative socialist political settlement were critical for the evolution of the political settlement under liberalisation. The thesis explores how the political settlement influenced processes of political redistribution, primitive accumulation and technology acquisition under liberalisation. These processes are examined through case studies of reform in public finance, land management and industrial policy. Tanzania and Vietnam both have cohesive party states based on consolidated political power within the party institutions. The distribution of power within the party and society and the relationship between political and economic power were critical determinants of economic transition. While each of these states were able to direct some resources centrally to new economic activities, informal processes outside the central political institutions played a more important role in determining the path of the key transition processes. Both countries largely failed to manage rents that could generate greater productivity growth. Further, the focus on market liberalisation and roll back of the state did not strengthened state capacities in these critical areas. This does not auger well for the longer term path of economic development in Tanzania and Vietnam.

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I dedicate this PhD to my husband, Amani Kagungila, with heartfelt thanks for the advice, companionship, support and love he has given me at each step along the way.

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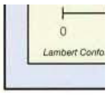


Source: http://www.lib.utexas.edu/maps/middle_east_and_asia/vietnam_pol01.pdf

Chapter One

The Problematic

1. Introduction

Over the last two decades of the twentieth century, attempts by some of the poorest nations in the world to construct socialism were swept away in the wake of the collapse of the Soviet Union and the ascendancy of neo-liberalism. With the retreat from socialism, the ensuing restructuring of economic systems on the basis of 'market principles' led to the resurgence of a capitalist dynamic of social and economic transformation that has taken diverse forms in ex-socialist countries. This thesis examines the comparative process of economic transition in two of these countries, Tanzania and Vietnam, from a political economy perspective.

Tanzania and Vietnam were at the forefront of the struggle to construct socialism in the second half of the twentieth century. The ruling parties, the Vietnamese Communist Party (VCP) and the Tanganyika National Union (TANU), which emerged from the anti-colonial struggle established political systems based on one-party rule. This involved subsuming all state institutions into the party and banning other forms of political and civil organisations. While these countries, and their approaches to constructing socialism, differed in many ways, they shared key institutional and socioeconomic characteristics.

As two of the poorest countries in the world, the improvements in human welfare indicators such as health and education under socialism were remarkable. For a short period, they also achieved impressive rates of growth and industrialization. By the end of the 1970s, however, they were facing severe economic crises and the failure to establish viable socialism was becoming increasingly apparent. In the 1980s, both countries effectively abandoned the attempt to construct socialism and adopted liberal economic and governance reform programmes. Yet the political economy of the socialist period had important implications for the subsequent trajectory of economic growth under liberalisation.

Both countries were championed by international development institutions as success stories of economic liberalization. Following extensive market reforms, they achieved growth rates above the average for their respective regions. While the Tanzanian economy grew well relative to other African countries, Vietnam outperformed Tanzania in terms of both the rate of economic growth and of structural transformation. In fact, during the 1990s Vietnam became on of the fastest growing developing countries in the world (World Bank 2005). In both countries, economic transition under liberalisation involved removing state created rents of the socialist period and strengthening market mechanisms. Aid and foreign direct investment flowed into their economies and they experienced output expansion and export growth across all sectors.

Tanzania experienced a rapid growth in mining as well as in manufacturing, but a more limited expansion in agriculture. Vietnam had very high growth in agricultural and industrial output. Industry expanded with rising exports of oil and gas and very rapid increases in the production and export of manufactured goods. While the increased flow of capital and new businesses increased overall economic productivity, state led industrial policies relating to technology acquisition and learning were not very successful. While manufacturing expanded in both countries, it remained near the bottom end of the productivity ladder.

Economic liberalisation was accompanied by changes to the political system and in the constitutional arrangements that placed the party as the overarching institution of the state. Nevertheless, Vietnam remained legally constituted as a one party state. Tanzania formally adopted a multi-party system but actually retained the overwhelming political dominance of the pre-reform socialist party. The on-going strength of the ruling parties appeared to give the state a higher degree of centralised cohesion than in many other developing countries. However, both political systems also involved extensive clientelism and high levels of corruption.

In recent years, one of the most influential frameworks for understanding growth transitions, both in terms of theory and policy, has been provided by New Institutional Economics (NIE). NIE, and the associated 'good governance' agenda, advocates property rights stability, reducing corruption, a transparent and accountable public sector, democratic government, rule of law and competitive (rent free) markets, as a means to promote growth. Through the 'good governance' agenda, these recommendations have become central to reform programmes in developing countries, sponsored by the international financial institutions. Yet, the experience of economic transition in Tanzania and Vietnam under liberalisation, where higher rates of growth were coupled with 'poor' governance across a range of different criteria, adds to the growing evidence that the relationship between institutions and economic outcomes is complex and this cannot be explained within the NIE framework.

Instead, we use the Political Settlements framework developed by Mushtaq Khan. A political settlement defines the combination of institutions and the underlying distribution of power in a society. The distribution of power in society affects the ability of historically constituted social groups to acquire or hold on to property rights that generate income or affect resource flows. A picture of the distribution of power in any society is not just a description of its political institutions but needs to be constructed from a reading of social and economic history, looking at the past outcomes of social conflict and the organisation of production. Differences in political settlements have important implications for the trajectory of economic transition in developing countries. In Tanzania and Vietnam, the formative socialist political settlement had significant legacies and unintended consequences for the evolution of the political settlement under liberalisation. We explore how the political settlement influenced three critical processes of political redistribution, primitive accumulation (the process of accumulation outside the formal market process where political power is used to privilege the accumulation activities of particular individuals), and technology acquisition under liberalisation. These processes are examined through case studies of reform in public finance, land management and industrial policy.

This Chapter sets out three areas of commonality between Tanzania and Vietnam that provide a basis for insightful comparison through which to investigate economic transition. These are first, the experience of attempting to construct socialism, second, the relatively successful economic performance under liberalisation, and third, their system of governance under liberalisation that involved the on-going dominance of the pre-reform political Party, combined with high levels of corruption and patron-client relations. The Chapter ends with an outline of the major findings of the PhD. Chapter Two, on the Analytical Framework, provides a discussion of three different approaches to explaining the role of institutions in economic performance in developing countries: New Institutional Economics, Heterodox Theories of the State and Political Settlements Analysis. Each is assessed in terms of its suitability for the objective of the thesis. Chapter Two also defines the main analytical features of the concept of the formative socialist political settlement. Chapter Three provides an overview of the evolving political settlement in Tanzania and Vietnam and explores the comparative features of the formative socialist political settlement in each country. Chapters Four, Five and Six present the main research findings of the PhD based on three case studies. Chapter Four examines public finance reform, Chapter Five examines land management and Chapter Six examines industrial policy. To conclude, Chapter Seven draws together the main arguments and evidence on the political economy of economic transition in Tanzania and Vietnam.

1.2 Justifications for a Comparative Political Economy of Tanzania and Vietnam

1.2.1 Constructing Socialism

Tanzania and Vietnam gained political independence against the historical backdrop of a world divided along Cold War lines between capitalist, socialist and non-aligned countries. The socialist experience in both countries was informed by the international political and ideological framework of that time. Tanzania and Vietnam, therefore, shared many common political features with a wider group of poor countries that became independent nations during the same period. There were also important differences between the socialist systems in Tanzania and Vietnam in terms of how the socialist parties came to power and in the particular forms of socialist ideology that they espoused. Nevertheless, they had significant similarities in terms of the institutional structure of the parties, the distribution of political and economic power between different social groups, the role of economic planning, and in policies towards agricultural collectivization and state led industrialisation.

The Tanganyika National Union (TANU) came to power after a relatively short and largely peaceful anti-colonial struggle that swept it into office in 1961 in the first free elections. It was not until 1967, following President Nyerere's Arusha Declaration, that

Tanzania adopted a radical socialist transition programme. The Declaration committed the country to a programme of state-led accumulation in industry, land reform and 'villagization' in agriculture, limits on the emergence of capitalist forms of production and restrictions on private sector accumulation. TANU became Chama Cha Mapinduzi (CCM), the Party of the Revolution, in 1976 after merging with the Afro-Shirazi Party that had led the independence struggle on Zanzibar. In the years following the Arusha Declaration, Tanzania was 'frequently listed along side Cuba, North Korea and North Vietnam as one of the few socialist countries in the underdeveloped world' (Coulson, 1984; 176).

In reality, Tanzania's socialism was quite eclectic and pragmatic. Tanzania maintained a non-aligned foreign policy through the cold war period (Pratt 1976). Julius Nyerere's philosophy of African socialism, 'Ujamaa', was influenced by his idealized vision of traditional African village life based on equality and reciprocity. It was also influenced by British Fabianism and the more orthodox socialist ideology of Lenin and Mao and the economic policies of the USSR. Nyerere was a very charismatic figure within the Party and Tanzania's non-aligned socialism attracted a huge amount of attention from within left wing academia in the 1970s (see for example, Saul 1974) as well from Africans involved in anti-colonial struggles on the continent.

In the 1970s, on the other side of the globe, Vietnam was coming to the end of its protracted and bitter struggle for independence. The VCP, founded in 1930 by Ho Chi Minh and a small group of intellectuals, came to power in 1945 and ruled in the North from 1954 until the withdrawal of US forces from Saigon and the final unification of the country in 1976. Victory in the face of the vastly superior military and economic power of the US was hailed as a triumph of anti-imperial resistance, and in the West, the peace activism generated by the war was a defining feature of the decade. The route of the VCP to power was, therefore, very different from that experienced by the CCM in Tanzania. Further, unlike Tanzania, Vietnam adopted a more orthodox socialism along Marxist-Leninist lines. In 1978 Vietnam became a member of the Council for Mutual Economic Assistance (CMEA) and was part of the cold war Soviet bloc.

Despite these differences, the ruling socialist parties shared a number of common institutional features. The historical parallels of a ruling party that was initially forged by an elite group of intellectuals and developed into mass parties in the course of struggle against colonial rule were, in fact, common to many other ex-colonial countries (Alavi 1982). TANU and the VCP, however, were more explicitly based on a Leninist model of the vanguard party that represented the collective interests of the workers and peasants. Both parties adopted the principles of Leninist democratic centralism where members of the party were officially free to debate policy internally but once a majority vote had determined policy, all were supposed to adhere to that position. Both countries banned other forms of political and civil organisation and officially became one-party states. Tanzania started off at independence as a multi-party democracy but in 1963 Nyerere announced that Tanzania would be a one-party state under TANU. After 1945 Vietnam was also initially ruled by a coalition of parties but from 1951 there was a process of consolidation of power by the VCP.

In Tanzania, the National Assembly was constitutionally subordinate to the governing party. The most important policy decision making institutions were CCM sub-groups and the Cabinet, and more specifically the President himself. Similarly in Vietnam, the Political Bureau, Secretariat, Central Committee and a series of specialised committees held formal power at the centre. At the highest level of the Party apparatus, forming the executive committee of the Central Committee, were the General Secretary and the Political Bureau. This executive committee was supposed to constitute the most powerful political group in the country (Beresford and Phong 1998). Both countries, therefore, had the appearance of a high degree of political centralization through the one-party system. Further, both parties were extensively institutionalized throughout society with party cells at village level and associational groups contained within the party structure.

Tanzania and Vietnam adopted similar economic policies to bring about a socialist transformation. In both societies under colonialism, economic power had been held primarily by non-indigenous groups. Both aspired to bring about a fundamental transition in the distribution of power in society through socialism away from foreign and domestic capitalists and towards workers and peasants. Their economic policies involved a centrally planned economic system and administrated prices for most goods. Central planning is not synonymous with socialism (or vice versa) and aspects of central planning were used across a range of different countries with non-socialist political systems during the same period (Ellman 1979). Yet the centrally planned economic system in Tanzania and Vietnam was never as extensive as in other more industrialised socialist countries in Eastern Europe or in the Soviet Union. Socialist economic policy also involved extensive state ownership of industry and the nationalisation of foreign and domestic companies. Peasant agriculture was to be transformed through land reform and collectivisation.

The formative socialist political settlement became increasingly fragile as the 1970s progressed for domestic and international reasons. By the end of the 1970s, Tanzania and Vietnam were facing debilitating shortages and attempts to increase productivity in industry and agriculture appeared to be failing. The Vietnamese economy, already strained from war, was again overstretched by the challenge to integrate the South into the northern centrally planned economic system. The South, however, had become significantly market oriented under the Republic of Vietnam and the influence of US aid. This strain was compounded by falling support from the Soviet Union, war in Cambodia, decline in agricultural and industrial output, as well as by the growth in illegal trade outside the centrally planned system (Beresford 1988).

In response to the economic crisis, Vietnam adopted a cautious 'step by step' approach to reform (Van Arkadie and Mallon 2003). This started with tentative price and trade reform from 1979, but policy oscillated between attempts to strengthen the existing system and efforts to introduce reforms. Deepening economic instability and shortages led to renewed commitment to market oriented reform and a change in economic objectives with the adoption of Doi Moi (Renovation) at the Sixth Party Congress in 1986. The official timing of the Doi Moi announcement was also linked to a shift in political power within the Party from the 'old guard' to a group of younger leaders. Le Duan, who had been Secretary-General of the Party since 1960, died and Nguyen Van Linh was elected to the position in December 1986 at the Party Conference. At the same time, Do Muoi was elected as Prime Minister, replacing Pham Van Dong. The aim of transition to socialism within the subsequent five year plan was shelved and in its place the market and later, the private sector, were given an increasingly prominent role.

Tanzania's reforms also started tentatively in the early 1980s following a mounting crisis and fiscal deficit exacerbated by the war against Iddi Amin in Uganda, successive severe droughts, mounting debt burden and declining aid. Internally, industrial output and official exports were falling, the administrative pricing system was in disarray and there was a burgeoning parallel economy. Income per capita fell by an average of 1.5% a year for the first five years of the 1980s (Bigsten and Danielsen 2001). President Nyerere stepped down in 1985 and subsequently the new President, Ali Hassan Mwyini, signed a standby agreement with the IMF and a Structural Adjustment Package with the World Bank.

The common institutional and political features of their socialist experiences provide an interesting point of comparison between the two countries. The details of the comparative evolution of the formative socialist political settlement and its eventual demise are further discussed in Chapter Three.

1.2.2 Economic Growth Under Liberalisation

The second area of commonality involves the two countries experience of economic growth following liberalization. The comparative context of the policy reforms is discussed by Van Arkadie and Dinh (2005). They argue that Tanzania adopted a much more orthodox market reform programme while Vietnam maintained key elements of the centrally planned economy, most notably, an important role for state ownership. Many of the features of Vietnam's reform programme were in line with orthodox market reform. They included price and trade liberalization, macroeconomic stabilization and a revaluation of the exchange rate, liberalization of foreign investment, recognition of private land use rights and reduction in state controls on the private sector, particularly after the introduction of the Enterprise Law in 2000.

Other features of the reform programme were more unorthodox. Certain elements were very different from the 'shock' reform programmes in Russia and Eastern Europe and the conventional structural adjustment packages for developing countries of the Bretton Woods institutions. Vietnam focused on consolidating the State Owned Enterprise (SOE) sector, rather than opting for extensive privatization. The share of the state sector in the economy initially expanded before more extensive equitization was initiated after 2000 and account for around 39% of GDP by the mid 2000s (Sjoholm 2006)

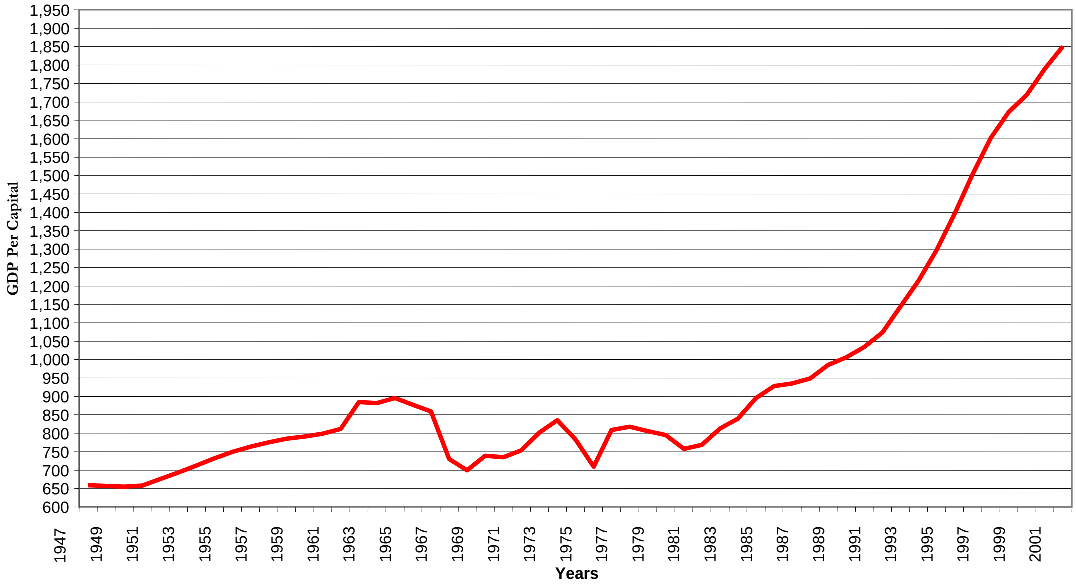
In comparison, Tanzania's liberalization programme had all the elements of a conventional structural adjustment package. The liberalization programme was based on the assumption that the poor performance of the economy was mainly a result of extensive state interventions that had been implemented under the socialist 'Ujamaa' programme. The orthodox remedy was, therefore, to roll back the state, remove the rents associated with failing interventions and allow the market to allocate resources. This involved a shift to a market-determined exchange rate, price deregulation, removal of tariffs and subsidies and an extensive privatization programme. Restrictions on private accumulation and foreign investment slowly disappeared and the model of market-led development took the place of the egalitarian self-sufficiency of Ujamaa.

The first round of reforms focused on trade and price liberalisation and significant exchange rate devaluation, cuts in public expenditure, dissolution of parastatal crop authorities and the reintroduction of local government authorities, which had been abolished in 1972. In 1989, the Government adopted the Economic and Social Action Programme, which widened the reform to include deregulation in the banking system, reforms in agricultural marketing and in the civil service. Unlike the unorthodox approach to the state sector followed by Vietnam, Tanzania's parastatal sector, which was the largest in Sub-Saharan Africa at the end of the 1970s (Costello 1994) formally adopted a very thorough privatization agenda. Initially, however, the attempt at rationalizing parastatals led to an expansion in their numbers until the second half of the 1990s when a more aggressive policy of privatization was put in place under the Parastatal Sector Reform Commission and by 1998 40% of the parastatal sector had been sold.

After a number of years of liberalization, the rate of GDP growth accelerated in both countries. In Tanzania, growth accelerated after the initial market reforms implemented from the mid 1980s but this was followed by a period of declining growth rates. GDP growth started to accelerate rapidly from the end of the 1990s. From 1995 to 2005, Tanzania's average GDP growth was 5.47%. Per capita GDP average growth rose to 3.23% from 1995 to 2005, compared to -0.51% in the previous decade. Tanzania's GDP growth experience under liberalisation was higher than it had been historically (Bigsten and Danielson 2001) and higher than the average for Sub-Saharan African countries over the same period. As Table 1.1, below, illustrates, from 1996 to 2005, Tanzania had higher average GDP growth and per capita GDP growth than other developing countries classified as 'least developed' by the World Bank and also higher rates of growth in agriculture and industry than the wider group of countries that are classified as low income.

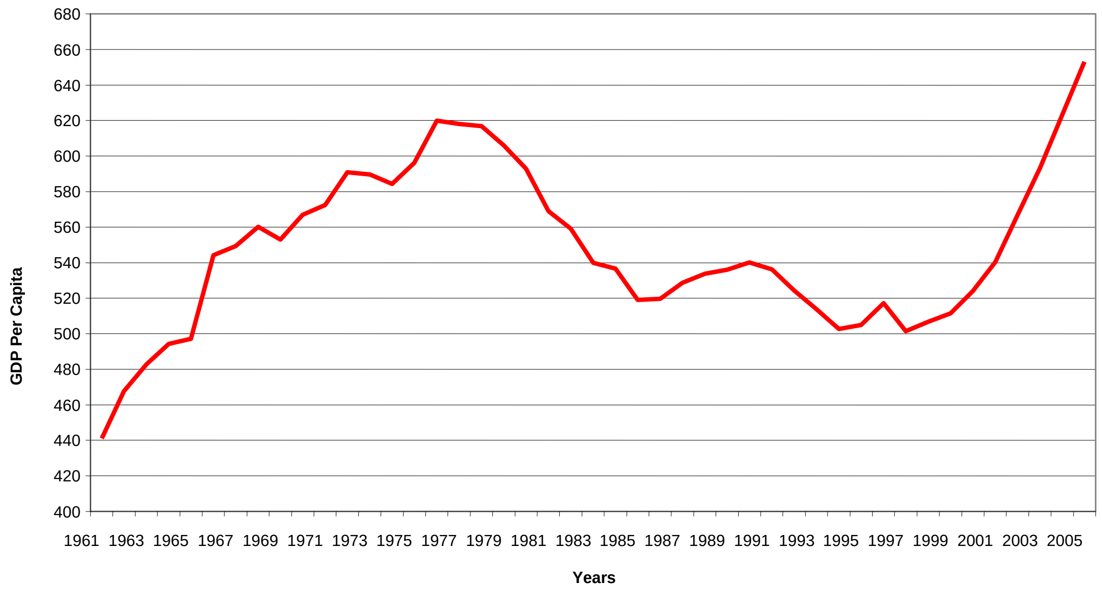
Vietnams' growth acceleration started earlier than in Tanzania, with sustained high GDP growth from the mid 1980s. Vietnam's average GDP growth was 6.50% from 1986 to 1995, rising to 7.22% from 1996 to 2005 and GDP per capita growth increased to 5.86% in the same decade. Vietnam's impressive GDP growth performance marked it as one of the most rapidly growing low income countries in the world during the 1990s (Van-Arkadie and Mallon 2003). Table 1.1 shows that Vietnam's GDP growth appears to be in line with the average GDP growth in East Asia however as this average East Asia figure also includes China, Vietnam's actual growth performance was considerably higher than most other East Asian countires, albeit that many of these countries had been through higher growth episodes during economic transitions in earlier decades, discussed below. Thus, while both Tanzania and Vietnam did well in comparison to many other developing countries, Vietnam considerably out-performed Tanzania in terms of GDP growth over the period of liberalisation.

Chart 1.1: Vietnam GDP Per Capita 1947 - 2005



Source: Data from Maddison (2004) GDP per capita measured in international dollars.

Chart 1.2: Tanzania GDP Per Capita 1961 - 2005



Source: Own calculations from Maddison (2004) GDP per capita measured in international dollars for data from 1961 – 2001 and World Development Indicators Database (2006) GDP per capita measured at PPP in constant international dollars.

Table 1.1: Comparison of National and Sectoral Average Growth 1986 – 1995

	Sub-Saharan Africa	Tanzania	Least Income	Low Income Country	Vietnam	East Asia and Pacific	China
GDP Growth (%)	1.85	2.83	2.37	5.59	6.50	8.97	10.10
GDP per capita growth (%)	- 0.89	- 0.51	- 0.25	2.24	4.24	7.33	8.61
GDP per capita	1,714.90	507.89	1,063	1,411	1,318	2,047	1,841
Agriculture, value added (annual % growth)	2.71	3.42*	2.53	3.03	3.40	3.71	4.17
Industry, value added (annual % growth)	1.01	5.92*	2.47	5.12	8.42	11.67	13.27
Services, etc., value added (annual % growth)	1.98	n.a	2.22	5.31	7.70	9.00	10.13

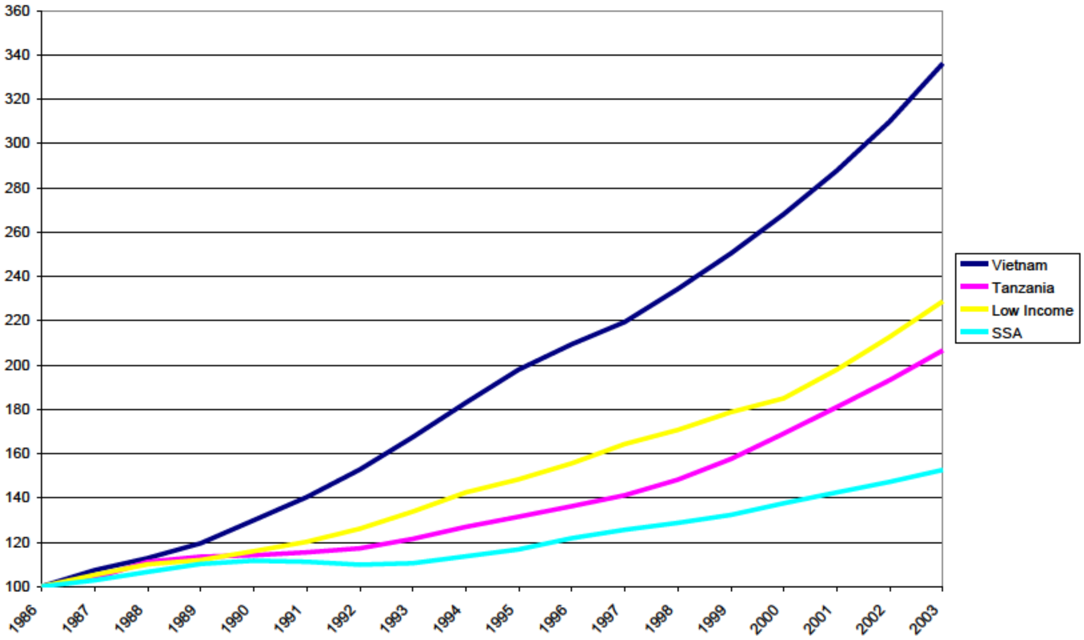
Table 1.2: Comparison of National and Sectoral Average Growth 1996 – 2005

	Sub-Saharan Africa	Tanzania	Least Income	Low Income	Vietnam	East Asia	China
GDP Growth (%)	3.82	5.47	5.15	5.52	7.22	7.36	9.05
GDP per capita growth (%)	1.38	3.23	2.67	3.50	5.86	6.31	8.19
GDP per capita	1,718.23	549	1,159	1,885	2,128	3,997	4,227
Agriculture, value added (annual % growth)	4.04	4.15	4.02	3.18	4.04	3.38	3.68
Industry, value added (annual % growth)	3.75	8.43	3.35	5.72	10.41	8.44	10.18
Services, etc., value added (annual % growth)	3.70	5.20	4.78	6.72	6.13	7.57	9.68

Source: Own elaborations from World Development Indicators Database. GDP per capita is measured in PPP constant 2000 international USD. Tanzania and Vietnam are classified as low income countries in the World Development Indicators database while Tanzania is also classified as a least income country. *estimate 1988-1995

Chart 1.3 below illustrates the comparative growth performance of Tanzania and Vietnam against average GDP per capita growth for low income countries and for sub-saharan African countries.

Chart 1.3: Comparative GDP Growth Since Liberalization



Source: Own calculations based on World Development Indicators Database (2006). 1986 = 100

Underlying Vietnam's GDP growth acceleration was a considerable structural change in the economy. In Vietnam, as in other rapidly growing countries in Asia (McMillan and Rodrik, 2011), labour and resources shifted from low productivity activities to higher productivity activities, leading to growth enhancing structural change. The changing structure of the economy as reflected in employment shares is shown in Table 1.2 below.

Table 1.3: Percentage Share of Total Employment in Different Sectors in Tanzania and Vietnam 2001, 2006

	Tanzania		Vietnam	
	2001	2006	2001	2006
% Employment in agriculture	82.10	74.6	64.0	51.70
% Employment in industry	2.60	5.00	13.90	20.20
% Employment in Services	15.30	20.30	22.10	28.20

Source: World Development Indicators (2011)

The pattern of growth that has emerged in Vietnam since the mid 1980s has been driven by significant increases in output across the sectors. As can be seen from Table 1.1 above, the value added growth in agriculture, industries and services was higher than the average for low income countries from 1986 to 1995, and was higher in agriculture and industry from 1996 to 2005. Agricultural growth rates started to increase in the early 1980s and there were rapid increases in food production as well as a remarkable increase in agricultural export crops such as rice and coffee. Vietnam became the world's leading exporter of coffee and reached the global top three countries exporting rice (Van-Arkadie and Dinh 2004). Table 1.3 below illustrates the rapid output growth with a number of key agricultural products over the period of liberalisation:

Table 1.4: Agricultural Output Growth Vietnam - Selected Crops (million tons)

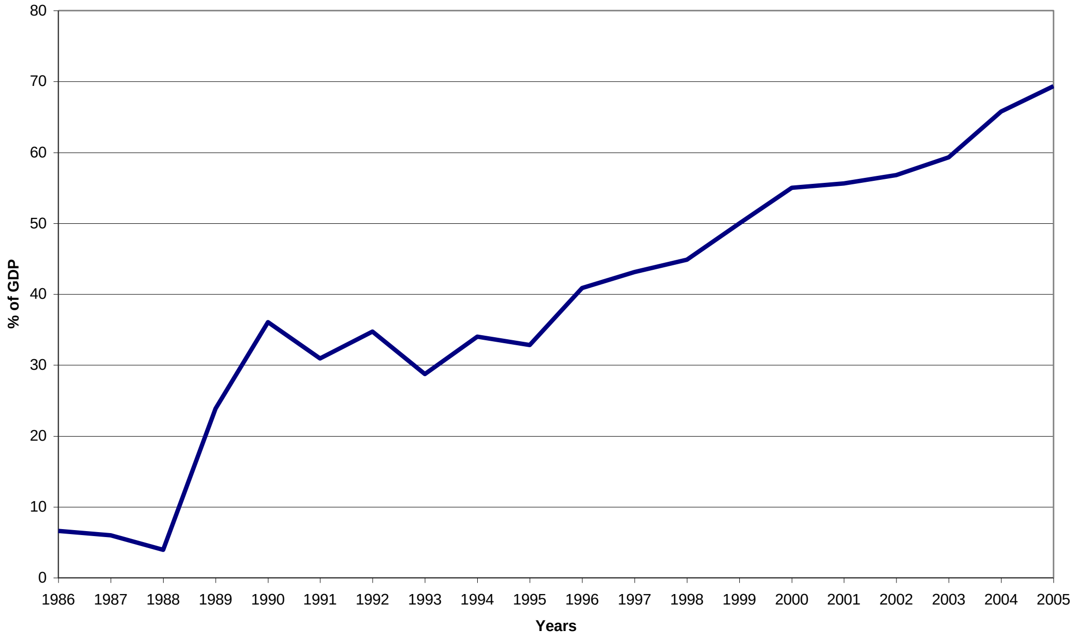
Crop	1985	1990	1995	1998
Rice Paddy	15.9	19.2	24.9	29.1
All grain, paddy equivalent	18.2	21.5	27.9	31.8
Sugar Cane	5560	5405	10691	13844
Coffee ('000 tons)	35.7	64.2	216.8	408.9
Rubber ('000 tons)	47.9	57.9	124.7	225.7
Tea ('000 tons)	28.2	32.2	66.7	79.2
Pigs (millions)	11.8	12.3	16.3	18.1

Source: Adapted from Dapice (2000; 9)

Industrial growth in Vietnam has also been very rapid. Early in the reform period, prior investments by the Soviet Union in oil and electricity boosted Vietnamese industrial output and exports significantly (Van-Arkadie and Mallon 2003). From the early 1990s, industrial growth was driven by the rapid expansion of manufactured goods. Average industrial growth from 1986 to 1995 was 8.42% and from 1996 to 2005 it was 10.41%, a rate of industrial growth similar to China over the same period. The composition of Vietnam's exports was also transformed as the manufacturing export sector grew rapidly.

Vietnam's rapid export growth is shown in Chart 1.4 below and data is presented in Annex 1.

Chart 1.4: Vietnam Export of Goods and Services as a % of GDP 1986 - 2005



Source: World Development Indicators 2011

The share of oil and gas in total exports declined as agricultural exports grew rapidly. By the mid 1990s, manufacturing exports were also growing rapidly and by the mid 1990s, the share of manufactured goods in exports accounted for two thirds of total merchandise exported (McCarty et al 2007). Nevertheless, manufacturing output and exports have remained overwhelmingly in the category of low value added products, dominated by garments and footwear as well as some electronics assembly.

Table 1.5 Vietnamese export composition: 1995 – 2002 (percentages)

	1995	1996	1997	1998	1999	2000	2001	2002
Primary Products								
Rice	9.5	11.7	9.5	10.9	8.9	4.6	4.1	4.4
Coffee	10.6	4.6	5.4	6.3	5.1	3.5	2.7	1.9
Sea products	8.3	8.9	8.6	9.2	8.4	10.2	12.3	12.2
Oil and petroleum	19.7	18.3	15.6	13.2	18.1	24.2	21.9	19.5
Manufactured products								

Garments	8.3	15.7	16.4	15.5	15.1	13.1	13.6	16.4
Leather and footwear	3.8	7.2	10.7	11.0	12.0	10.1	10.8	11.1
Electronics	-	-	4.8	5.3	5.1	5.4	4.2	3.1
Handicrafts	1.3	1.1	1.3	1.2	1.5	1.6	1.6	2.0

Source: (McCarty, Record, and Riedel 2007)

Tanzania has also experienced higher growth rates in agriculture, industry and services since the late 1990s. Growth has been driven by expansion of natural resource based production, and good performance in a number of low technology manufacturing activities. Table 1.6 below provides data on average annual growth across a number of sectors.

Table 1.6: Growth across sectors in Tanzania

	Average annual growth rate			Average contribution to GDP growth		
Type of Economic Activity	1990 - 94	1995 - 99	2000-05	1990 – 94	1995 – 99	2000 – 05
Agriculture	3.1	3.6	4.8	1.5	1.8	2.3
Crops	3.2	3.9	4.8	1.1	1.4	1.7
Livestock	2.5	2.7	4.1	0.2	0.2	0.3
Forestry and hunting	2.8	2.4	4.0	0.1	0.1	0.1
Fishing	3.4	3.7	6.7	0.1	0.1	0.2
Industry	2.0	5.4	9.0	0.3	0.9	1.6
Mining and quarrying	11.8	14.8	15.2	0.1	0.2	0.4
Manufacturing	0.4	4.6	7.3	0.0	0.4	0.6
Electricity and water	4.0	5.7	4.4	0.1	0.1	0.1
Construction	2.2	3.5	10.3	0.1	0.2	0.5
Services	1.9	3.8	6.1	0.7	1.3	2.1
Trade, hotels and restaurants	2.0	4.5	7.1	0.3	0.7	1.2
Transport and communication	3.6	4.8	6.0	0.2	0.2	0.3
Finance and business	2.9	3.6	4.5	0.3	0.4	0.4
Public administration and other	1.9	1.6	4.1	0.0	0.0	0.1

Source: Adapted from Utz (2007, 21)

Agricultural growth did increase to an average of 4.15% from 1996 – 2005 but overall the performance was quite variable as certain crops such as tea, tobacco and cashews improved. While output and exports of other major crops such as coffee, cotton and maize declined following liberalisation (Treichel 2005). Overall, there was very little increase in agricultural productivity and wages and this meant that rural poverty levels remained very high across the reform period (World Bank 2002). In contrast, in Vietnam rural poverty fell dramatically as agricultural output increased (Joint Donor Report 2004).

Growth in industry overall was a contributor to GDP growth in Tanzania (Utz 2007). Growth in the manufacturing sector started to pick up in 1995 after a sustained downturn from the late 1980s (Szirmai and Lapperre 2001). From 1996 to 2005 the industrial sector grew at 8.43%, this was much higher than the average for sub-Saharan Africa during the same period of 3.75%. Growth in industry was driven by increases in mining and in manufacturing. A broad-based increase occurred in the output of a number of privatized industries including sugar, beer, soft drinks, cement and steel as evident from the data presented in table 1.6 below. Production of textiles and garments started to pick up again from 2001 (United Republic of Tanzania 2004).

Table 1.7: Production of Selected Manufactured Commodities 1990 - 2003

	Average	
Commodity	1990 - 1995	1996 – 2006
Consumer Goods		
Sugar (metric tons '000)	109.2	154.8
Cigarettes (pieces '000 000)	3.7	3.8
Beer (ltrs '000 000)	60.9	167.5
Soft drinks (ltrs '000 000)	83.2	168.0
Textiles (Mtrs Sq. '000 000)	52.8	70.5
Shoes (pairs '000 000)	0.4	-
Intermediate Goods		
Cement (tons '000)	766.4	862.9
Rolled steel (tons '000)	8.9	16.1
Iron sheets (tons '000)	22.1	22.4
Aluminium (tons '000)	2.5	0.2
Petroleum products (tons '000)	346.2	273.1
Sisal ropes (tons '000)	20.9	5.6
Paints (ltrs '000 000)	2.4	9.3

Source: Treichel (2005; 6)

From the evidence presented in Table 1.6 above, it is clear that mining and quarrying grew very rapidly over the period of liberalisation, reaching 15.2% growth from 2000 to

2004. The recent take-off in the mining sector started with small scale operations in the late 1980s. Following extensive mining exploration in the 1990s and a number of very large scale foreign investments in mining operations, Tanzania was ranked as the eighth largest producer of gold and the twelfth largest producer of diamonds in the world by 2005 (Ministry of Finance 2004). The full extent of the mining sector was underestimated in official figures as investigations found that gold to the value of around USD 200 million was being smuggled out of Tanzania each year up to 2003, equivalent to about half of the total value of officially exported gold (Ministry of Finance 2004), although such estimates of the extent of illegal trade in gold are obviously inherently difficult to calculate with precision. While the mining sector grew rapidly, the overall contribution of mining to GDP growth remained quite small, however as is evident from Table 1.7 below, with the mining sector averaging around 1.9% of GDP from 1993 to 2003.

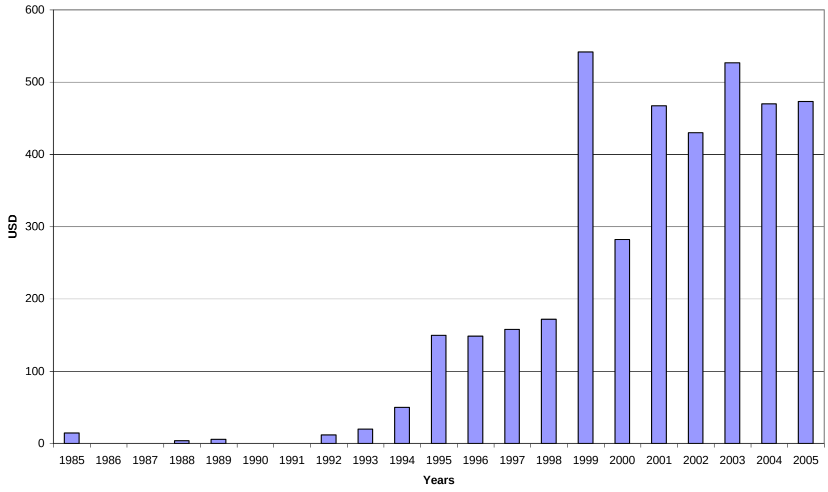
Table 1.8: Contribution of the Mining Sector to the Economy

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Mining sector % Of GDP	1.1	1.3	1.4	1.5	1.7	2.0	2.1	2.3	2.5	2.7	3.0
Gross Product Mining sector, Billion TSh	19.1	26.2	35.2	38.5	53.5	74.4	85.8	99.5	120.5	153.0	191.3
Real growth mining sector	8.2	15.0	11.7	9.6	17.1	27.4	9.1	13.9	13.5	15.0	17.0
Real growth GDP	0.4	1.4	3.6	4.2	3.3	4.0	4.7	4.9	5.7	6.2	5.6

Source: Ministry of Finance, Tanzania (2004)

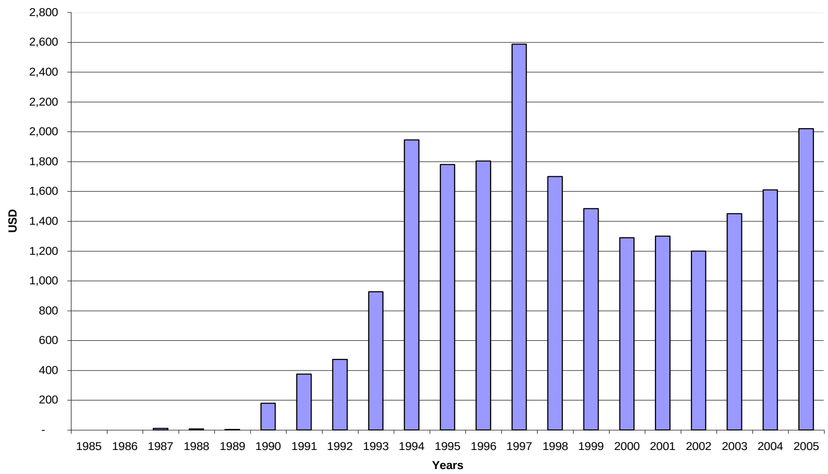
One of the major impacts of liberalisation on economic growth was the rapid rise of foreign direct investment (FDI) in both countries. FDI had been tightly controlled during the period of central planning. FDI to Tanzania started to grow in the early 1990s but picked up momentum from the end of the 1990s, as shown in Chart 1.4 below. Over the decade, average annual inflows of FDI increased six-fold to around USD 300 million (Treichel 2005). Mining was a major recipient, accounting for 40% of FDI, but manufacturing also received significant inflows, mainly due to the privatisation process. Tourism and financial services also received major inflows up to 2005 (Utz 2007).

Chart 1.5: FDI Flows to Tanzania 1985 – 2005 (USD Mill.)



Source: Own calculations based on UNCTAD (2006)

Chart 1.6: FDI Flows to Vietnam 1985 – 2005 USD (Mill.)



Source: Own calculations based on data from UNCTAD (2006)

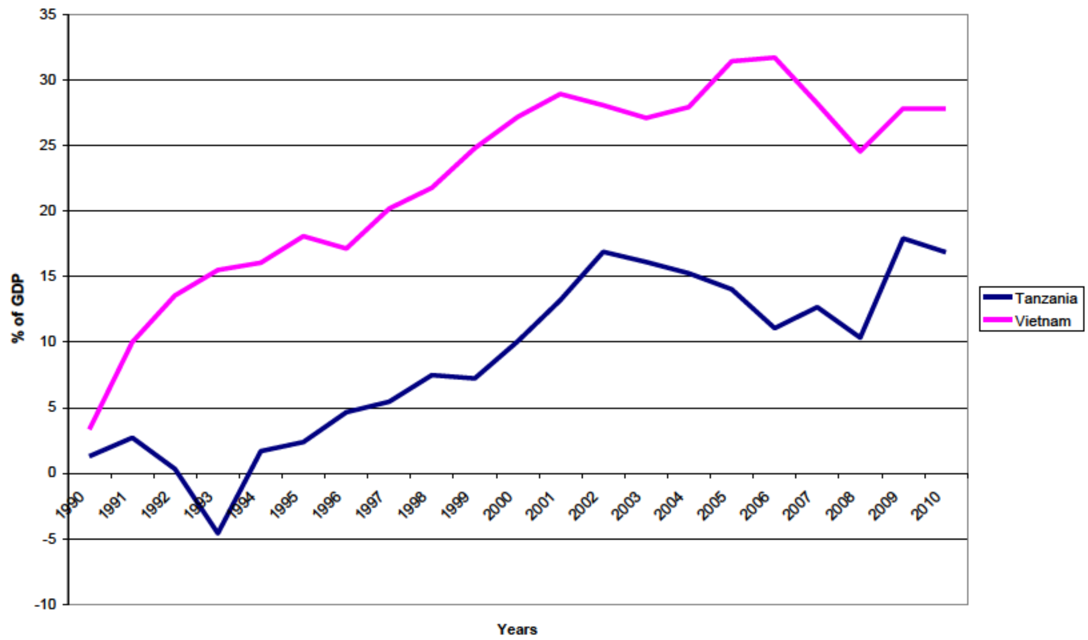
Similarly in Vietnam, FDI started to increase at the end of the 1980s but then accelerated dramatically from the early 1990s and reached a peak in 1997 of 2,600 million USD. The Asian financial crisis constrained inflows for a number of years but the upward trend returned from 2002. The major sources of FDI were from countries in the East Asian region (Tran 2009). Vietnam's geographic location within a region that had sustained a boom for many decades until the 1997 crisis is in stark contrast to Tanzania's position on a continent with low growth over the same period.

FDI inflows into manufacturing played a major role in this rapid expansion with foreign invested firms accounting for well over 40% of total industrial output by mid 2000s (Hakkala and Kokko 2006). By the mid 2000s, foreign invested firms accounted for over half of Vietnam's manufacturing sector (Cheshire and Penrose 2007). FDI also significantly boosted export production, particularly in low value added manufacturing.

Aid flows also played a significant part of the improved economic growth performance under liberalisation, particularly in Tanzania. Aid played a significant role in financing investment in Tanzania since independence (Bigsten and Danielson 2001). In the era following liberalisation the volume of aid reached new heights and more than doubled in real value from the early 1990s with an increase of around 70% from 1993 to 2003 (Lawson et al. 2005). There was also a shift from project aid, favoured by donors in the 1970s, to direct budget support through various forms of programme aid. Vietnam has also been a major recipient of aid since liberalisation. Western multilateral and bilateral donors started providing aid to Vietnam from 1993 and by the mid 2000s Vietnam had become the World Bank's second largest aid recipient (Forsberg and Kokko 2005). However, Vietnam is by no means an aid dependent country as the contribution of ODA to GDP and to government revenues has fallen over the period of reforms from 5.9% of GDP in 2000 to 2.2% in 2008 (Cox et al 2011). In both countries, high levels of aid supported the expansion of public expenditure and investment. Domestic private investment also increased over the period of liberalisation but to a lesser magnitude than foreign inflows.

Tanzania and Vietnam's savings rates are in line with regional averages of around 15% for Sub-Saharan Africa and 30% of East Asia (Loayza, Schmidt-Hebbel, and Serven 2000). (See Appendix One for data on Savings as a % of GDP data). Some economists have argued that differential savings rates between East Asia and Africa is one of the major reasons for different growth rates in the regions (Elbadawi and Mwega 2000).

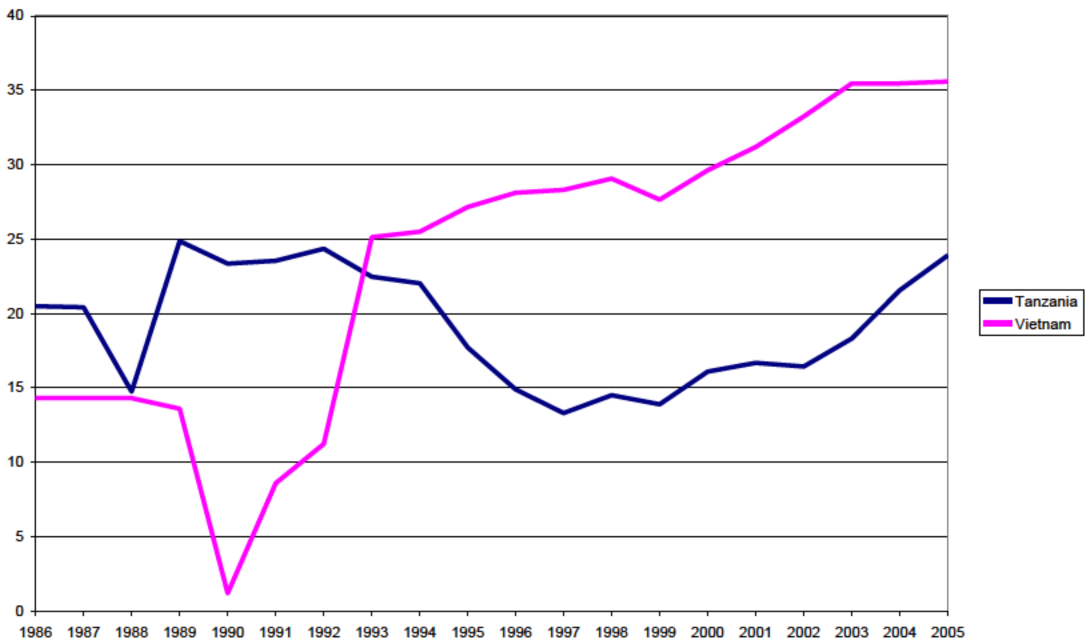
Chart 1.7: Savings as a % of GDP 1990 – 2010



Source: World Bank 2011

From the early 1990s, Vietnam's rate of investment increased rapidly while Tanzania's rate of investment declined before rising again, but did not rise above 25% of GDP over the period under study as illustrated in Chart. 1.7 below:

Chart 1.8: Total investment as a % of GDP in Tanzania and Vietnam 1986 - 2005



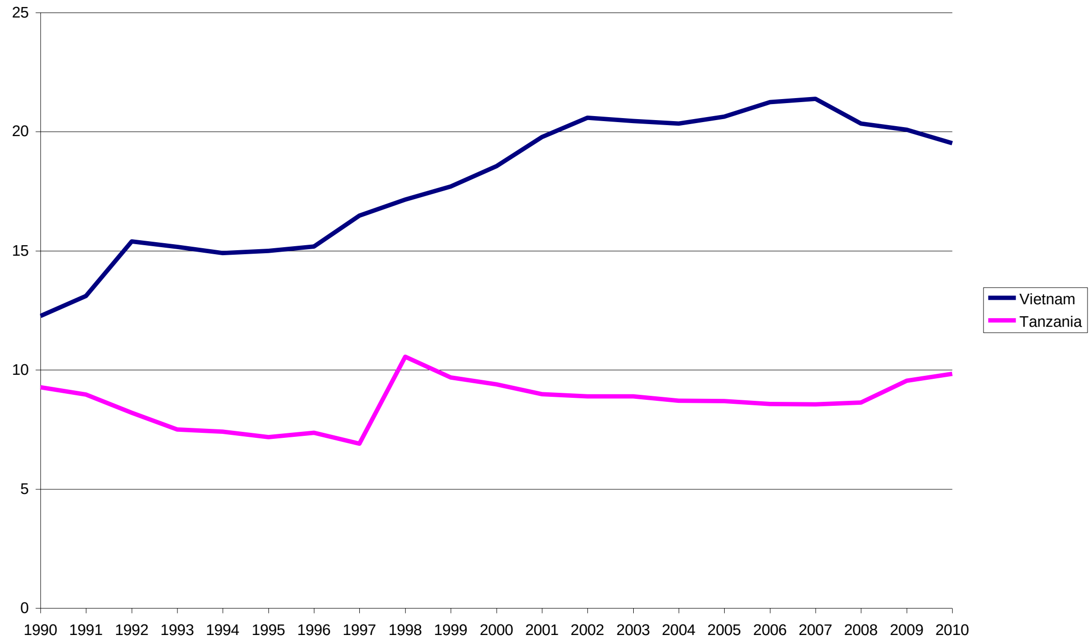
Source: IMF 2011

Endogenous growth models predict that higher savings are critical in the explanation of growth differentials as they lead to higher investment which permanently lead to higher growth (Romer 1994). However the direction of causality is questioned by post Keynesian theorists and empirical studies that find that causality runs from higher growth to higher rates of savings (Rodrik 2000).

Productivity Growth in Tanzania and Vietnam

The evidence on the impact of liberalisation on productivity growth is more complex. Labour productivity increased from very low levels in Vietnam (Jenkins 2004) and manufacturing productivity increased overall in Tanzania (Harding et al 2006). In both countries, productivity grew across the sectors as new machinery and techniques of production were adopted. Value added in manufacturing grew more rapidly in Vietnam than in Tanzania. This is illustrated in Chart 1.8 below:

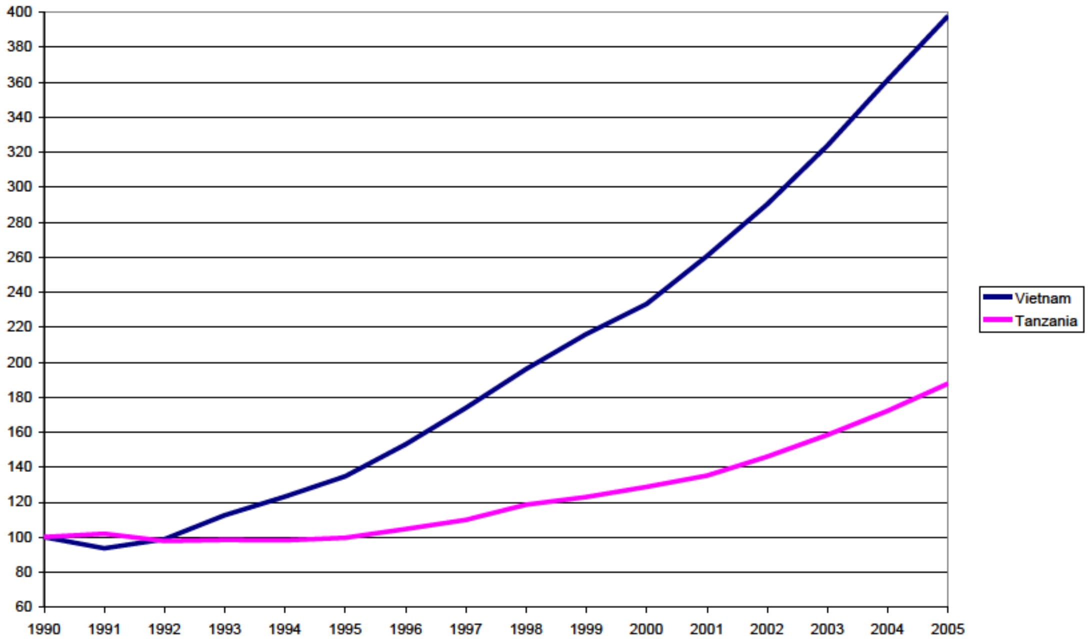
Chart 1.9 Growth of Value Added in Manufacturing as a % of GDP in Tanzania and Vietnam from 1990 to 2010



Source: World Development Indicators 2011

However, both countries remained in very low value added manufacturing activities and were not able to significantly diversify into higher value added manufacturing. Productivity growth within the Tanzanian economy has been considerably lower than the rates achieved by Vietnam over the same period. Productivity growth in manufacturing in Tanzania has also been lower than in Kenya and also Mauritius, which is the only African country south of the Sahara to achieve rapid manufacturing export led growth. The contrast in growth in productivity in manufacturing can be seen from chart seven below.

Chart 1.10: Comparison of Productivity Growth in Manufacturing in Vietnam and Tanzania



Source: Own elaborations from UNIDO database ISIC 3 2005. Data logged and indexed from 100 = 1990

Firm level studies of productivity in manufacturing in Tanzania confirm that while there were declines in firm size, capital stock and employment across the 1990s productivity did not fall (Harding et al; 2006). This fits with the fact that over the same period, a number of large inefficient parastatals were closed down (Temu and Due; 1998). More recent indications, after 2000, show that there has been an expansion of new entry firms, which have higher levels of productivity than the average, driving up overall productivity growth. Further, exports of manufactured goods have grown, particularly within the East African region.

Vietnam was able to attain international competitiveness in many of its manufactured goods but Tanzania did not. Nevertheless, Vietnam's manufacturing remained at the lowest rung of assembly even in low technology sectors such as garments and footwear (Lindhal and Thomsen 2002).

While Vietnam has adopted national and provincial level strategies to enhance technological acquisition and learning as well as policies such as joint ventures requiring mandatory transfer of technology, the evidence on productivity growth below and in chapter 6 suggests that the impact of these strategies has so far been ambiguous. On initial analysis of aggregate data on value added growth, it is clear that productivity has improved across the economy as a whole and in manufacturing since 1986. However, the aggregate productivity data has to be interpreted with care. Measuring rates of productivity growth and absolute levels of productivity in different manufacturing sectors is fraught with difficulties. There is no single accepted method to measure productivity growth (Link 1987). Further, an aggregate productivity figure may not reveal if productivity in the new firms that are being set up is rapidly increasing or stagnant. The high levels of growth at a sector level, reflected in Table 1.1 above will lead to a high level of growth in productivity at the economy level. Productivity growth in the SOE sector increased, particularly since 1989, linked with restructuring and retrenchment. In the rapidly growing private manufacturing sector, productivity also increased, however Jenkins (2004) shows that labour productivity (measured by output per worker) in the private manufacturing sector actually declined over the 1990s as foreign firms were increasingly concentrated in labour intensive industries.

This type of productivity growth, however, may not be related to an intensive process of technological learning necessary for a dynamic intensive growth path. Instead, it may be driven by the high level of entry into these sectors of new firms (foreign or domestic) with a high of turn-over of capital. Certainly, Ronnas (1998) finds that in Vietnam there has been a very high level of capital accumulation which reflects the rapid modernization in manufacturing and the import of new capital. Further, Jenkins (2004) reports that the ratio of imports to production in different industrial branches is correlated with productivity growth and points to the fact that productivity has grown fastest in the traded goods sector where rapid modernization of capital was required to achieve global competitiveness.

The trajectory of economic transition that Vietnam followed from 1986 to 2005 appeared to involve less intensive labour productivity growth than in the Asian tiger success stories of earlier decades or, in China over the last twenty years. Evidence for this is presented in the paragraphs below. Comparative data on labour productivity is presented in Table 1.8 below:

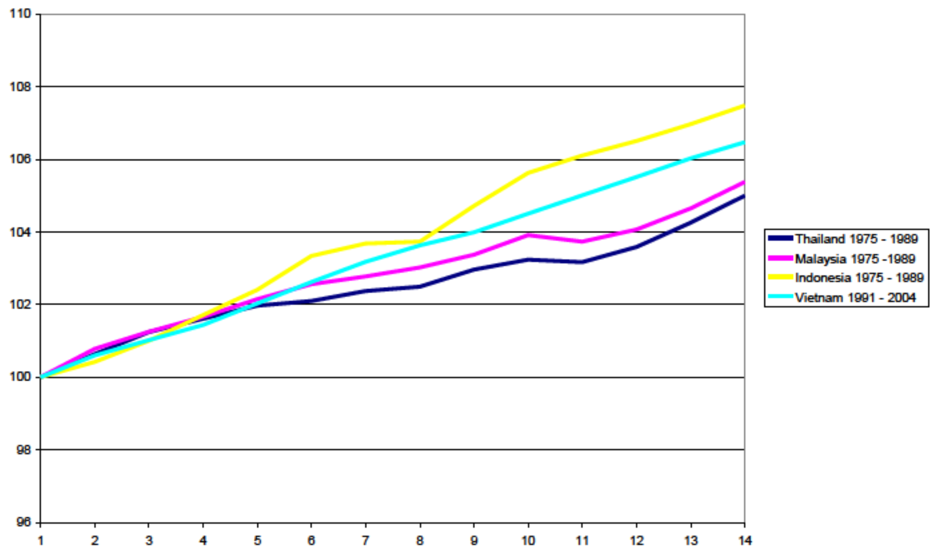
Table 1.9: Value-added per worker in manufacturing (USD) in Selected Asian Countries

	1990	2000
Vietnam	971	2,130
China	1,702	5,258
Indonesia	5,155	6,151
Malaysia	10,917	17,149
Thailand	16,005	18,276

Source: Jenkins (2006; 203)

The clear differences in labour productivity reflected in the table are perhaps unsurprising given that the other countries in the table were, even in 2000, at a much more advanced stage of industrialization. A more relevant comparison is to consider the growth in labour productivities achieved by these countries in transition. A focus on low value added manufacturing is consistent with the experience of initial rapid industrialisation in many East Asian countries (Perkins and Thanh 2005). This trajectory of productivity growth in manufacturing may be consistent with rapid industrialisation and growth of manufactured exports.

Chart 1.11: Comparison of Growth in Labour Productivity during Transitions

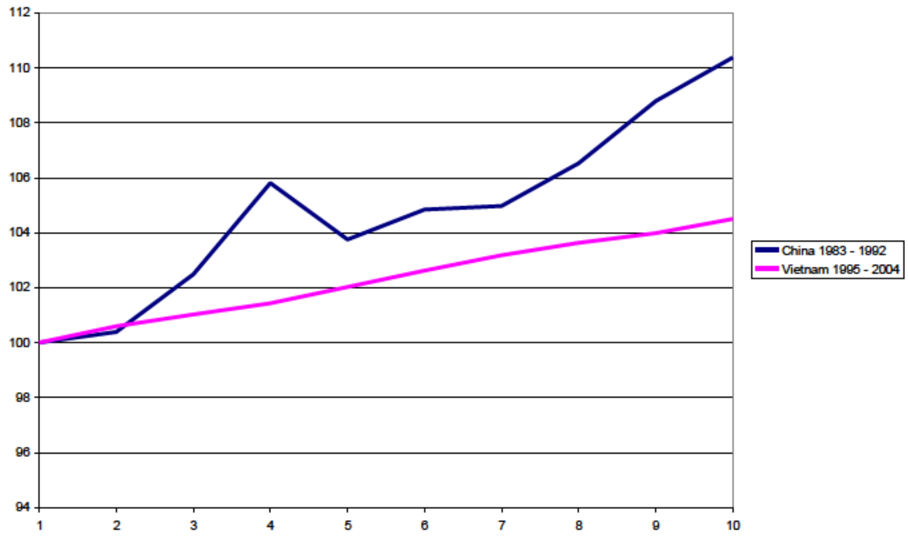


Source: Own derivations from UNIDO database ISIC 3 2005. Thailand, Malaysia and Indonesia are logged and indexed from 1975 = 100. Vietnam is logged and indexed from 1991 = 100

The chart suggests that the rate of growth of productivity in Vietnam during the second half of its take-off period was quite similar to the rates of growth of productivity in other South East Asian economies. Growth in these economies was characterised as rapid while not on a very intensive trajectory compared to the North East Asian economies such as South Korea. South Korea and Taiwan also began shifting into competitive heavy industries after only a decade of rapid growth in low productivity manufacturing (Perkins and Thanh 2005). Vietnam has clearly not climbed the technology ladder as quickly as these countries during its transition process.

The comparison with productivity growth in China during its take off period and during Vietnam's more recent take off period suggests that Vietnam has also experienced lower labour productivity growth than China.

Chart 1.12: Comparison of Labour Productivity Growth in China and Vietnam



Source: Own elaborations from UNIDO database ISIC 3 2005. China logged and indexed from 100 = 1983, Vietnam logged and indexed from 100 = 1995

Productivity in Vietnam is clearly growing however the aggregate productivity date suggests that this may not be primarily driven by a dynamic learning process of the kind that North East Asian countries pursued during their rapid transition to capitalism. Instead, it may result from extensive replication and upgrading of capital which does generate growth but at a slower pace and with fewer linkages and a lower level of catch-up in terms of technology levels and income per capita. Extensive growth should be reflected in the productivity of existing firms growing slowly, but this could be consistent with average productivity growing rapidly if new firms were replacing traditional or informal firms. These issues show how complicated it is to accurately assess the process of transition through aggregate productivity data. Neither Vietnam, nor Tanzania, conform to an unobtainable counterfactual of rapid technology acquisition during transition. Nevertheless, the success of each country in terms of its own strategies for technological learning and productivity growth can be assessed and these are discussed further in Chapter 6 on Industrial Policy.

1.2.3 Political Institutions under Liberalisation

The continued political dominance of the pre-reform ruling party over the period of liberalisation and high levels of political stability distinguished Tanzania and Vietnam from many other developing countries. During the same period, the political system in both countries was also characterised by very high levels of corruption and pervasive patron-client relations that operated within the ruling party. In both countries, economic liberalisation was accompanied by certain forms of political reform. Differences emerged between the two countries as Tanzania moved away from the one-party system and instead became a dominant party system[1]. Yet despite this important difference, there were many similarities between the ways that the parties continued to be organised in both countries under liberalisation.

Formal changes to the relationship between CCM and the state were introduced in Tanzania from 1992 and multiparty elections started in 1995. The factors that led to Tanzania's adoption of multiparty elections included changes in the international context due to the ending of the Cold War, the move to democratic governance in other ex-socialist states and increasing donor conditionality linked to democratisation. Factors internal to the Party were also critical in this decision. The Nyalali Commission was set up by the President in 1991 to assess public support for the one-party system. While it found little public demand for a move away from the one party system there was a vocal minority who wanted the change. Some of the top leadership within the CCM, most notably Nyerere, also supported a process of democratisation (Vener 1996).

The early move to multiparty politics allowed the CCM to introduce a new constitution that was favourable to its own position of strength. For example, the new rules on public financing for political parties meant that a party was entitled to a government subsidy proportional to the number of seats it had in Parliament. This gave the CCM a huge financial advantage over its rivals (Mmuya 1998). Over the period of liberalisation, five main opposition parties were established: the Civic United Front (CUF), National Convention for Constitutional Reform (NCCR-Mageuzi), Chama Cha Demokrasia na Maendeleo (CHADEMA) and the United Democratic Party (UDP). These parties were predominantly organised by individuals who had previously held senior positions within the CCM. None of the parties had a distinct ideology although some of the parties were built on regional support bases.

In the first three rounds of national multiparty elections, these opposition parties failed to make a significant impact on the political dominance of CCM. They suffered from

[1] The concept of dominant party system was originally proposed by Kothari (1970) to explain the dominant role of the Congress Party within the multi-party system in India in the 1960s. Khan classifies Tanzania as a dominant party system in Khan (2008).

lack of funding and internal divisions significantly reduced their effectiveness (Mmuya 1998). The CCM increased its total support from 59% of all votes in 1995, to 65% of votes in 2000, to 70% of votes in 2005 (Skinlo 2007). Further, the advent of multiparty elections actually led to decreased competition in around 13% of seats as under the one-party system the CCM fielded multiple candidates while under the new political system, the weak opposition parties could not afford to stand candidates in all seats (Kelsall 2003)[2]. Most district and village authorities also remained under the control of the CCM (Pallotti 2008). Thus, electorally, the CCM remained in a dominant political position throughout the period of economic liberalisation.

Structure of the Party

The centralised structure of the party institutions that was established under the formative socialist political settlement changed very little under liberalisation. The Party Congress, the National Executive Committee and the Central Committee of the National Executive Committee made up the top level of the party at the national level. In theory, the Party Congress was the apex institution within the Party. In reality, decisions were highly centralised and determined by the Central Committee of the National Executive Committee (Kelsall et al. 2005). Methods of central control within the Party remained strong. The NEC and the Central Committee took on the role of controlling the elite within the Party. The Central Committee controlled party patronage by monitoring the activities of members and recommending appointments and removals of party officers or even expulsion of members (Skinlo 2007). The President, who was also Party Chairman, exerted power over the party through selection and appointments to positions throughout the state (Kelsall et al. 2005). Tight elite control even at the very top was evident from the fact that there were fairly regular reshuffles within the top party structure (Wang 2005). This reduced the ability of any senior politician to build up stable factional support within the party.

[2] Where multiparty politics has been most contentious has been on Zanzibar where CUF has a strong presence. Zanzibar has a population that is lower than many of Tanzania's regions but it has been a political flash point during the period of liberalisation. The main political contention is between CCM and CUF and national elections have been accompanied by violence and accusations of election rigging. The political conflicts on Zanzibar are rooted in its specific colonial history and struggle against the Arab dominated Government that succeeded the British in 1961 (Maliyamkono and Kanyongolo 2003).

The removal of the one-party clause in the constitution also brought about the formal delinking of the CCM Party and the State (Wang 2005). Overall, however, the CCM has kept a significant degree of control over the other institutions of the state. Certain public service positions remained restricted to members of CCM and public servants prepared performance results against the objectives of the CCM manifesto, even at the local level (Kelsall et al. 2005). Permanent Secretaries and their deputies were Presidential appointees. Newly appointed civil servants were required to undergo training at the Kivukoni Political Education College. Formal links between the Party and the military were severed but informal links and movement from senior levels of the military into CCM positions remained common (Ramadhani 2001). The Party establishment therefore maintained influence over massive financial, managerial and organisational resources under the state agencies (Mmuya 1998).

While local level state institutions were created that were supposed to be separate from the party, in reality, there was little distinction between local level party structures and state institutions. Local levels of the state consist of regional government institutions in Tanzania's 26 regions. These were divided into 97 district councils and 25 urban councils. Underneath this were 10,075 registered villages. The Ministry for Regional Administration and Local Government was responsible for local government but in reality the President retained the power to select key state officials. Regional Commissioners, Regional Administrative Secretaries and District Commissioners were all Presidential appointments. Village Councils were elected by the Village Assembly which comprises all adults in the Village. The Party structures at the regional level consisted of the Regional Conference, the Regional Executive Committee, and the Political Committee of the Regional Executive Committee. The power of these regional party institutions was quite limited compared to the central party institutions (Kelsall et al. 2005). At the lowest level of the state and the party, the ten cell party institutions and the state institutions of the urban ward and vitongoji in the Village overlapped in terms of members and activities (Kelsall et al. 2005).

In Vietnam there were changes in the formal relationship between the VCP and the state during the period of economic liberalisation. The Constitution was re-written and amended a number of times to reflect an increased distinction between executive and legislative functions. By 2001, the new and amended constitution had enhanced the powers of the National Assembly and recognised the independent rule of law, but continued to affirm the role of the VCP as the sole force leading the state and society. Internally, the VCP continued to be organised along democratic centralist lines and power within the Party appeared to be concentrated with its most senior officials. Overall within the Party, the positions with the most formal power were held by the Party Secretary, the President and the Prime Minister (Van-Arkadie and Mallon 2003). Formally, the National Assembly appointed the President who was officially the Head of State. The President had the power to appoint the Prime Minister and other high level officials. The Prime Minister headed the cabinet that consisted of the heads of 26 Ministries and Commissions. In practice, the Politburo of the Party remained a much more powerful institution than the Cabinet (World Bank 2009).

Throughout the period of liberalisation, the overall leadership of the Party was provided by the Politburo under the General Secretary of the Party. The Politburo was formally elected by the Central Committee, and the Central Committee was elected by the National Party Congress, which met every five years. The Central Committee of the Party had around 173 members and the Politburo had around 14 members (Abuza 2001). In the early years of reform, the Politburo consisted of people who had played a prominent role during the war. This changed from the early 1990s, however, as the Party Chairs of the high growth cities of Hanoi and Ho Chi Minh were promoted into the Politburo (Gainsborough 2003). The Vietnamese People's Army remained an important political institution and held around 10% as block seats on the Central Committee (Abuza 2001).

Loyalty to the Party of members of the National Assembly was assessed by the Vietnamese Fatherland Front (VFF) prior to selection (Tonnesson 2000) although officially members were no longer required to be Party members. The umbrella organisation VFF encompassed 25 'mass movement' groups linked to the Party and was defined in the constitution as representing the 'political base of people's power' (World Bank 2009). Membership of the VCP itself was low, at around 3% of the total population (Abuza 2001).

As in Tanzania, government and VCP institutions remained closely linked at lower levels of the state. Under the Central Government level there were 58 provinces and five municipalities. These five municipalities, Ha Noi, Hai Phong, Da Nang, Ho Chi Minh City and Can Tho had the same political status in party and state structures as the provinces. The provinces were divided into districts, provincial cities and towns which were subdivided into towns or communes. The municipalities were divided into rural districts and urban districts, which were subdivided into wards. The ward was the lowest level of officially recognized state structure, although some villages retained separate party structures and some had appointed village leaders at this level within the ward (Kerkvliet and Marr 2004).

Party institutions existed at each level of the state with a People's council, People's committee and branches of the VCP and mass organizations of the VFF. The Provincial Party Committee and the Party Secretary were the most important local level institutions of the Party (World Bank 2009). The People's Committee acted as the executive agency of the People's Council at each level. Provincial Party Secretaries were officially selected by the Provincial People's Council but the Prime Minister had the right to approve or dismiss them. The Provincial Party Committee was responsible for deciding on provincial development strategies and could influence the selection of personnel within the state at lower levels and within State Owned Enterprises. The key officials at the local level of the Party consisted of a group of around twelve people. These were the local party secretary; the chair and vice chair of the People's Committee; the members of the committee in charge of finance and other significant resources; the head of the local security police; the chairs of the local branches of the significant institutions attached to the VCP such as the VFF, the Women's Association, Veteran's Association, Peasant's Association, and the Secretary of the Youth League branch of the VCP (Kerkvliet and Marr 2004).

Institutions of the central state such as Central Ministries were also replicated at lower levels so each Ministry had Departments that operated at the provincial level. Central Government ministries formally administered their local equivalent agencies by giving instructions through circulars or directives to the local People's Committee to pass implementing laws that would then formalise the application of the central ministry's ruling at the local level (Fforde and Pty 2003). In effect, different ministries operated different levels of control in the provinces. For example, the Central Ministry of Planning and Investment issued general guidance, while the provincial level Departments of

Planning and Investment (DPI) produced detailed provincial investment plans and were in charge of business registration and managing the bulk of foreign investment. The main state institutions were replicated at the district level, including departments of ministries while at the ward level the basic state structure included People's Council, the People's Committee and the ward branch of the VCP, but at this level there were no judicial institutions. On the ground, there was considerable variation in the relations between these different institutions of the state both horizontally and vertically. In some cases the departments of line ministries provided technical assistance to People's Committees and influenced local decision-making, while in others they had little interaction (Malesky 2003).

Table 1.10 Comparison of the Institutions of the Party under Liberalisation

	Tanzania	Vietnam
Political System	Multiparty system but CCM remained the dominant party.	One Party State
Relationship between the executive and the legislative branches of the state	Formal division between the legislative and executive arms of the state but in practice they overlapped.	Increasing formal divisions between Government and the Party but Party remained the apex political institution.
Relationship between the Party and the army	Formally no relationship but many informal links remained	10% of block seats on the Party Central Committee.
Structure of the Party at the central level	Party Chairman Central Committee of the NEC. National Executive Committee (NEC) Party Conference Party Associations (Youth, Women, Teachers etc.)	Party Secretary President Politburo Central Committee National Party Congress Vietnam Fatherland Front (umbrella organisation for organisations linked to the Party)
Structure of government at the central level	President Prime Minister and Deputy Cabinet Ministers Parliament Permanent Secretaries – who are appointed by the President	President Prime Minister and Deputy Cabinet Ministers National Assembly Permanent Secretaries
Structure of local government institutions	Ministry of Regional Affairs and Local Government Regional Commissioners (presidential appointment) District Commissioners (presidential appointment)	Provincial departments of central ministries District departments of central ministries

	District Mayors, Councils and Wards Village Assembly and Village Council	
Structure of local party institutions	Regional: Regional Conference, Regional Executive Committee, Political Committee of the Regional Executive Committee District: party branches Ward: party branches Ten cell units	Provincial: Party Secretary, People's Committee, People's Council (the Provincial Party Secretary is formally appointed by the Provincial People's Council but can be vetoed by the Prime Minister) District: Party Secretary, Party Committee, Party Council, Party branch Ward: People's Councils, People's Committee, branches Ten cell units

High levels of corruption

While the continued dominance of the pre-reform political party appeared to provide a degree of political cohesion and stability that was missing in many other developing countries, both countries were characterised as having very high levels of corruption within the state over the period of liberalisation. In 2005, Tanzania was ranked as 96th and Vietnam as 144th out of 159 countries in Transparency International's Corruption Perceptions Index, where countries are ranked in terms of the perceptions of corruption across a range of criteria from least corrupt (1) to most corrupt (159).Studies undertaken by the Governments in Tanzania and Vietnam identified extensive bureaucratic, political and grand corruption as well as theft by state officials and other variants of abuse of office by state officials for financial gain (United Republic of Tanzania 1996), (Committee for Internal Affairs of the Communist Party of Vietnam 2005). High levels of corruption across the period of liberalisation were also a cause of concern for donors and loan conditionality became linked to improvements in governance across a range of state activities. In both countries, corruption appeared to be taking place within the party system based on extensive patron-client relations. The extent and pattern of clientelism was opaque in both countries as it occurred behind the closed doors of the Party institutions. However, over the course of liberalisation an increasing number of cases of corruption were taken to court or received coverage in the local and international media.

These governance features of a relatively centralised Party with extensive corruption contained within its structures provides an important basis for comparison of economic transition in the two countries.

5. Main Findings of the PhD

Important aspects of the political economy of economic transition in Tanzania and Vietnam can be explained by examining how the evolving political settlement influenced processes of political stabilisation, primitive accumulation and technology acquisition. The theory of Political Settlements is outlined in Chapter Two as are the key transition processes of political stabilisation, primitive accumulation and technology acquisition. A political settlement defines the combination of institutions and the underlying distribution of power in a society. Institutions in the Political Settlements approach are not neutral 'rules of the game' but have distributive outcomes. They establish a pattern of rights that determine the distribution of income and resource flows in a society. Historically constituted social groups will attempt to use power to hold onto or gain rights that confer income flows through redistribution and production. These struggles over income flows will shape how political stabilisation is achieved, the success of technology acquisition strategies and the role of primitive accumulation in economic performance.

The concept of a formative socialist political settlement is developed in Chapter 2. The formative socialist political settlement captures features of the socialist political economy of these countries. Its most important features are first, the countries were ruled as one-party states by socialist parties that came to power with mass support through some form of revolutionary process. The specific nature of the struggle to power was critical to understanding the extent that they were subsequently able to consolidate power within their institutions. Second, the ideological commitment to a socialist transition meant that capitalism was suppressed and domestic and international capital were restricted from formal positions of power. Instead, economic institutions in the form of collectives and state owned enterprises were created to give formal economic power, through the control of the Party, to workers and peasants. The extent to which this commitment to socialist ideology actually led to a change in the distribution of economic power away from the existing capitalist classes is an important factor in explaining the subsequent economic transition under liberalisation. Third, despite the creation of formal institutions that were supposed to vest power in the hands of workers and peasants, the actual distribution of power was not held primarily by these groups. As in other developing countries, political power was largely held by intermediate class groups that led the Parties on behalf of the workers and peasants. The extent to which intermediate class groups were able to consolidate power within the party depended largely on their organisational capacities within the state, the extent of the suppression of political organisation outside the Party, and their ability to control the economic assets of the state, even though these were not highly productive. The extent to which the intermediate class groups were able to consolidate their political power within the party state and create a centralised party structure had important consequences for economic transition under liberalisation. And finally, fourth, despite the fact that the distribution of power was not aligned behind the formal institutions representing the poor, the extent to which formal institutions were created to give political voice to these groups had implications and unintended consequences for the subsequent path of economic growth under liberalisation.

A critical feature of the political economy of Tanzania and Vietnam was the on-going dominance of the Party throughout the period of liberalisation. The institutionalised Party structures that broadly contained political competition were the product of the formative socialist political settlement. The ruling Party provided an overall political architecture that constrained factional competition and allowed certain forms of centralised resource allocation to the new growth sectors. However, in both countries, factional groupings at lower levels within the Party and within society had a significant impact on the outcome of transition processes. This reflected a more decentralised distribution of power that is not captured in institutional structures alone. The distribution of power within the Party was itself the result of a deeper pattern of economic and political power within society.

The historical evolution of the political settlement in Tanzania and Vietnam is described and defined in Chapter 3. The impact of the political settlement on economic growth under liberalisation is explored through three case studies. Chapter 4 presents evidence on Public Finances, Chapter 5 considers Land Management and Chapter 6 presents evidence on Industrial Policy. Each case study covers both Tanzania and Vietnam. In both countries, the centralisation of political power within the party institutions as a legacy of the formative socialist political settlement helped to create political stability by restricting forms of fragmented clientelist political competition outside the Party framework. Political stability was one of the reasons that both countries were able to attract high levels of aid and foreign investment under liberalisation. In Tanzania centralised power was based on a fluid equilibrium between factions at the centre rather than a strong centralised leadership that could impose decisions upon senior Party officials. The apparent strength of the CCM was, therefore, partly a result of the weaker distribution of political power within society overall. The result was that the Party could achieve political stability at relatively low cost but could not override small collective action groups in the form of internal factions when they coalesced to protect rent flows.

However, these same characteristics also limited the extent to which internal factions could mobilise outside the Party and threaten the overall stability of CCM's political control. In Tanzania, industrial policy was much less successful under liberalisation. The lack of compatibility between the structure of industrial policy and the underlying political settlement resulted partly from the difficulty of negotiating a viable settlement between largely non-indigenous capitalist groups and the Party. The Party cannot easily openly support policies that would further enrich this group. Nevertheless, the close relationship that exists may have discouraged risk taking by this group by allowing them access to income flows through political rent seeking rather than through more productive economic activities.

In Vietnam, centralised control over aid and oil revenues helped the central VCP institutions meet the redistributive demands of provincial level leaders. The distribution of power between the provinces was largely constructed in the course of fighting the war although this balance has shifted over the course of liberalisation as wealth differentials between provinces have increased. Centralised control over these resources facilitated redistribution without impinging excessively on the revenues of the provinces that had greater economic growth. In Vietnam at provincial and district level there was a greater density of organisations such as banks and financial institutions that played a role in allocating resources through corruption and primitive accumulation processes. There had been a rapid commercialisation of Party institutions at the lower levels that started at the end of the socialist period that engaged with these financial institutions to attract resources.

However, the small factional networks behind these commercial activities within the VCP were subject to greater discipline in using these resources. These compulsions were not provided by the oversight of the central state but through horizontal competition between people with economic and political power at the local level. This also meant, however, that the centre was constrained in its ability to impose its rules on lower levels. If a significant coalition within the VCP could find some type of collective action that provided sufficient rents to satisfy the coalition, it could go ahead even if the resulting investment project was basically speculative rather than developmental. These facets of the evolving political settlement may have made it more difficult for Vietnam to generate a rapid process of technological learning from FDI under liberalisation. The outcome of this was that while Vietnam's manufacturing sector expanded rapidly, climbing up the technology ladder into new higher productivity manufacturing activities was slow. Under liberalisation, the focus on removing state interventions in both countries did not address the more fundamental constraints related to aspects of the political settlement that could allow for a more productive economic transition.

The Conclusion in Chapter Seven draws out the main points developed through the case studies and argues that the legacy of socialism for economic growth under liberalisation can be understood in terms of its impact of the distribution of political and economic power in both countries. The impact of the mass political movement and consolidation of political power within the party structures meant that both countries established a more centralised institutional political system than in many other developing countries. However, the actual distribution of power within this institutional structure was much more decentralised. Differences in the actual distribution of power in the wider society is critical to explaining the differing experiences of economic performance under liberalisation. The political economy of transition in Tanzania and Vietnam shows that the distribution of power in society is a critical influence on the actual effectiveness of different decision making processes rather than the formal structure of political institutions.

Chapter Two

The Analytical Framework

2.1 Introduction

This chapter discusses three different approaches to explaining the role of institutions in economic performance in developing countries: New Institutional Economics, Heterodox Theories of the State and Political Settlements Analysis. Each is assessed in terms of its suitability for the objective of the thesis in exploring comparative economic transition in Tanzania and Vietnam under liberalisation. The investigation of the role of institutions in economic performance was central to classical political economy but has since been absorbed into the mainstream of economic analysis through an expanded neo-classical framework in the form of New Institutional Economics (NIE). The chapter starts with an assessment of NIE and its limitations and explores the Weberian inspired theories of state power. It then sets out an alternative analytical framework that identifies the distribution of power as a critical determinant of the success of institutions in promoting growth in developing countries through the Political Settlements framework developed by Mushtaq Khan (1995, 2010). Khan argues that political settlements influence the pace and direction of economic transition through a number of mechanisms. These include the effect of the political settlement on three critical processes: political redistribution, primitive accumulation and the management of technology learning rents. In order to apply this framework to explaining comparative transition in Tanzania and Vietnam, the Political Settlements framework is expanded to include the concept of a formative socialist political settlement. To conclude, the chapter outlines the method of application of this analytical framework used in the subsequent chapters.

2.2 New Institutional Economics

Current scholarship on the impact of political institutions on economic transition is dominated by New Institutional Economics. Rather than building on the older institutional analysis of economists such as that of Veblen (2009) who advanced a rich sociological and historical understanding of institutions, NIE expands the economic theory of neoclassical economics to explain how institutions affect economic outcomes. Institutions are defined by Douglas North, the main proponent of New Institutional Economics (1973; 1990; 1994; 1995), as the 'rules of the game'. Institutions are an inherent part of all societies, according to NIE, because of the prevalence of transaction costs. These are the costs of negotiating and enforcing agreements, originally identified by Ronald Coase (1960). All transactions, it is argued, will be subject to the risk of moral hazard and asymmetric information as well as being constrained by the impossibility of obtaining comprehensive information about the value of the item to be exchanged. Transactions will therefore only be possible on the basis of an on-going process of bargaining, enforcement and monitoring, the rules of which are established by institutions. Williamson argues that transaction costs are the ubiquitous costs incurred in the running of all economic systems and likens them to the friction in physical systems (1985; 19). The cost of transacting is the critical impediment to economic activity. The lower the transaction costs, the more transactions will take place and society will achieve greater efficiency. Transition to economic systems with higher growth will occur, it is argued, through the adoption of both formal and informal institutions that lower the cost of transacting, thus bringing a closer alignment between society and the efficient market ideal of the neoclassical model.

In the early NIE literature, institutional change that brings about lower transaction costs is driven by individuals engaging in a bargaining process. North and Thomas (1973) and Hayami and Ruttan (1984) argue that institutional change occurs as individuals respond to changes in relative prices and subsequently engage in a voluntary bargaining process to change institutions for their economic advantage. Negotiations are modelled on the perfect neoclassical process of price setting for goods. While high transaction costs can stop certain transactions occurring, this is unimportant as it is assumed that all Pareto enhancing transactions will take place. This is because individuals will be able to pay off losers at an agreed price that leaves both of them better off. Thus all negotiated institutional change is presumed to be Pareto efficient. This gives early NIE models a distinctly functionalist approach, as institutional change will be, by definition, Pareto enhancing. Over time, therefore, growth promoting institutions will emerge in any society.

Later NIE models move away from this functionalist model of economic history by attempting to model the political process and the state explicitly (North 1990),(North 1994). In these models, it is not simply the economic costs of transacting, as in the earlier NIE models, but also the political cost of transacting over institutional changes that is deemed to influence the path of economic transition. North (1990; 109) argued that the political process can be likened to a political market where political transaction costs are the costs of bargaining, monitoring and enforcing political transactions. Where political transaction costs exist, a competitive political process cannot guarantee to weed out the inefficient rulers. North (1990) modelled the political process as a state consisting of a ruler and citizens. The ruler will maintain high transaction cost institutions when the political costs of changing to other growth enhancing institutions are higher than the benefits of economic growth to the leadership. It is assumed that the ruler has the incentive to maximise his short term profits over the interests of the citizens when the ruler cannot be sure of maintaining control over the state and hence future income flows. Where the ruler has longer time horizons, it will be in the ruler's interest to maximise aggregate incomes for society by creating low transaction cost institutions. Low transaction cost institutions, according to NIE, will then lead to higher growth and a larger economy that the ruler will be able to tax, thereby increasing his incomes over the longer term.

In *Institutions, Institutional Change and Economic Performance* (1990), North no longer presents the extractive state as the main agent of economic change. Instead, a central role is given to organizations. Organizations are "groups of individuals bound by some common purpose to achieve objectives" (North 1990; 5) and include diverse structures in the political, economic and social realm, from political parties to firms, trade unions, universities and schools. Organizations cause incremental institutional change in the process of furthering their own objectives within the given institutional framework. In addition, an organization which sees that its objectives are not being best served by the current institutional framework will lobby for institutional change. Again, however, actual institutional change is a function of the level of political and economic transaction costs, and all changes involve agreement on the price of compensation and its payment in full. Although these additions to the NIE model mean that transformation is a more incremental process, NIE still presents a uni-linear path of development where successful transition involves progress towards the neoclassical nirvana of a society free of transaction costs.

NIE theory has been used to promote a very specific set of institutions as crucial for economic growth in developing countries through the 'good governance' agenda. This advocates property rights stability, reducing corruption, a transparent and accountable public sector, democratic government, rule of law and competitive (rent free) markets as the necessary lower transaction cost institutions for countries such as Tanzania and Vietnam to adopt in order to experience an economic transition to higher growth. The original NIE theory was developed through historical accounts, for example North and Thomas (1973), and Hayami and Ruttan, (1984), however, more recently, the NIE framework has received support from numerous econometric studies that purport to provide strong evidence of the link between these 'good governance' institutions and economic performance. The econometric studies have depended on the creation of 'indicators' of institutional quality. The data and the econometric research have been critical to solidifying the consensus that has emerged about the role of 'good governance' institutions in developing countries, yet this research has a number of significant flaws.

The early work on indicators of governance involved attempts to harness 'objective' measures of institutions, such as the work by Barro (1991) on political instability, as well as 'subjective' measures by Mauro (1995) and Knack and Keefer (1995), who use survey data from credit risk rating agencies. These approaches have since been expanded and refined to produce composite indices, using both subjective and objective measurements from a wide variety of sources. The most well known of these data sets are, arguably, the Corruption Perceptions Index produced by Transparency International and World Wide Governance Indicators (WGI) produced by Daniel Kaufmann and his associates at the World Bank. The WGI are based on composite indices of objective and subjective measurements of six variables of institutional quality measured from 1996. The WGI data for Tanzania and Vietnam over the period of liberalisation are presented in Table 2.1 below:

Table 2.1: WGI for Tanzania and Vietnam over the Period of Liberalisation (observations from 1996, 2000 and 2005)

		Tanzania	Vietnam
		Percentile Rank (0 – 100)	
Voice and Accountability	1996	28.7	9.6
	2000	36.5	12.5
	2005	39.4	8.2
Political Stability	1996	36.5	55.8
	2000	28.8	53.5
	2005	32.7	57.7
Government Effectiveness	1996	25.7	48.5
	2000	39.8	40.3
	2005	38.5	48.5
Regulatory Quality	1996	45.4	34.6
	2000	41.5	23.4
	2005	40.5	34.6
Rule of Law	1996	45.7	34.3
	2000	42.4	41.4
	2005	45.7	46.2
Control of Corruption	1996	13.1	37.9
	2000	10.7	29.1
	2005	28.6	25.2

Source: Data from (Kaufmann, Kraay, and Mastruzzi 2010). Countries are ranked from 0 – 100 where 0 is the lowest score.

The basic problem with this sort of empirical assessment of the role of institutions in economic growth is how to accurately define and identify the abstract concepts of governance and whether the proxies that have been used actually reflect the institution that they are supposed to represent. Thomas (2006) argued that 'The first question that should occupy potential users of any governance indicator is not the size of the measurement error, but whether the indicators are valid measurements of what they purport to measure' (2006; 13). This problem bedevils all of the research using proxy indicators of governance, from Barro's early work using violence proxies for property rights instabilities (Knack 2006) to the construction of the WGI data set shown above. Thomas (2006) argued that WGI indicators exhibit 'concept vagueness' that makes the whole exercise of data construction problematic. Kaufmann et al (2007) rejected this criticism, arguing that it is widely agreed that governance lacks an accepted common definition and that the WGI indicators are broadly in line with commonly used definitions. They suggest that problems of concept formulation are less apparent in the WGI indicators because of the high correlation between the different proxies they identify to measure particular concepts. While this may go some way to assuage fears that the data is unreliable (Kurtz and Schrank 2006), it does not necessarily imply much for the validity of the concepts themselves.

Knack (2006) highlights another area of definitional concern, echoed by Kurtz and Shrank (2006) and Glaeser et al (2004), that there is not enough discrimination between outcomes and processes in the measurement of governance. Knack (2006) argued that this criticism applies to most of the 'first generation' indicators discussed above, while Kurtz and Shrank (2006) make the specific point that the WGI indicators combine institutions, policy preferences and policy outcomes into single indicators. Knack (2002) argued that a further general problem is that 'first generation' indices measure performance very broadly rather than specific aspects of performance. This limits the usefulness of the indicators in terms of policy advice and monitoring. Knack suggested that existing research on governance 'does not often point the way toward specific reforms, because it is based largely on very broad and aggregated indicators of institutional performance' (2003: 294). He gives the example of corruption indicators that are rarely disaggregated between different types of corruption such as petty corruption and grand corruption or bureaucratic, legislative and judicial corruption. Such imprecision limits the use of these indicators to inform the research on the role of institutions in Tanzania and Vietnam.

In terms of information sources, the fact that many of these indices rely on subjective views collected by public and private organizations for a range of purposes has been an important area of criticism of the data. This concern, expressed by Glaeser et al (2004), Knack (2006), Kurtz and Schrank (2006) and Arndt and Oman (2006), is based on the fact that subjective data risks the possibility that ratings are affected by experts' knowledge of recent economic performance - for example, a country that has recently grown well will be assessed as having lower corruption than a country where the economy is stagnating. Kurtz and Schrank (2006) provided evidence that the Government Effectiveness measure in the WGI index, tends to have a significant partial correlation with two year average growth rates prior to the date of the governance indicator although their evidence is disputed by Kaufmann et al (2007). Lambsdorff (2004) defends the use of subjective data for analysis arguing that attempts at objective measures, such as the number of convictions for corruption used by Goel and Nelson (1998), are unlikely to give a true picture of the level of corruption.

Knack (2006) and Arndt and Oman (2006) make a related point that subjective indexes may be biased in favour of the interests of foreign investors who pay for the studies and that reports from one source may influence another. Arndt and Oman (2006) argue that while the list of sources appears to be diverse, the fact that the aggregation procedure used to calculate the composite indicator assigns less weight to sources that differ from the majority means that there is much more weight given to expert assessments and enterprise surveys than to population surveys. Further, both Knack (2006) and Arndt and Oman (2006) point out that due to the aggregation process used in the formulation of the WGI composite indicators, the measurement errors that relate to measurement bias in subjective data are magnified. Arndt and Oman (2006) suggest that the likelihood of correlation of errors among the 37 sources from which the composite WBI indicators are constructed are high. Knack writes 'this unknown but substantial degree of interdependence among many of the sources also obviates any claim regarding the 'precision' of these indicators' (2006; 23).

The correlation of sources of errors does have significant negative implication as it means that each additional source used to produce a given composite indicator actually contributes less additional information to the construction of the composite indicator than the authors assume and the statistical significance and reliability of cross-country comparisons among country scores is lessened. This argument is strongly contested by Kaufmann et al (2007) who see the fact that their scores are based on diverse sources as one of the strengths of the WGI compared to earlier governance measures. Further, they argue that their data is explicit about the problems of errors in measuring as their aggregated figures allow calculations of margins of error, which are large for each individual measurement. Yet, the rationale for aggregation is based on the presumption that different sources of errors are uncorrelated. They argue that the high degree of correlation between the numbers shown by some sources is not a reflection of a correlation of these sources' measurement errors but instead is a reflection of their greater accuracy, compared to less closely correlated sources, in terms of the underlying reality of governance they are trying to reflect. They conceded, however, that isolating the effect of correlated errors in driving the observed correlation amongst sources is extremely difficult and is yet to be done.

Arndt and Oman (2006) raise the issue of whether the WGI provides a suitable basis for ranking countries or to judge changes in governance performance over time. They argue that due to the fact that data sources can vary from year to year and that the change may just be a statistical artefact, caution should be exercised in using the indicators for these purposes. Kaufmann et al (2007) refute this and argue that change in governance performance over time can be assumed from their data. Their rule of thumb for judging change is that if over two years, the confidence intervals for the two different scores do not overlap, it can be stated that change has actually occurred in the country during that period. Arndt and Oman point out that there are actually a very limited number of countries where, on this basis, change in any direction can be reasonably inferred from the WGI indices. Ranking countries based on the WGI indices is put into doubt by Knack (2006) who argues that where country indices on measures such as corruption are based on two completely different sources, comparison is rendered less meaningful. Kaufmann et al (2007) argue that by aggregation they are creating common units of governance that can be compared across countries.

From the WGI data reproduced in table 2.1 above, it is clear that Tanzania and Vietnam both score very poorly in terms of institutional quality in 'good governance' terms over the period of liberalisation. Tanzania is in the 25th to 50th lowest percentile for all indicators except for corruption in 1996 and 2000 where it falls into the lowest 10th percentile. Similarly, Vietnam is in the lowest 25th to 50th percentile for all measurements except political stability where it is slightly higher, and voice and accountability where it falls into the lowest 10th percentile. The data does not cover the full period of liberalisation for both countries, nor is there any consistent sign, based on this data, that governance has improved considerably over the period of liberalisation as a cause of higher growth rates. Tanzania and Vietnam have very similar poor governance to many other developing countries, as most other developing countries fall below the 50th percentile across the different indices (Kaufmann, Kraay, and Mastruzzi 2010). Thus, putting aside the considerable measurement problems discussed above, even on its own terms, the data indicates that Tanzania and Vietnam do not appear to conform to the NIE theory that growth will accelerate as developing countries adopt certain institutions identified by the good governance agenda with lower transaction costs.

Aside from all the specific problems with the data used in NIE research, the most fundamental problem facing this approach is the enduring problem of identifying causality. The methodological problems of cross country growth studies have been widely discussed in the literature in recent years (including Temple; 1999, Rodrik and Rigobon; 2004, Pritchett; 2000). The fact that rising incomes may improve the quality of institutions thus making institutional quality endogenous, causes problems of measurement error, reverse causation and spurious correlation. One way of reducing the problem of reverse causation is by going back as far as possible in time and measuring their dependent variables further forward in time. Yet, the fact that most of the data is only available for recent years means that many institutional variables can only be measured from the end, or close to the end, of the period under investigation.

There is, of course, a wide body of economic literature that points out the links between rising incomes and improving governance. Econometric studies have proved inconclusive on the direction of causation, despite the fact that most of the NIE literature has attempted to deal with this problem through various econometric techniques. These include Mauro's two-stage estimations, Knack and Keefer's attempt to use longer periods of data and Rodrik and Rigobon's (2004) use of Least Squares estimation. Even with more rigorous data tests, however, causality remains uncertain. For example Chong and Calderon (2000), apply a rigorous approach to causality, yet found strong evidence of causation running in both directions: from institutions to growth and from growth to institutional quality.

A solution to the causation problem is to find a valid instrument to include in the econometric model that is exogenous, correlated with the endogenous variable for which it is instrumenting and does not influence the dependent variable through any channel other than the relevant endogenous variable (Rigobon and Rodrik 2004). For example, Mauro (1995) uses ethno-linguistic fractionalization of the population. Colonial experience has also been used to try to instrumentalize different institutional forms and remove the pervasive influence of rising incomes on the quality of institutions. Acemoglu et al's (2001) work on colonial impact on property rights is perhaps the most well known attempt in this field and is credited (Glaeser et al. 2004) with reinvigorating the debate on governance and growth.

Acemoglu et al (2001, 2002) argued that where European colonizers settled, they brought with them institutions that protected private property and limited expropriation by the executive. Where European colonizers did not settle they introduced institutions of expropriation and arbitrary rule over the local population. They then argue that where a region was not densely settled by locals and where settler mortality was high, Europeans did not settle. They use this logic to argue that settler mortality and indigenous population density in 1500 can be used as instruments for modern day institutions that protect private property and constrain the executive. Their econometric results confirm that countries that exhibited this pattern of colonial settlement have experienced higher growth over time. Thus, their evidence purports to show that security of property rights and constraints on the executive lead to long term higher growth rates.

This article attracted a great deal of praise for its innovative use of a colonial instrument to back up the good governance arguments. There are, however, a number of important critiques that undermine their conclusions. Glaeser et al (2004) pointed to the fact that while Acemoglu et al have shown that colonial history had an impact on growth, they have failed to prove that it was the *security* of property rights that colonial settlers brought with them. Kurtz and Shrank (2006) and Khan (2006) both pointed out that the early colonial experience in countries where settlement was the norm actually involved a huge amount of expropriation of existing property rights. Khan (2006) argued that the rapid transfer of property rights can under certain circumstances, be a pre-requisite for growth, in contrast to the property rights stability that Acemoglu et al argue is at the root of rapid economic growth.

The political institutions prevalent in many rapid growth low income countries do not conform to the low transaction cost institutions identified as important to growth in the NIE inspired models and there are serious doubts about whether the NIE econometric research has been able to prove causality. This suggests that the NIE approach may not be suitable for exploring the comparative growth experience in Tanzania and Vietnam over liberalisation. On one level, the failure of NIE may suggest that an institutional analysis is not very relevant for exploring the drivers of growth in developing countries. This is the approach taken by Glaiser et al (2004) who go so far as to state that 'the evidence that institutions cause economic growth, as opposed to growth improving institutions is non-existent' (2004; 2). Influential econometric research by Sachs et al

(2004) also rejects the importance of institutions, arguing instead that other characteristics of developing countries such as low population density, high disease burden, ethno-linguistic fragmentation and poor infrastructure are much more important in limiting growth than institutions.

On a number of these variables, the contrast between Tanzania and Vietnam is obvious. With a population of around 80 million, Vietnam has almost double Tanzania's population (at 34 million) and six times the population density. Vietnam went through a demographic transition that led to lower rates of mortality and fertility by the mid 1980s (Van-Arkadie and Dinh 2004). Vietnam's population is also much more ethnically homogeneous as 78% of the population are ethnic Kinh while Tanzania is made up of around 200 tribes with distinct tribal languages and customs. While these features may play some part in explaining their comparative growth experiences there are significant limitations to these arguments. First, appeal to variables such as climate or access to a coast clearly holds very little strength in explaining the difference between the growth performances of these two countries, both with long sea coasts and tropical climates. Second, the argument that low population density has hampered growth in Tanzania overlooks the fact that most people in Tanzania live in densely populated areas with high rainfall (Sender and Smith 1990). Third, while Tanzania has many diverse tribes, it has a strong national identity that was forged under the socialist era through the education system and the promotion of Swahili as the national language. These efforts are seen to have paid off in terms of reducing 'ethnic fragmentation' (Ndulu 2006). The longer history of Vietnam also involved the challenge of creating a composite national identity through specific actions of the state.

The failure of NIE to provide a convincing argument about the role of institutions in economic performance should not necessarily cause us to reject the importance of institutions for developing country growth. One approach to this was by Dani Rodrik (2003, 2004) who argued that while the institutions identified by NIE are the institutions that are needed for growth in developing countries, the institutional function does not uniquely determine institutional form. Thus different institutional forms can achieve low transaction costs other than those identified by the good governance agenda. The problem with this argument is that in many developing countries, including Tanzania and Vietnam, while it is evident that the institutional forms do not match those advocated by

NIE, it is also clear that the institutions do not provide the general functions of 'good' institutions in the conventional sense along any of the criteria of NIE low cost institutions such as security of property rights, or accountability of the political system.

The fundamental problem with the NIE argument about low transaction cost institutions, identified on the basis of generalised form *or* function is that poor institutions appear to be common in both high growth and low growth developing countries. This observation was originally set out by Mushtaq Khan in his reassessment of the governance data in 2004. He found that developing countries that lacked the 'good governance' institutions dominate across both the low growth and the higher growth developing groups. The evidence for this is summarized in Chart 2.1 below from Khan (2004):

Chart 2.1: Relationship between Governance and Growth in Developing and Advanced Countries

This chart highlights some of the problems with the standard regressions that purport to show evidence that good governance characteristics lead to growth. The chart breaks down the evidence into three distinct groups: advanced capitalist countries with good governance, rapidly growing countries with poor governance and low growth developing countries with poor governance. While it is clear that advanced capitalist countries have higher growth rates and governance characteristics that conform to the 'good governance' agenda, there are a small group of developing countries that grew very rapidly with similar governance characteristics to the group of low growth developing countries. This is masked in standard regression analysis that uses the whole set of countries without making a distinction between transition economies and those OECD countries that have been through a much longer period of economic transition and acquisition of 'good governance' institutions as a result of higher income levels.

The failure of the NIE low transaction cost approach both in theoretical terms and in its empirical evidence does not mean that a study of the impact of political institutions in Tanzania and Vietnam cannot shed light on their comparative growth experience. Instead, the question requires a different theoretical approach to understanding the role of institutions in comparative growth in developing countries.

Collective Action

Another branch of NIE analysis has focused on the role of collective action in determining economic performance. The models of collective action may have more relevance for exploring the role of political institutions in the comparative growth experiences of Tanzania and Vietnam under liberalisation. Starting from a similar methodological individualist approach as the NIE school, Mancur Olson set out a theory of collective action to explain why some political organisations are growth promoting while others are not. Olson's theories of collective action are based on extending the logic of individual maximizing rationality to group behaviour to explain an organisation's ability to further its own economic interests vis-à-vis other organizations. In *The Logic of Collective Action* (1965) Olson argued that the primary purpose of an organisation is to seek enrichment for its members. He identified the underlying problem of collective action as being how to balance the interests of individual members with the interests of the group overall. Once groups have been able to solve this, an organisation can serve its members in two potential ways: first, by increasing overall incomes in society including for its members, and, second, by getting a larger share of total incomes for its members. In his model, collective action organisations are overwhelmingly oriented to redistribution. For Olson, the typical organisation in society will not have much incentive to make any significant sacrifice in the interest of the society as a whole. Thus organisations focus on struggles over the distribution of income and wealth by making re-distributional claims on the state. Olson asserts that such redistributive claims damage the long term efficiency of society.

Olson claimed that organisations for collective action are more effective at achieving their redistributive ends when they are small and homogeneous. In Olson's later book, *The Rise and Decline of Nations* (1982) the organisation of groups is the key to understanding the different outcomes in the growth path of nations. He argued that an economy will grow faster when the state is not dominated by the interests of small organisations that lobby for redistribution. In contrast, larger groups, that he calls encompassing organisations, are more likely to take into account the prosperity of society as a whole and weigh up the marginal costs of redistribution towards their members.

Olson also argued, however, that once a small group has gained sufficient control over a society, its interests vis-à-vis economic growth change. In a 1993 article entitled 'Dictatorship, Democracy and Development', Olson characterised this as a process of moving from roving banditry compared to stationary banditry as an allegory of fragmented and cohesive states. Where the state is fragmented and the small powerful group has only limited time in which to maximise returns to its members, it is likely to undertake predatory actions that damage the longer run growth prospects of a society. Where, however, the small powerful group has established its power over the economy, it will have more incentive to promote economic growth rather than simply plunder existing productive activities. Olson linked the analysis of group incentives to time horizons in his analysis of the economic performance of socialist one party states, particularly the Soviet Union, in *Power and Prosperity* (2000). He argued that 'the economically most successful autocrats not only tend to have long planning horizons but also to resist or repress special-interest groups' (2000; 100).

The logic of this argument has been taken up in a wide range of applied analysis on the impact of political institutions on growth. For example, Shleifer and Vishney (2003) analysed effects of corruption in fragmented and centralised states. They argue that the impact of corruption on economic performance will be worse in states that are institutionally fragmented. In contrast, in states that are centralised, the leadership will have the capacity to ensure that its policies were effectively implemented. It can also direct the transfer of assets, through grey and illegal state practices, to productive groups which can maximize growth and hence the longer term returns to the centralised leadership. The same basic idea is also used by Philip Keefer (2006) to argue that the institutionalization of political parties can reduce the cost of organizing voters and, therefore, make pre-election commitments for policies which can advance a more general definition of the public good more credible, and hence increase economic growth over time.

These theories clearly raise some points of analysis that are relevant to the institutions that were prevalent during liberalisation in Tanzania and Vietnam. This argument suggests that the different experience of economic transition in Tanzania and Vietnam may be explained by looking at how effectively their ruling parties managed the pressures for redistribution from competing interest groups, how encompassing they were; and the time horizons of the leadership. As outlined in the previous chapter, the construction of the ruling party over time created an encompassing organisation that dominated the state in both countries. This dominant party structure provided a degree of centralising cohesion within the state that is absent in many developing countries. This may have increased the time horizons of the state and facilitated state interventions to promote economic growth.

However, important characteristics of the political institutions of the two countries do not fit with these models of collective action and economic transition. In particular they fail to take account of the importance of corruption and patron-client networks within the institutions of the party. Olson's models of collective action discussed above focus on the impact of collective action on redistribution through formal institutions and legal and official processes of redistribution. But many of the most important redistributive claims on the state in developing countries, including in Tanzania and Vietnam, actually occur through informal networks, often working within and outside formal institutions. The success of collective action in demanding redistribution depends on the distribution of power between different groups in society that may or may not be reflected in the formal structure of institutions. Shelifer and Vishney's model of the different impacts of corruption within fragmented and centralised states also misses a vital characteristic of developing countries: that the degree of fragmentation or cohesion within the institutions of the state may not reflect the degree of fragmentation or cohesion in the wider distribution of power within society.

The impact of collective action and demands for redistribution may be important elements of an analytical framework for investigating the role of political institutions in growth in Tanzania and Vietnam. Yet, as with the limitations of the transaction costs models, these collective action models do not capture how collective action and redistributive demands actually work in developing countries. Some of the problems in using such models to explore actual processes of growth are well known and relate to the limitations of the methodological individualist model of individual and state agency taken directly from neoclassical economic theory (see for example Hodgson (2000) and Rutherford (1998)). In the transaction costs and collective action NIE models discussed above, the basic unit of analysis is to the profit maximising individual with rational expectations or the state which is modelled with exactly the same characteristics. The NIE establishes a false dichotomy between economic and political realms. The state is characterized as inherently predatory, while the market is modelled as a site of free transactions between individuals. The flawed neo-classical counter-factual of the perfect market, on which this is based, does not provide an appropriate basis for the analysis of real economic and political relations in countries such as Tanzania and Vietnam. Power is incorporated into the NIE analysis of the state based on the liberal political theory of Talcott Parsons (1991) where power is simply the ability that agent A has to get agent B to do something. Power in this methodological-individualist sense is stripped of its social context. This approach cannot capture the complexities of how the parties in Vietnam and Tanzania have forged their dominance.

These approaches cannot capture how political and economic history has influenced the distribution of power in society within and outside the political institutions of the two countries. More important for investigating the impact of the ruling Party on the comparative growth experiences of Tanzania and Vietnam is that the NIE models do not provide an analytical framework that can capture the nature of power in developing countries. The distribution of power in such countries may not be reflected in the formal structure of political institutions but may provide a deeper determinant of the relationship between growth and institutions.

2.3 Heterodox Theories of the Role of the State in Economic Development

Another set of theories that has emerged to explain the role of institutions in economic growth over the last few decades has focused on the role of state power broadly from a Weberian perspective. The most influential of these seek to explain the success of the 'developmental states' of East Asia. The theoretical starting point for these theories is the Weberian understanding of state power. Weber considered that state power is the critical factor in explaining different economic outcomes (Weber 1978). He argued that certain characteristics of state power are critical to explaining how effective the state is at bringing about economic growth. He provided a historical analysis of two contrasting models of the state: the bureaucratic state and the patrimonial state. The bureaucratic state is a legal-rational state based on the establishment of normative rules and the right of those in power within the state, on the basis of these rules, to establish legal authority. The state in this model is run by a professional bureaucratic civil service. Weber argued that this 'efficient' state is required for successful capitalism.

Weber contrasted this with the model of the patrimonial state where authority is based on personal loyalty to the leader. In a patrimonial state, authority is maintained through personal connections, favours and promises (Weber 1978). This leads to personalistic state policies rather than policies that would benefit wider society. Patron-client ties undermine a rational-legal framework of government and hamper its ability to promote growth. Weber thought that rational-bureaucratic states would eventually replace patrimonial states. However recent analysis has indicated that many developing countries are run as neo-patrimonial states where a bureaucratic framework for the state exists but is superimposed upon an enduring system of patrimonial power (Chabal and Daloz 1999).

The dominant view today is that patrimonialism is *the* central problem that constrains the ability of the state in many developing countries from promoting growth. Economic performance improves as states are able to constrain patrimonialism and move towards the bureaucratic state ideal. Within this debate, African clientelism is often presented as a particular problem for state effectiveness (Chabal and Daloz 1999), (Bayart 1993). Chabal and Daloz (1999) argue that what is common to all African states is an institutionalization of disorder based on a generalized system of patrimonialism and an acute degree of turmoil. They argue that this is evident from the high level of governmental and administrative inefficiency, lack of institutionalization, disregard for the formal rules as well as the resort to personalised solutions to societal problems. In an extension to the idea that the state is less effective where personalised relations dominate, Goran Hyden (1980) argued that in Tanzania the predominant peasant culture has created an 'economy of affection' where people invest in reciprocal relations that are inimical to capitalist, or for that matter socialist, development.

Interestingly, this argument is very similar to James Scott's thesis in *The Moral Economy of the Peasant* (1977) concerning the Vietnamese peasantry (Khan and Gray 2006). He argued that during the 1960s agrarian change in the area was constrained by peasant social relations and their ability to defy the control of the nation state. The similarity between the cultural norms generated by peasant social relations in both countries undermines the idea that such informal institutions are the primary explanation for different patterns of social and economic transformation. More broadly, clientelism is a characteristic of both rapidly growing and poorly growing developing countries. As with the NIE models, the Weberian inspired state-centric models therefore do not provide an adequate framework for explaining why clientelism in different contexts has such varying impacts on economic performance.

The literature on 'developmental states' that emerged from studies on the process of rapid economic growth in Asian economies, such as Chalmers Johnson (1982), Amsden (1989), Wade (1990), Evans (1995) and Aoki et al (1997), identified certain features of the state as critical for explaining success in managing the process of technology acquisition. Such states promoted rapid economic transition, not because they provided and maintained the ground rules of the market, as argued by mainstream economics, for example World Bank, (1993), but because they could effectively intervene in the market and create rents that provided incentives for entrepreneurs to acquire technology and engage in technological learning processes. These states were able to use interventions such as subsidies and tax breaks as incentive devices, as well as having sufficient control over these rents to ensure that rent recipients were subject to performance standards that could be monitored. If the rent recipients did not achieve the targets set by the state, there were credible threats that their rent would be removed (Wade 1990). Aspects of the 'developmental states' analysis can be used to explain the comparative growth experience in Tanzania and Vietnam. Yet an important limitation of the 'developmental state' literature for the purposes of the analysis of growth in these countries is that it focuses on just one of the processes that is important for rapid economic growth in developing countries. In both countries over the period of liberalisation, there were other critical processes of economic transition (such as those relating to the collapse of traditional property rights and managing the demands of political redistribution within the party) that cannot be captured by the developmental states analytical framework.

A further limitation on the 'developmental state' theories is that they provide a state-centric analysis that cannot account for the informal nature of the distribution of power in developing countries. The 'developmental state' approach assumes that effective management of the complex rent process relating to technology learning depends on a strong centralised state with some autonomy from competing demands for redistribution to enable it to manage these complex rent processes. Evans (1995) and Migdal (1988) look at the conditions under which states can support a process of late industrialisation. They argue that this depends on a set of characteristics of the state including the degree of autonomy of the state from society and institutionalized channels that bind together state and society. They identify successful developmental state institutions as being sufficiently centralised while having autonomy from redistributive pressures. Yet while the state may adopt formal industrial policies, the effectiveness of these policies may be constrained by patterns of power outside formal state institutions and thus only superficially related to formal characteristics of the state such its degree of centralisation.

Another concept from within this school of thought that has become important in analysing the impact of institutions on growth in developing countries is the concept of the 'infrastructural' power of the state. Michael Mann (1984, 1993) developed this concept to explain economic change as a process of bureaucratisation of political institutions. In line with Weber, societies are conceived as manifestations of different forms of social power where transition is a process of progression from one form of domination to another. The drivers of social and economic transition in this framework are plural and depend on the prevailing forms of power that the society embodies. Mann argued that there are four distinct forms of social power: economic, political, ideological and military, each of which, in different epochs, held sway over the process of social change. Mann contended that economic change has to be explained by looking at the consolidation of state power over time. He argued that there are two types of state power. The first of these is despotic power. He defined this as the range of actions which the elite is empowered to undertake without routine, institutionalized negotiation with civil society groups. The second form of state power for Mann is infrastructural power.

Infrastructural power is the power of the state to penetrate civil society and to implement political decisions throughout the realm. It allows the state to co-ordinate society through its own infrastructure (Mann 1993). According to his argument, the process of economic transition will be determined by the extent to which the power of the state moves from forms of coercion to increasing infrastructural power exercised by a centralised state. Weiss (1998) built on Mann's concept of infrastructural power to argue that a more important aspect of state power is the capacity of the state to be effective. Weiss argued that the infrastructural power of the state will vary across policy areas and that 'the capacity to 'get one's way in spite of opposition' shares little with the capacity to mobilize consent or to institutionalize co-operation' (1998, 4). This follows Skocpol's (1985) view that the unevenness of state capacity is most significant for understanding behaviour in certain spheres.

Weiss is correct in so far as all states, including Tanzania and Vietnam, exhibit significant variability in terms of their effective capacities across different areas, and that this is important for understanding the extent to which political institutions can influence economic outcomes. Yet she does not identify the underlying reasons for the unevenness of state capacities and why some states lack the capability to enforce or implement particular types of decisions. While an analysis of the structure of the state and the degree to which the state has penetrated everyday life may capture some important features of the role of institutions in developing country growth, these state-centric approaches miss the importance of the social distribution of power outside formal state institutions.

Mann's ambitious theory of the classification of societies on the basis of the 'mode' of power is insufficient. The impact on society of the forms that power takes (for example, coercive, military, ideological, political, bureaucratic or infrastructural) needs to be fully understood within a context of how a society sustains and reproduces itself. In reality, there is probably more plurality in the modes of power that all types of states use all the time. States use both infrastructural and coercive power simultaneously rather than dichotomously. Further, identifying the type of power that a political institution uses to enforce its interests does not address the question of whether the state will be effective in achieving the ends that it seeks or why it seeks certain ends over others. These heterodox state-centric approaches are correct in identifying power as critical to the understanding of the impact of institutions on growth. However, the institutional framework they provide for analysis is not sufficient in itself to explain the nature of the distribution of power in society and in developing countries in particular.

2.4 Political Settlements

The underlying distribution of power in society is the critical determinant of the success of both formal and informal institutions in generating growth in developing countries according to the theory of political settlements developed by Mushtaq Khan (1995, 2000, 2010) and applied and developed in various country contexts in Asia (Khan; 1995, 2000, 2009, 2010), Latin America (DiJohn 2009), (Khan and Blankenburg 2009) and Africa (Khan and Gray 2006) (Gray and Khan 2010) (Khan 2010). A political settlement refers to a reproducible combination of institutions and the distribution of power in a society (Khan 2010). Unlike the NIE theory outlined above, institutions in the Political Settlements theory are not assumed to be neutral structures devised to reduce the technical problem of transaction costs relevant for political and economic interactions between individuals. Instead, they are assumed to be the product of substantive conflicts over distribution as all institutions create distributive outcomes (Knight 1994). Institutions, therefore, establish the pattern of distribution of incomes and resource flows in a society.

The original analysis linking struggles over property rights and the distribution of power to economic transition is Robert Brenner's analysis of the transition from feudalism to capitalism in Europe from the fifteenth century[3] (1985). He argues that this occurred as a

[3] Robert Brenner criticised the earlier Marxist debates over capitalist transitions of the 1950s between Maurice Dobb and Paul Sweezy summarized in Aston and Philpin (1985). Paul Sweezy argued primarily that the spread of trade was the prime mover in explaining capitalism, while Maurice Dobb, and later Hilton, argued that the dissolution of feudalism as a result of class struggle permitted capitalism to emerge. Elements of both of these approaches are found in Marx's analysis of capitalist transition. Brenner argues that in England the particular power balance during the 16th century involved strong landlords with support from the state. They were able to capture land from serfs after the collapse in population following the plague. The larger tracts of land under the enclosure system led to economies of scale and increased investment in new technologies. Similarly, the restrictive guild system was challenged by these emerging agricultural capitalists who were able to reorganize production and in the process gain higher levels of productivity in urban industries. This is contrasted with Eastern Europe, where the peasants were weak and could not resist the tightening of extra economic controls that led to an entrenchment of

consequence of changes in property relations, brought about by historically specific distributional struggles between different classes, fractions of classes and the state in the feudal economy. He provides a framework of analysis to assess the historically specific conditions that generate different patterns of capitalist development from within existing social relations and points to the specific nature of the relations of production that underlie capitalisms' capacity for generating productivity growth. Brenner observes that the outcomes of contests over property rights (and the incomes that flow from their ownership) shape the way in which an economy evolves. Historically constituted social groups will use power to acquire or hold on to property rights that generate income or affect resource flows. Power in the political settlements framework refers to the ability of different groups to organise to maintain or challenge property rights that confer particular income flows. The rights in question go beyond the redistributive rights that are the focus of the NIE collective action models to also include the underlying property rights that structure production.

The distribution of power between different groups and individuals in society depends on a range of socioeconomic factors. One element of the distribution of power is, of course, the economic resources available to any particular group. However, economic power may not be aligned directly with political power (Khan 2010) and the relative political power of a group, based on differential organizational and other capabilities, may be much more important in explaining its ability to defend or create a structure of rights that supports its perceived interests. Thus, the power of any group or individual is not simply a factor of its wealth.

Further, political power can exist in institutional forms, such as through a formal position held within a party or government, but it can also exist informally, outside formal institutions. The political power of a group depends on a wide range of different sociological and psychological factors in addition to its access to economic resources or formal institutional positions. These factors include the legitimacy of the claims that it makes as perceived by broader society, and its past experience in political mobilisation. Importantly, the ability to organise politically, for example to mobilise people to resist changes by setting up a demonstration or organising a strike (Khan 2010) are critical to

feudalism, and France where peasants won outright property rights and continued to produce in a system of subsistence agriculture.

the effective power of different groups but is not necessarily related to institutionalized political power. Such organisational capacities are normally acquired through a history of past struggles. Previous political struggles leave a social legacy of political mobilisation not simply in the institutional sense, for example as Hannah Arendt (2009) argued are the legacy of revolutions, but in terms of the capacity to organise people to achieve political ends. A picture of the distribution of power in any society is not just a description of its political institutions but needs to be constructed from a reading of social and economic history, looking at the past outcomes of social conflict and the organisation of production.

Khan writes that '[a] political settlement is a combination of power and institutions that is mutually compatible and also sustainable in terms of economic and political viability' (4, 2010). For a political settlement to be sustainable it must have institutions that produce benefits consistent with the distribution of power. If institutions produce benefits that are not in line with the distribution of power, groups will be able to mobilise to overturn the existing institutional structures. For any political settlement to be viable, it must also achieve a minimum level of political stability and economic growth. The description of a political settlement is important as this has implications for the particular changes in institutions and the viability of particular directions of institutional and political reform. Change between types of viable political settlement can occur gradually from endogenous or exogenous developments that alter the balance of power and institutions. It may also occur precipitously as power and institutions become misaligned, leading to periods of more intense conflict and eventually to the re-emergence of a new stable alignment between power and institutions. There could potentially be a large number of viable forms of political settlement. Khan (2010) identifies four types based on the alignment between formal institutions and the distribution of power and the extent to which the formal institutions generate growth. These are pre-capitalist, capitalist, clientelist, and 'in-crisis' political settlements.

The capitalist political settlement involves a distribution of power that is dominated by the economic power of capitalists. Formal institutions, the most important of which are the protection of private capitalist property rights, are broadly aligned with and sustained by the social, economic and political power that capitalists have, based on capitalist profits. Although there may be significant forms of struggle between competing groups, redistribution occurs mainly through formal institutions. There is a reinforcing relationship between the generation of profits from formal capitalist property rights and the availability of resources to sustain those rights. Formal institutions and rights dominate in that they underpin nearly all output and incomes and the distribution of power is therefore determined by the incomes generated by these formal institutions.

The pre-capitalist political settlement refers to the system of social and economic reproduction prior to the emergence of capitalism in Europe and prior to the intervention of colonialism in developing countries from the 18th century or earlier. These traditional social systems generated low growth and were broadly stable, with a process of slow change occurring within formal pre-capitalist institutions and the associated distribution of power. Formal institutions were built on the political power of landed and other pre-capitalist elites who organized production on different principles. The pre-capitalist political settlements in developing countries started to collapse when confronted with the economic and military competition from capitalist societies, generally through the process of colonisation.

Most developing countries today have gone through a relatively long process of the collapse of traditional social and economic systems and the emergence of new social and economic structures. They are societies in transition, not in the teleological sense that they will inevitably progress to become more productive social and economic systems (as was one of the central tenets of some strands of Marxist theory) but in the sense that previous political and economic institutions and balances of power are in a state of collapse and new sustainable alignments of power behind formal institutions have not taken hold. The distribution of power in these transitional societies is not aligned with the incomes generated by formal institutions, as is the case under capitalism. The consequence of this is that powerful groups operate through informal routes to protect and generate income flows and to sustain their power. While most developing countries have some, or even significant, elements of capitalist production, the formal power of capitalists is generally weak because the modern capitalist sector, by definition, does not dominate these economies. The newly emerging productive sectors tend to be small and do not generate sufficient profits to enforce the formal institutions and rights on which this production is based. At the same time, other powerful groups, whose power is based on political capabilities have to use informal mechanisms to sustain their access to resources because the formal constitution and legal framework based on more advanced capitalist countries does not formally recognize these claims. As the distribution of power across a broad range of developing countries lies significantly out of alignment with their formal institutions, this generates a system where power operates through informal institutions, primarily through patron-client networks.

Khan, therefore, characterises a wide range of developing countries as having broadly defined 'clientelist political settlements' although there are significant differences between them in the details of their political settlements. These differences have important implications for the development trajectory of particular developing countries. Clientelist political settlements can produce economic growth and a movement towards higher productivity institutions over time, and they can be relatively stable, although their paths and rates of transformation may be quite different. They can also begin to collapse into crisis in some cases. In general, clientelist political settlements are distinct from political settlements 'in-crisis'. Crisis political settlements are characterized by a breakdown in the balance between institutions and the underlying distribution of power and the exercise of power begins to be largely expressed violence. While there are many examples of countries going through extended periods of intense violence, most developing countries today are not in an acute political crisis as the operation of clientelist networks behind formal institutions can maintain the system by ensuring that powerful groups are accommodated through informal resource flows.

2.4.1 Drivers of Economic Transition

Economic transition in developing countries occurs through an iterative process of contested change in institutions and in the socioeconomic distribution of power that shapes the incentives under which accumulation and technology acquisition take place. While the drivers of this transition are broad and multifaceted, the political settlements framework allows us to examine three critical processes that are important for explaining the speed and direction of economic transition in countries such as Tanzania and Vietnam. These are the processes of political redistribution, primitive accumulation and the management of technology acquisition (Khan 2004).

Political Redistribution

A degree of social stability is required for economic accumulation to drive growth. In all countries political institutions have to achieve political stability by meeting the redistributive demands of powerful groups that would otherwise threaten the stability of the system. In contemporary developing countries, the social conflict over incomes involves a broader range of formal and informal rights than those defining the productive surplus in the Marxist analysis of feudalism or capitalism. While incomes can be generated through rights established over assets and organizations involved in productive activities, politically created rights over transfers and subsidies generate important income flows that are contested through the political process. The underlying rights can be legal rights to a claim on the state, such as a subsidy, but can also be informal or even illegal 'claims' on off-budget resources. These income flows can broadly be classified as types of legal and illegal rents (Khan 2000). The ways in which political institutions are able to mediate conflicts over the distribution of these rents between powerful groups is critical to understanding the pace and direction of economic transition.

An important distinction between the Political Settlement approach and Marxist theories of transition is the extent to which class is privileged over other forms of social organisation as the most important collective group structuring political conflict (see for example Shivji (1976) on Tanzania or Post (1989) on Vietnam). The analysis of political settlements recognizes that in most developing countries, including Tanzania and Vietnam during the period of liberalisation, political power was primarily organised around multi-class clientelist networks rather than class based groupings. While political struggles are often couched in terms of class rhetoric, the muted influence of overt class politics, compared to clientelist politics, in most developing countries relates to the structural conditions of the transition process. Class is determined by a group's position within the social relations of production. For class to be an important political force it is not enough for a class to simply exhibit the structural characteristics of a class, (in Marxist terms have class-in-itself characteristics), but it must also have organisational ability and political aspiration, so that it has class-for-itself characteristics. It also requires that conflicts over the distribution of incomes between classes engaged in mutually dependent production relations are the most important distributive conflicts in society. Without these features class power will remain 'latent'. In many developing countries powerful groups are not yet engaged in sustained production relationships and the structural characteristics of classes are also (and partly as a result) more unstable. In advanced capitalist states, the establishment, over a long period of time, of defined classes related to the capitalist system of production created a political context very different from that in developing countries, where capitalism is being constructed. In the transition between traditional forms of production and new structures of production, new ways of production are being created and classes themselves are in a process of emergence and formation.

The way that political institutions mediate redistributive demands in developing countries occurs largely outside formal redistributive flows, such as through the formal state fiscal policies. The fact that power often lies outside formal institutions means that the formal legitimacy of contending claims by powerful groups on resources has not been established, making more transparent processes of redistribution difficult to carry out. Redistributive demands also go beyond the realm of struggle over the distribution of the productive surplus in terms of profits and wages and include incomes that are created by the state not directly related to production. Thus political institutions meet redistributive demands by powerful groups through various means, such as the distribution of off budget resources, political and bureaucratic corruption and informal and sometimes illegal manipulation of formal market processes. When such redistributive demands are met successfully, a degree of social stability is achieved. Yet the impact of redistributive processes on economic transition goes beyond maintaining political stability alone. Patterns of political redistribution also influence patterns of accumulation and capability acquisition by emerging productive groups. Redistributive processes thus impact both on political stability as well as on processes of economic accumulation and capability development that drive growth.

Primitive Accumulation

The concept of primitive accumulation played a central role in Marxist theories of economic transition. Marx defined primitive accumulation as the "accumulation which is not the result of the capitalist mode of production but its point of departure" (Marx, 1976: 873). In *Capital* (1976) Marx identified numerous forms of primitive accumulation in his analysis of capitalist transition in various countries. These include the commodification and privatisation of land, the forceful expulsion of peasant populations, the conversion of various forms of property rights into exclusive private property rights and the suppression of rights to the commons. They also include the commodification of labour, the suppression of alternative forms of production and consumption, colonial, neo-colonial and imperial processes of appropriation of assets, the monetization of exchange and taxation, the slave trade, usury, the national debt and the credit system. As well as the forms identified by Marx, primitive accumulation in developing countries in more recent history manifests itself prominently in forms of corruption, land grab, illegal manipulation of markets and the manipulation of privatization processes. We define primitive accumulation as the process of accumulation outside the formal market process where political power is used to privilege the accumulation activities of particular individuals. If primitive accumulation is significant, the pace and direction of economic transition is likely to be influenced by the incentives or disincentives for productive accumulation created by these processes.

High levels of primitive accumulation are observable across developing countries because traditional property rights structures are in a process of collapse and transition. As market transactions presuppose a stable underlying structure of rights, 'normal' market processes in these contexts are necessarily mediated by the informal exercise of power. Property rights are particularly unstable in developing countries because most assets generate an inadequate surplus to pay for their protection. Protection of property rights is an expensive undertaking. Estimates of the cost of protecting, enforcing and negotiating transfers of rights in advanced capitalist countries indicate that the 'transaction sector' can account for a large proportion of the turnover of an economy (North and Wallis 1987), (Khan 2000). The evidence on this directly contradicts Mancur Olson's claim in *Power and Prosperity* (2000) that property rights are cheap to maintain. In reality, asset owners who do not generate a sufficient surplus are unlikely to be able to protect the rights that they may formally possess. Thus, there are structural features of economies in transition that result in a more or less gradual collapse of pre-existing property rights. Primitive accumulation can occur across different sectors of the economy but is most apparent in struggles over land ownership. Land was the critical asset in traditional agrarian societies and the re-allocation of land to new economic activities is one of the most contested processes of economic development.

The crisis of traditional property structures opens up opportunities for forms of primitive accumulation that may or may not be channelled into new productive investment. While in certain cases primitive accumulation may lead to a redistribution of property ownership that lays the foundation for a dynamic economic transition, it may also lead to continued churning of property rights and limited productive growth. Political institutions play a role in influencing which groups gain resources through primitive accumulation. However, it is impossible to judge on an ex-ante basis which of the groups will make investments that will establish productive businesses of the future. This makes it difficult for political institutions to engage in a rational process of reallocating assets away from traditional sectors towards new economic areas. Which groups can accumulate through primitive accumulation and whether these groups subsequently invest in new productive activities depends largely on the distribution of power in society and interacts with the types of redistributive demands that are made of political institutions, as described above.

Technology Acquisition and Learning

The economic transition in contemporary developing countries involves the acquisition of technologies and learning how to use these productively. Increasing productivity and economic growth that characterised the emergence of capitalism in Europe as described by Brenner (1985) and Wood (1999), was generated primarily through particular structures of capitalist market based competition. During the early transition to capitalism, competition through the market provided the motivation for innovation and productivity improvements that drove wealth creation and further transition (Wood 1999). Yet, the conditions under which new industries in developing countries need to acquire new technology and learn how to use it competitively have become very different. Gerschekron observed in *Economic Backwardness in Historical Perspective* (1962) that the differences in global patterns of industrial development have created a situation where some countries are in a position of relative backwardness vis-à-vis the advanced economies. This means that technology is available to borrow and imitation has become the driving force of industrialization. However, the much larger scale of capital required to achieve competitiveness in late industrialization and the greater associated risk necessitates a more active role for the state in financing industrial development. The market is not sufficient to drive productivity growth under conditions of late industrialization, where the scale and complexity of the industrial production process necessitates a period of learning and catch up, during which time the cost of production will be higher than the global market price, as determined by the already industrialized countries.

This means that, in general, markets will not be able to finance technology acquisition and the learning processes required to make technology productive in developing countries adequately (Khan 2009). The state, therefore, needs to subsidise technology acquisition and learning as outlined by 'developmental state' theorists. The determinants of industrial competitiveness for countries undergoing economic transition therefore come to depend on the ability of the state to effectively implement and manage rents to induce technology learning and acquisition. Technology rents can take the form of specific subsidies as well as general infrastructural investment or service provision that provides implicit subsidies for industrial sectors and businesses. In contrast to the Developmental States analytical framework, the Political Settlements framework provides a broader analytical framework in which to assess the critical impact of these types of rents on economic transition. It is not sufficient for political institutions to provide subsidies or resources for learning. They also have to effectively manage the conditions under which technology rents are available to ensure that capability development outcomes are achieved. The conditions under which rents can be allocated or captured by emerging capitalists in turn depend on the underlying distribution of power in society. For example, the power of emerging industrial groups to protect incomes generated by state interventions will influence the state's ability to monitor and discipline these rent recipients effectively. The extent to which any given set of institutions enables successful industrialization will also depend on the types and scale of technologies that a country is attempting to adopt (DiJohn 2009), (Khan 2000). The impact of technology rents on comparative economic transition can thus interact with the processes of political redistribution and primitive accumulation described above.

2.4.2 The Formative Socialist Political Settlement in Developing Countries

In order to explore the impact of political institutions on the comparative growth experiences of Tanzania and Vietnam under liberalisation, the Political Settlements framework needs to be expanded to include the concept of the formative socialist political settlement in developing countries. This is necessary in order to get a better understanding of how the attempts to construct socialism in Tanzania and Vietnam influenced the distribution of power and the dominance of the Party in the era of liberalisation. Much has been written about economic transition in the post-communist countries in Eastern Europe and the USSR as well as economic transition under the Chinese Communist Party (see for example Ellman et al (1993) or Lavigne (1999)).

However, providing an analytical framework to assess the experience of transition in socialist developing countries under liberalisation has attracted much less attention. This is probably because the forms of Third World 'socialism' were very diverse and therefore difficult to define precisely and often had a more limited impact on the social and economic structure by the time that liberalisation had taken hold. Further, the impact of the attempt to construct socialism in Tanzania and Vietnam is usually interpreted through the lens of its ultimate collapse and the re-emergence of a capitalist dynamic of economic transition under liberalisation from the 1980s, rather than seeking a more balanced interpretation of the legacy of the attempts to create socialism on subsequent economic growth.

Historically and theoretically, the term socialism has been used to describe a range of different socioeconomic structures and institutional forms. Marx did not provide a detailed blueprint for the socialist economy but it is clear that he did not envisage socialism as a transition strategy for very poor countries. The initial understanding was that socialism would emerge after capitalism had reached its fullest development. In his writings, such as the Critique of the Gotha Programme (1978), he argued that under socialism class divisions would fade as the institution of private property was demolished and the means of production (already highly developed) were taken over by the workers (who would already be the vast majority of society) and owned collectively. Initially, under socialism, each worker would be rewarded according to his labour contribution to production and eventually under communism each person would be rewarded according to his needs. A socialist political settlement would therefore be one where productive rights are formally held by the collective, in contrast to capitalism, where productive rights are held in private hands with formal institutions oriented towards their protection.

Attempts to forge socialism in the 20th century involved moving from the political philosophy of socialism to the implementation of strategies for building socialism in pre-capitalist countries where revolutions brought Marxist-inspired parties to power. The specific strategies included diverse forms, from the Stalinist model in the USSR, and Chinese Maoism, to a variety of Third World 'socialist' models. Much of the understanding of how to implement socialism in developing countries emerged from the experience of Soviet socialism under Stalin. Yet the extent to which this represented actual socialism was contested from the earliest days by Trotsky and others who pointed to the impossibility of socialism in one country, particularly in a pre-capitalist developing one. Theorists in the tradition of Trotsky, such as Cliff (1974), argued that the socialism that was being implemented in USSR, for example, was actually a form of state capitalism. Yet putting aside these important debates, some critical institutional and socioeconomic characteristics can be identified from actual attempts at constructing socialism to distinguish the common features of Tanzania and Vietnam's formative socialist political settlement.

Marx and Engels predicted in The Communist Manifesto (1976) that socialism would emerge first in advanced capitalist economies as capitalists and workers faced each other in increasing dialectical opposition. However, countries that attempted to construct socialism in the twentieth century actually did so from a position of low productive capacity and persisting pre-capitalist economic relations, particularly the predominance of peasant agriculture and limited industrialization. From the middle of the twentieth century, the main battleground for socialism shifted from the First to the Third World as anti-colonial struggles for independence increasingly provided the rupture that allowed new social and political formations to grasp state power.

The political origins of socialist revolutions in poor countries have been well studied (see for example Barrington Moore (1966) and Wolf (1969)) and some attempts have been made to identify core common features between these systems. White (1983) identified the most important feature of socialism that distinguished 'Third World' socialist systems from other forms of government in developing countries as the common goal of forging the transition to socialism through the one-party rule of a vanguard party. Further, the commitment to socialist transition was enshrined in the constitution, there was a high and increasing degree of state ownership in agriculture and industry, and the beginnings of a centralized command economy appears with limitations on the activities of autonomous capital and the market. By the late 1970s, twenty two developing countries conformed to this categorisation (Thrift and Forbes 1986). Tanzania and Vietnam were at the forefront of this group.

In terms of defining common aspects of a political settlement in these countries it is clear that they did not have a 'socialist' political settlement where formal productive rights were held by the collective. Instead in these countries, parties had come to power through various types of revolutionary processes that were attempting to bring about a socialist transformation. This generated a particular political economy whose characteristics can be identified as a formative socialist political settlement. These characteristics include first, a revolutionary struggle that brought to power a ruling party that formally represented the workers and peasants. The revolutionary and anti-colonial struggle underpinned a process of consolidating effective power within the institutions of the Party. Second, they shared the ideological commitment to a socialist path of transformation rather than a capitalist path. They were committed to a socialist ideology of creating a society where private capital ownership would not dominate. Formal constraints were therefore placed on capitalists and emerging capitalist groups. Open primitive accumulation by individuals was banned. The aim was to achieve a productive transition within the economy through state owned industries and collectivized agriculture. In common with other socialist countries of the era, both countries adopted forms of central planning to achieve this objective. Socialism and central planning are not however one and the same, and aspects of central planning were also used by many developing countries that were not socialist in the second half of the twentieth century (Byres 1994).

While the Parties ruled in the name of the workers and peasants, the power that these groups actually held was quite limited in many respects. As these countries had not gone through a productive transition, most of the rights held by these groups hardly produced a surplus. This meant that, in reality, the economic rights held by the collective were quite weak. As collective production was still underdeveloped, the organizational power of the party and its ability to exert control over existing forms of production through collectivization and nationalisations, provided the basis for the concentration of power in the formal institutions of party and state. However, the underdevelopment of the productive sector also meant that real power was not in the hands of the workers in industry and agriculture in whose name the party ruled. Rather, within the party and the state, power operated along informal networks that often did not correspond to the formal structures of power. The political institutions in countries with formative socialist political settlements were often run, not by members of the working class or peasants, but by people from the much narrower intermediate class groups.

In this respect the socialist political settlement in developing countries had some general features in common with other developing countries. There were, however, important differences as well. Developing countries that did not have similar mass organizations could not concentrate power to the same extent within one-party systems. Further, the creation of formal institutions that gave a political voice to poorer social groups continued to have an impact on the political economy of these countries into the era of liberalisation. These formal institutions of representation may have lacked power but they did put constraints on what the party could feasibly do under liberalisation once a capitalist path of transition had re-emerged.

In both countries, the productive transformation of the economy necessary to ensure transition to a genuinely socialist society was not realised. Countries that had a formative socialist political settlement actually shared many of the structural features of the clientelist political settlement, with a distribution of power that was not fully aligned with the formal institutions. After liberalisation in the 1980s, many aspects of the underlying clientelist political economy of both countries came to the surface. Nevertheless, common aspects of their formative socialist political settlement did have implications and unintended consequences for the subsequent experience of growth under liberalisation. For a number of reasons that are discussed in the next chapter, the formative socialist political settlement of the 1960s and 1970s in both countries ultimately failed to become viable. Yet it did leave a legacy both in institutional terms, with the dominance of the ruling party, *and* in terms of the wider distribution of power in society, that are critical for understanding the comparative experience of economic transition under liberalisation.

2.5 Conclusions

This chapter has set out the analytical framework that will be used to assess the role of the Party in the comparative economic experience in Vietnam and Tanzania under liberalisation. The chapter outlined the NIE approach to understanding the impact of institutions on economic performance and set out its limitations. It then evaluated certain aspects of heterodox theories of state power and patrimonialism. These models do address critical features of the Party under liberalisation in Tanzania and Vietnam. Yet these state-centric models fail to address the pervasive characteristics of patrimonial politics in fast growing and in slow growing developing countries adequately. The Political Settlements framework addresses these commonalities and provides an analytical approach for investigating the impact of political institutions on economic transition, grounded in an understanding of the socioeconomic roots of the distribution of power, the role of institutions and the specific structural characteristics of developing countries.

The first requirement of using this analytical framework is to establish the evolution of the institutions and of the distribution of social and economic power in both countries. This is undertaken in Chapter Three. An analysis in then needed of the way that political institutions have managed the processes of political redistribution, primitive accumulation and technology rents largely through informal income flows to different social groups. This requires an analysis of the pattern of formal state intervention as well as informal and often illegal income flows that take the form of corruption, off-budget transfers and political manipulation of market processes. These formal and informal mechanisms for managing the three processes under liberalisation are examined through a study of public finances (Chapter Four), land (Chapter Five), and industrial policy (Chapter Six). An overview of the impact of these processes for economic growth under liberalisation is provided in Chapter Seven.

Table 2.2: Comparison of different approaches to the role of institutions in economic performance in developing countries

	NIE Theories	**Developmental states**	**Marxist Political Economy**	**Political Settlements**
Core units of analysis	The rational profit maximizing individual or state	The state	Class	Historically constituted social groups
Drivers of economic change	Negotiations to lower transaction costs	Acquisition of technology	Struggle over the surplus drives transition between a limited set of modes of production	Struggle over rights to income flows drive changes in institutions and in the distribution of power.
Role of power	Assumed to be concentrated in the state which enforces property rights	Assumed to be concentrated in the state which has the role of correcting market failures	Power held by dominant class depending on the mode of production	The distribution of power depends on political, economic and organisational factors and may not be aligned with formal or informal institutions.
Relationship between economic and political aspects of the theory	Distinction between predatory political processes and 'free' economic transactions	Political analysis focuses on leadership quality and their compulsions to drive growth	Dialectical relationship between economic power and political power	Dialectical relationship between economic and political power
Role of property rights	Changes in property rights occur through negotiated agreements with compensation	State manipulates property rights to drive industrialisation	Transitions from one mode of production to another driven by fundamental changes in rights	Configurations of rights and distributions of power explain the pace and path of transitions

Chapter Three

The Historical Roots of the Political Settlement

3.1 Introduction

This chapter sets out the comparative evolution of the political settlement in Tanzania and Vietnam from the colonial period to the beginning of liberalisation. A description of the dominant political institutions of each period is presented in turn. The evolution of the underlying distribution of economic, political and organisational power is then traced through a historical exploration of the evolving structure of production and the important political struggles between contending groups in society. The chapter is divided into four sections: first, the colonial period, second, the independence movement, third, the formative socialist political settlement, and fourth, the collapse of the formative socialist political settlement. Each section ends with a comparative discussion of the political settlement in the two countries. The final section sets out the comparative institutional characteristics of the ruling Party during the period of liberalisation.

3.2 The Political Settlement Under Colonialism

3.2.1 Tanzania

Modern Tanzania covers an area that had always been sparsely populated and was the home to numerous and diverse social groups. Forms of organised political authority were often quite weak and many social groups lived without distinct settlement areas (Iliffe 1979). Tanzania's economic history from the mid-nineteenth century involved the penetration of trade and commerce, largely under foreign domination. Extensive trade relations between the inland and the coast resulted from the rise of Zanzibar as a trading outpost of the Omani empire and later as the seat of the Omani Sultan. The rise of trade led to the establishment of vibrant market towns along the coast and the emergence of a successful Arab merchant class and an expanding group of Indian traders who, unlike the Europeans, had permission from the Sultan to engage in trade in the area. Trade between Zanzibar and the mainland was based on an expanding and destructive slave trade and the extraction of natural resources such as ivory and forest goods. A significant impact of trade and commercial growth was the increased demand for food and agricultural supplies. This led to crop specialization and increased surplus production in agriculture that encouraged an expansion of peasant agriculture (Iliffe 1971). The main source of labour supply was the family and a shifting pattern of land tenure, and cultivation by direct producers, remained intact. Embryonic manufacturing activities of iron smelting and weaving were undermined by the expansion of specialized agriculture and extractive trade (Iliffe 1979).

European colonialism in Tanganyika, initially under the Germans from 1885 and subsequently under a British League of Nations Protectorate from the end of the First World War, brought a further penetration of trade and commerce. However, Tanzania had lower levels of cultivated land, fewer settlers, and more limited industry and infrastructure than neighbouring Kenya. Iliffe (1979) argues that the main imperial aim of the British in Tanganyika was to deny the territory to others and that they were not particularly interested in exploiting the country economically as Protectorate status effectively put Tanganyika "at the bottom of the imperial pecking order" (1974; 302). This had important implications for the pattern of class development that emerged under colonialism and for the type of nationalist movement that developed to replace it and inherit the mantle of the state.

The Colonial Impact on Economic Power

The industrial sector in Tanganyika prior to independence was marginal but it grew throughout the colonial period. Colonial policy on industry primarily restricted industrial growth by limiting competition with British firms and Tanganyika was overshadowed by the larger, more well-established industrial sectors in Kenya and Uganda. Industrialization grew rapidly towards the end of the colonial period, driven by the surge in production of agricultural commodities for export and, from the 1950s, expansion into consumer and industrial goods (Silver 1984). Nevertheless, by the mid 1950s industry still accounted for less than 5% of GDP and only employed around 75,000 people, 27,000 of whom worked in sisal processing plants and a further 13,000 in other agricultural processing plants (Pratt 1976). Industrialists in pre-independence Tanganyika were overwhelmingly European or Asian rather than African. Further, the Asian industrialists were often Kenyan or Ugandan based Asians rather than Asians who had settled in Tanganyika. The managers and executives of these foreign owned firms were predominantly also of Asian and European origin (Shivji 1976). An African industrial capitalist class was, therefore, non existent in Tanzania during the colonial period. Further, given the relatively small size of the sector leading up to independence, industrial capital did not hold significant economic power in the country. Industrial workers also played a relatively marginal political role as a result of the limited extent of industrial employment. In the years immediately before independence, however, the growing groups of urban workers, many of whom were employed in the nascent agro-industrial processing sector, did provide support to the nationalist movement, and were organized under the Tanganyika Federation of Labour (Masanja 1990).

In the agricultural sector, settler plantation agriculture expanded but received minimal support from the colonial authorities, and peasant agriculture remained dominant. Unlike Kenya, where large scale European settler agriculture led to the expulsion, of predominantly Kikuyu, peasants from the land, the expropriation of peasant land was minimal in Tanzania. Towards the end of the colonial period, peasant cash crop farming expanded, particularly in the coffee growing regions around Kilimanjaro and Lake Victoria. Cash crop production by Africans was initially opposed by colonial authorities under pressure from settlers. The colonial administration actively discouraged anything that might appear to be emerging African capitalist agriculture, including a capitalist market for land (Mueller 1981). Further, the colonial government restricted access to credit for Africans through the 1923 Credit to Natives Legislation (McCarthy 1982). This legislation required that loans to Africans be approved by a colonial administrative officer. This effectively meant that people lending to Africans had no legal recourse to reclaim their debt, or were inhibited by red tape and stopped granting credit to Africans at all. This was a major constraint on the emergence of a formal land market and a formal African business sector.

It was only towards the end of the colonial period that the state actively attempted to encourage the emergence of African capitalist farming to increase food production to meet the post-war shortages in Europe. The colonial state also had a political objective in attempting to create a class of small holder capitalist farmers that it believed would be receptive to the agricultural modernization that the government aspired to at that time

(Coulson 1982). For most of the colonial period there was a slow and quite limited process of differentiation amongst small scale farmers. The spread of cash crops, while having important political implications for organization of the nationalist movement and the growth of co-operatives, had less impact in terms of the emergence of a significant stratum of richer commercial farmers. Most cash crops were grown by peasant farmers on relatively small plots of land held under customary title (Pratt 1976). As Iliffe (1971) argued, family labour predominated in the more commercialized areas, while in more sparsely populated areas labour was hired in, which also stifled the emergence of capitalist employment patterns. Thus, by independence there were just a few hundred African capitalist farmers (Mueller 1981).

The Asian commercial class in the form of traders and wholesalers held a much more important role in the rural and urban economy than capitalist farmers or industrialists. The racial structuring of the economy under colonialism was the primary reason that this class was predominantly of Indian origin[4]. The well established Indian population of Tanzania was a result initially of Indian trading and commerce in Zanzibar that had attracted around five thousand Indians to the Island by the end of the nineteenth century. Later, British colonial policy actively expanded the Indian population in the region by bringing indentured Indian labourers to work on infrastructure projects, such as the Ugandan Railways, and to some subordinate positions within the administration and in the army (Mangat 1969).

The largest stimulus to such employment was the expansion of the railway across East Africa, for which 32,000 indentured Indian labourers were brought to East Africa, 6,724 of whom remained and settled in the area. The most important wave of voluntary immigration occurred from the early twentieth century, mainly due to the perceived economic opportunities available under British colonial rule in East Africa. Following the establishment of the British Mandate over Tanganyika, the employment of Indians in low-level colonial administrative jobs in Tanganyika expanded rapidly. By 1921, 804 Indian staff were employed by the administration while another 886 were employed in the railways. Their role in private sector skilled labour and artisan work also expanded

[4] The term Indian is used for the period prior to partition of India and Pakistan in 1947 and prior to the end of colonialism in East Africa. I use the term Tanzanian Asian instead of Asian or Indian for the period after independence for people who are of South Asian origin but have Tanzanian nationality.

(Mangat 1969) as did their growing role in commerce. In *'A History of the Asians in East Africa'* (1969) Mangat writes that by the turn of the century

> 'In every department of government – including the ones newly established - the Indians filled the middle ranks in an extensive variety of capacities: as hospital assistants, policemen, artisans, mechanics, carpenters, post and telegraph assistants, shorthand writers, typists, and compounders, etc' (1969; 75)

British colonial policy in Tanganyika promoted the Asian role in commerce and trade while simultaneously restricting Africans from engaging in business through credit and trading regulations (O'Niel and Mustafa 1990)[5]. For example, even at the brink of independence in 1961, not a single wholesale licence was issued to an African (Tripp 1997). This policy of structuring the economy along racial lines, for political reasons, was common across British colonial Africa (Mamdani 1997). The consequence of these policies was to create an economic and social intermediate class group that were predominantly Asian, while restricting the development of an equivalent class of Africans. The Asian intermediate classes had much greater economic power than most Africans, but this did not directly translate into political power at this time. The attitude of the colonial authorities towards the Indian population varied across the colonial period depending on the extent to which Indian economic activities were perceived to be a threat to the economic interests of the European settler population and of the colonial state. Until the mid 1950s Indian political activity was focused on demanding the same legal and economic rights as the European colonialists over the local population and it was only in the last period of colonial rule that some segments of the Asian Tanzanian population aligned themselves behind the growing independence movement.

The Political Institutions of Colonialism

One of the most important political institution of colonialism was the system of indirect rule introduced in 1924. While the main decision making nexus remained the Colonial

[5] British colonial authorities conceived the laws that discriminated against African commercial activities in terms of protecting the local population from the perceived avarices of the Indian population. In a dispatch to the Foreign Office in 1919, quoted by Mangat (1969) the Consul wrote 'the balance is against the Indians … and [they] must be compared …. to the small Jew traders in Russia who, if necessary to the life of the countryside, are at best a necessary evil.' (115).

Governor and his Secretariat, indirect rule was seen as a route to stability and as a means of co-opting local elites into the colonial governance framework. The concept behind indirect rule was to construct a stable political system through a "tripartite chain of patron client relations linking the colonial administration to the population via chiefs" (Lange, 2004; 907). In Tanzania, indirect rule involved a native administration consisting of three parts: a native authority or chief council with legislative and executive powers; native courts and a native treasury, which collected all taxes.

The British believed that by introducing indirect rule to Tanzania, they were reverting to an older form of tribal authority that had been undermined during the German colonial period. In fact, in Tanzania, tribe had always been just one of the competing forms of social organization. Iliffe writes that "Europeans believed Africans belonged to tribes; Africans built tribes to belong to" (1979; 324). This meant that in many areas, tribes had to be invented and genealogies of chiefs constructed. Further, when a chief was seen to be in opposition to the colonial authorities, he was removed and another chief was 'identified' by the colonial authorities to take his place (Coulson 1982). The chiefs who gained power through indirect rule, therefore, often had little historical basis for authority to influence their local constituency. The developmental role of the native authorities was limited to implementing directives from the central authority. Coercion, with the backing of the Provincial or District Commissioner, was a prevalent feature of native authorities; the rural extension officers were essentially police men, who ensured that policy was being followed by farmers (Coulson 1982).

In addition to coercive strength, the institutional authority of the chiefs depended on the control that native authorities had over tax revenue at a local level. These funds provided a source of rents to be distributed through patron-client networks, with the chief as patron distributing rents in the form of, for example, access to employment or payment for services (Iliffe 1979) to secure a degree of local level political stability and acquiescence to colonial policy. However, the budgets of native authorities were extremely limited and hardly stretched beyond the salary bill, as employment within the native authorities expanded to absorb potential dissenting locals, as a means of achieving local stability (McCarthy 1982). The strength of the native authorities was based on a local level political settlement that could not keep pace with the social and economic changes that were strengthening non-traditional groups, who were demanding greater control of the state. On independence, the native authority structures were largely swept away. The power of local chiefs was undermined as the independent central state that emerged had more ambitious aims for transformation than could be achieved through an institutional authority structure grafted on a collapsing traditional political settlement.

3.2.2 Vietnam

In contrast to Tanzania, forms of village level political structures, as well as centralised political institutions, have a very long history in Vietnam. Vietnam was ruled directly by China from the late second century until revolts by local chieftains overturned their rule and instituted a long period of rule under a Buddhist state. From the mid 16th century the country was ruled by an Emperor under the Nguyen dynasty that had close ties with the rulers of China. The Vietnamese Emperor paid tribute to the Chinese emperor (Wolf 1969) and Confucian political philosophy influenced the structure of the state with a judicial hierarchy, a centralized tax system, a royal courier network, and a royal palace complex based at Hue (Marr 1971). Under the Nguyen dynasty a formal bureaucratic state was introduced with a system of rule by mandarins and state examinations to determine positions within the ranks of the scholar-gentry. These institutions were largely based on the Chinese state model but a distinctive national identity was also forged. The anti-Chinese rhetoric and the mythology of earlier struggles against Chinese rule played an important part in the creation of a distinct national identity. The state during this period took on certain economic functions to enhance peasant agricultural productivity, and hence increase tax income by organizing and investing in irrigation schemes (Wolf 1969). Despite these centralizing tendencies there was constant tension between the Emperor and local power holders (Marr 1971) who had varying levels of military strength and autonomy. By the time of active French colonialism in the mid 19th century, the Nguyen state had become internally weak and was stagnating in terms of economic, technological and military progress (Beresford 1988).

The Organisation of French Colonial Rule

France had had a long presence in Vietnam, mainly based on Catholic missions and trade routes with southern China crossing the region (Brocheux and Hemery 2001). After 1848, and the advent of the Second Empire in France, it undertook a military campaign to establish direct rule over Vietnam. The main motive for France in engaging in a military campaign for conquest that took over twenty years was that it secured trade routes to the lucrative Chinese market and restricted British and German colonial ambitions in the region (Murray 1980). French attempts to establish a colony involved a combination of treaties with existing leaders and military campaigns for direct rule. The decisive military victory came in 1861 when 22,000 Vietnamese troops, drawn loosely together from numerous regions, were defeated at Ky-Hoa (Marr 1971).

In 1867 treaties were made with the Vietnamese Court at Hue, despite on-going resistance across the country, and direct rule over Cochinchina was established in the South. Subsequently, protectorates were created in Central and Northern Vietnam in 1884, named Annam and Tonkin respectively by the French[6]. Differences, therefore, emerged between the north and south in terms of the colonial institutions of governance and the distribution of power. For example, the protectorates maintained their traditional government structures including the Vietnamese monarchy and mandarin hierarchy centred in Hue (Beresford 1988). Yet across the country it was the French who held ultimate power, despite the different formal relations between the provinces and the metropolis. France had an ideology of colonialism based on the idea of '*mise en valeur*' that differed considerably from the British conception. Cooper argued that this term 'connotes not only economic development of the kind pursued by other capitalist imperial nations, but also the moral and cultural improvement to be wrought in the colonies. This emphasis on the moral and cultural dimension stemmed from the French belief in the universal value of its civilization which in turn found its roots in the nation's revolutionary legacy' (2001; 29).

Yet, despite this ideological principle, the reality of the colonial organization of administrative and economic control in Indochina was that a complex hierarchy of racial and national inequality lay at its foundation. Thus, similarly to British colonial practice, a dual legal system was instituted by the end of the 19th century involving a 'native' system of law (Peycam 1999) and the imposition of collective responsibility on the village, elevating the role of the village chief to be the representative of the hierarchy of the colonial administration (Wolf 1969). Within the colonial state there was a heavy reliance

[6] The French colony of Indochina also included the modern states of Laos and Cambodia which were ruled under protectorates.

on non-Vietnamese staff; in fact, to a much greater extent than in other French colonies (Peycam 1999). French expatriates held senior positions but also many staff were recruited from other French colonies, notably Pondicherry in India. By the time of the First World War, Vietnamese staff had joined the colonial state but overwhelmingly at low levels in the bureaucracy.

Colonial education policy played an important role in creating an intermediate class of Vietnamese workers for colonial state employment. The main drive behind the education policy was to provide a practical education and make it correspond quickly to the imperatives of '*mise en valeur*' of the colony (Bezancon 2002). Thus, on paper, the aim of education policy was to provide a 'modern' education, as opposed to the Confucian or Buddhist education, for the majority of the population. This involved establishing an extensive education system involving all levels of schooling up to the level of Hanoi University and also giving access to the best students to universities in France. Despite expanding educational opportunities, the number of Vietnamese children who experienced anything more than a few months of primary schooling remained low. In 1930 only about a fifth of school-aged children attended a colonial school for any time at all, with many of these children receiving just a few months of schooling (Bezancon 2002). In 1938 only 1.8% of all students attending Franco-Vietnamese schools were at the post-primary level (Kelly 1982). Thus, cumulatively over the period of French colonial rule, only a few hundred thousand students studied in colonial schools. Yet, while this group was small, it was these educated Vietnamese who went on to work within the colonial administrative structure. This group was the backbone of the intermediate classes that became increasingly important for the anti-colonial movement as the older, more limited, group of intellectuals that formed a critical part of the traditional political elite, became increasingly irrelevant as an organizing force behind the anti-colonial movement (Tai 1992).

Economic Structure Under French Colonialism

Indochina was economically very important for France, with around 55% of all private assets invested in the French Empire concentrated there in 1914. There were two main branches of the colonial economy (Brocheux and Hemery 2001). The first was rice production and trade. Rice production was based on peasant agriculture. Chinese middle men dominated internal trade and later also external trade, along with large French export houses. The second was rubber cultivation on plantations owned predominantly by French capitalists. The colonial state relied heavily for its finances on taxes on peasant agriculture and government monopolies in sectors such as salt, alcohol and opium (Beresford 1988). Revenues from taxation on peasant agriculture were, however, limited due to the small surplus and low productivity generated by this form of agriculture, with significant consequences for the ability of the colonial state to entrench its political power. For example, Murray (1980) argued that the bureaucratically centralized taxation of agriculture could not generate sufficient resources and that those who posed a threat to the system were instead paid off by land grants and the right to collect rents. This strengthened the autonomy of local leaders. The relative strength of local political power holders vis-à-vis the central state that had been a defining feature of Vietnamese political history, therefore, continued during the colonial system.

The economy remained dominated by peasant agriculture throughout the colonial period; however there were changes and divergences in the pattern of land tenure in the north and the south. In the south the process of land concentration and land dispossession was more rapid. By the mid 1930s, large land owners owned about half of the arable land producing rice in the Vietnamese south and a growing class of landless tenants constituted around 57% of the rural population (Wolf 1969). Among the peasant population sharecropping became more common (Beresford 1988) as levels of rural debt increased (Murray 1980), representing a downturn in the living standards of many peasants. Land expropriation in the south led to large tracts of land being given to French and to some Vietnamese people, primarily from a small group of rich southern Vietnamese bourgeoisie, who rented the land out in small parcels for continued rice production. Wolf (1959) estimates that there were around 7,000 Vietnamese who became owners of large estates. In the north, colonial land grants never reached the same scale in the areas that were protectorates. Across the whole of Indochina, speculation and land hording was rife, leading to a situation where only around 40% of cultivable land was actually under production (Murray 1980).

Another important development in the rural economy under colonialism was the growth in large scale plantation agriculture (particularly rubber plantations), on estates owned by French companies. Between 1907 and 1918, large scale plantations replaced small individual rubber crops as a number of joint stock companies backed by French metropolitan capital were created (Kalikiti 1999), but it was after 1924, when world prices for rubber were at their height, that rubber plantations expanded most rapidly (Murray 1980). From 1924 until 1929, when prices collapsed, rubber plantations received the highest share of investment from France. The companies concerned also received subsidies from the colonial Government (Kalikiti 1999). 68% of the area under plantation agriculture belonged to just 27 firms controlled by metropolitan holdings. Three large groups accounted for more than two thirds of the production in 1944 (Brocheux and Hemery 2001).

The expansion of plantation agriculture, and, to a lesser extent, of mining, had an important impact in terms of the recruitment of labour. There was a perceived shortage of labour in Cochinchina, where most of the large plantations were based, and, therefore, labour was predominantly recruited from the north under contract. Between 1926 and 1927, in the rubber boom, an average of 17,500 labourers, mainly from Tonkin, were brought into Cochinchina every year. Powerful groups such as the Syndicat des Planteurs de Caoutchouc de l'Indochine lobbied the colonial state for rights for control over plantation labour that created some of the worst working conditions in Indochina (Beresford 1988). Poor labour conditions on plantations and increasing land expropriation were central to a growing political awareness among the peasantry under colonialism.

Manufacturing in colonial Vietnam was limited predominantly to agro-processing and light manufacturing, mostly based in small factories rather than large establishments. The only exception was the Nam Dinh textile mill that employed 6,000 labourers in 1945 working on imported cotton to supply the domestic market (Beresford 1988). Between 1915 and 1930 the beginnings of a working class was forged in Indochina in extractive industries, agriculture and manufacturing as well as those in the service sector in areas such as transport and artisan work (Brocheux and Hemery 2001). Most of those who worked in these sectors were not, however, dispossessed of all access to land and most were still involved in peasant agriculture and returned to their villages for the harvest; therefore, most of this group did not fit into a classic definition of a working class as they often still possessed some land.

Chinese Capital

As in Tanzania, the positions of economic power in Vietnam were largely held by non-Vietnamese under the Colonial system. Apart from the large French capitalist investors, ethnic Chinese were the dominant commercial class. People of Chinese origin had played a role in the Vietnamese economy prior to colonialism. From the 17th century permanent Chinese settlements in the south of Vietnam encouraged a distinct and relatively permanent Chinese community within Vietnamese society (Khanh 1993). However, under French colonialism the Chinese population grew rapidly as the French actively encouraged Chinese immigration to fill the role of middle men in internal and external trade and, to a lesser extent, as workers in foreign owned enterprises.

The French policy of encouraging Chinese immigration to fill specified economic roles was very similar to the British colonial policy in Africa and Asia (Marsot 1993). The French adopted a divide and rule policy of ethnic classification despite the fact that in the early 20th century most of those classified as Chinese residents had lived in Vietnam for generations and were often of mixed parentage. They were given rights by the colonial state to engage in business activities that were restricted for 'native' Vietnamese (Peycam 1999). Over the colonial period, however, the pace of new migration into Vietnam from China picked up. The Chinese, who mainly settled in the south, were encouraged to live separately from the rest of the population and were allowed to organize into business related congregations based on clan identities from their Chinese regional homelands.

As with the British, despite the fact that colonial policy encouraged class and race distinctions to emerge, the racial minority commercial classes were often seen by the colonial authority as oppressors against whom the local population needed to be protected[7]. Over the colonial period the Chinese became an entrenched commercial

[7] Parallels between British attitudes to the Indian commercial class in Tanganyika and the French attitudes towards the Chinese commercial class in Vietnam are evident from the comparison between the British Foreign Office Consul's comments on Asians in Tanganyika described in footnote 4 above with the statement by M. Robequan the Vietnam colonial administrator that "the Chinese are often criticized, and frequently with good reason, for their unscrupulousness and their harsh treatment of the natives: their practice of taking advantage of the shortcomings and poverty of the peasants is quite rightfully termed hateful, as is their shrewedness in evading the laws and regulations imposed upon them, in avoiding all

class. The colonial government gave the Chinese rights to a virtual monopoly in rice and other basic foodstuffs and to participate in the monopolies on opium and alcohol. The Chinese also played an important part in finance and banking, along with Indian money lenders. By the beginning of the 20th century, the Chinese were already dominant in commerce, despite the fact that they only made up around 1% of the population (Purcell 1980). Further, Chinese made up around 17% of industrial workers and 7% of the total number of miners (Khanh 1993). Initially, Chinese business was restricted from competing directly with the French companies that dominated manufacturing and foreign trade but after 1930 and the Nanjing Agreement between France and China, people classified as Chinese in Vietnam got the right to participate in foreign trade and industrial activities (Khanh 1993) and were also exempt from certain taxes that fell on the local population.

3.2.3 Discussion

Significant differences existed between rural society in Tanzania and Vietnam prior to colonialism. Tanzania's agrarian structures were much more egalitarian than those in Vietnam, where social hierarchies and political authority at the village level had been entrenched through a long history of village level political institutions. Vietnam also had a much longer history of nationhood and central state institutions than Tanzania. In Vietnam political power was distributed between political institutions at the village level and at the level of the central state. This balance generated on-going tensions as the centre attempted to assert its authority over local power holders. These tensions were not fully resolved even under colonialism.

The organisation of colonial rule in both countries had important similarities in terms of the attempt to graft political institutions onto traditional power hierarchies while attempting to shore up the strength of the central state institutions. The economic transformation wrought on these colonial societies was limited primarily to the agricultural sector and there was hardly any industrialisation. Tanzania's agricultural sector went through a much more limited transformation than in Vietnam, but in both countries peasant production remained the dominant form of economic organisation in

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official control, and in working under the cover of unstable and irresponsible associations …. The Chinese are branded as speculators shrewdly taking advantage of monetary instability'. (Mangat, 1980; 203) the countryside. The industrial working class was still in the early stages of formation at the close of the colonial era.

Both colonial states encouraged a non-native commercial class to emerge and restricted the petty capitalist economic activities of Tanzanians and Vietnamese. Larger scale economic activities were controlled exclusively by foreign capitalists. In both countries, but particularly in Tanzania, a lot of the resentment against colonial rule was directed against the Asian and Chinese petty capitalists as well as against the colonial power itself. Overall, the impact of class politics was weak in both countries as classes themselves were fragmented due to the relatively low level of economic transformation that occurred under colonialism.

Probably the critical impact of colonialism on the distribution of power was the way that new intermediate social groups were created, largely through education and employment provided by the colonial state itself. While the emergence of intermediate class groups was quite limited compared to the situation in countries, such as India, which had longer colonial histories and entrenched colonial states, this group had significant organisational capacity and political power and came to play a critical role in leading the independence struggle.

Table 3.1: Summary of Political Institutions and Distribution of Power under Colonialism

	Tanzania	Vietnam
Main Political Institutions	Colonial State Native Authorities	Colonial state Imperial courts Village level authorities
Distribution of Power between main economic groups	**Foreign capital:** Held control of new economic activities in farming, mining and industry. The group of settler farmers was very small. **Domestic capital:** Overwhelmingly small scale production and commercial/trading activities dominated by Asians. Small group of African	**Foreign capital:** Held control of new economic activities in plantation farming, mining and industry. **Domestic capital:** Overwhelmingly dominated by ethnic Chinese across small scale production/trading. Small group of Vietnamese capitalists in the South. **Peasant farmers:**

	traders and capitalist farmers with a growing voice through the co-operative movement. **Peasant farmers:** Numerically dominant but produced little economic surplus. Limited commercial farming. **Industrial workers:** Very small group of industrial workers emerged.	Numerically dominant but produced little economic surplus. Limited commercial farming. **Industrial workers:** Small group of industrial workers and plantation workers.
Distribution of Political and Organisational Power Outside Formal Political Institutions	Limited intermediate class groups emerged from within the colonial state education and administrative structures. They played an increasing role in organising the nationalist movement. Important co-operative movement representing African traders and peasant farmers.	The power and authority of the traditional intelligentsia was increasingly marginalised. Intermediate class groups emerged from within the colonial state education and administrative structures. They played an increasing role in organising the nationalist movement.

3.3 The Impact of Independence Struggles on the Distribution of Power

3.3.1 Tanzania

During the early years of colonialism under the Germans there was almost constant armed resistance by Africans to colonial rule in different areas of Tanganyika. The most important act of organised resistance was the Maji-maji rebellion that lasted from 1905 until 1907. The rebellion was brutally suppressed and vestiges of organised political resistance from this era were effectively crushed (Iliffe 1967). It was not until the 1920s that organised political resistance to colonial rule began to surface again. While the political institutions at a local level consisting of chiefs and native authorities were generally conservative and supported the colonial government, the changing economic and political power balance that eventually contributed to the overthrow of these colonial institutions was largely generated from the process of economic development that occurred under the colonial system.

The colonial structure of the Tanzanian economy, with a very small indigenous capitalist class in industry and agriculture, coupled with limited proletarianization and the persistence of peasant agricultural structures that were largely autonomous from the state meant that none of these groups were in a position to take a lead in the nationalist cause. Instead, the most important sector of the economy behind the anti-colonial struggle was the co-operative movement. In the 1950s cooperative societies and agrarian producers unions multiplied, primarily in the cash crop growing regions. These unions and co-operatives were created largely to counter the economic power of Asian traders (Van-Cranenburg 1990). African traders saw the nationalist movement as a way of ridding Tanganyika not just of British colonial power but also of the Asian commercial bourgeoisie with which it found itself in direct competition(Von-Freyhold 1979). It was the co-operative groups that mobilized peasants to oppose the colonial system by withholding taxes and resisting the authority of the colonial state institutions.

While the material basis for the rural support of TANU was provided by African traders and mobilized peasant cooperatives (Shivji 1976), the political leadership was mainly provided by the small group of Africans who were employed in some form of professional capacity by the state. They included clerks and junior civil servants within the colonial administration and teachers. The roots of this group can be traced back to the first missionary schools and subsequent colonial education system which provided a new class of literate officials that had broken from the traditional authority structures of the village (Iliffe 1979).

Access to education for Africans remained extremely limited throughout the colonial period. There was a post-war expansion of education, with an increase in children attending primary school from 10% in 1947 to 40% in 1956. By independence in 1962, however, there were only 20 Tanganyikan African students studying for degrees and another 59 in non-degree courses at universities or professional institutes (Coulson 1982). The small numbers of Africans receiving any form of formal education, especially at higher levels, meant that even on the eve of independence, an African middle class hardly existed and the civil service remained dominated by Europeans and Indians. In

1937, 14 out of 18 clerks in the Secretariat were non-African, 37 out of 39 in the Treasury and 100 out of 114 customs officials (ibid). In 1962 there were 3,100 professional, administrative and technical jobs in Tanganyika. Only 1,300 of these were held by Africans, of whom 1,100 were teachers, medical technicians or nurses (Pratt 1976).

The Early Organisation of the Ruling Party

Despite their small numbers, the intermediate classes described above were able to lead the nationalist movement and subsequently take control of the state through the political institution of the nationalist party, TANU. The institutional roots of TANU lie in the urban Tanganyika African Association (TAA). This was established in 1929 and became popular amongst African civil servants in the 1930s. Julius Nyerere was elected as President of the TAA in 1953 and quickly acted to turn it into a political party, TANU, in 1954, by which time other trade unions, co-operative associations and working associations of intermediate classes had also grown in strength. By the mid 1950s TANU had become a major political force with over 200,000 members (Pratt 1976). The Colonial authorities initially opposed TANU vigorously and refused to recognize it as the legitimate voice of Tanganyika, which they claimed was represented by the native authorities.

The colonial government tried to circumvent the growing power of the nationalist movement by introducing multi-racial elections with two thirds of the seats reserved for European and Asian candidates[8] but by 1958 TANU had gained all of the African seats and had also won the support of prominent Asians and Europeans in the Legislative Council, leading to the abandonment of multi-racial elections and an agreement by the British to concede full power to Tanganyika. Elections were held in 1960 that led TANU to an overwhelming electoral victory and independence followed in 1961.

The nature of the independence struggle is critical to understanding the balance of power of the post colonial state. The independence struggle involved organized protests, non-co-operation with Government policies and strikes by trade unions. However the

[8] Nyerere played a pivotal role in persuading the 1958 TANU conference to accept the colonial government's proposals for multi-racial elections, thereby paving the way for a constitutional hand over of power rather than a more radical approach proposed by others in the party (Brennan 2005).

struggle was essentially non-violent and primarily followed constitutional means to demand the hand-over of power. Pratt (1976) contrasted the rapidity of Tanganyika's electoral route to independence with other British colonies stating that 'Nigeria and Ceylon, for example, each had a period of thirty-eight years between the year in which some members of the legislature were elected for the first time and the final achievement of independence' (1976; 56). The fact that the nationalist struggle was relatively short and that mobilisation was limited in extent meant that the distribution of organizational capabilities as a legacy of the struggle was relatively narrow and was mainly contained within the intermediate classes that ran TANU.

3.3.2 Vietnam

Independence Struggles and Formation of the Ruling Party

The way that the independence movement evolved in Vietnam also reflected the changing economic and social structures of colonial society. Despite the restrictions imposed upon Vietnamese involvement in the private sector, a small Vietnamese bourgeoisie did emerge, particularly in Cochinchina. Its economic power was linked to prior involvement within the colonial state and rewards for political collaboration with the French through land grants, business licences and access to education in France (Brocheux and Hemery 2001). Yet the wider political power of this group remained limited throughout the colonial period. The Chinese commercial class and French capital had much greater economic resources and the Vietnamese bourgeoisie only really had political influence in the south where it formed the backbone of the Constitutionalist movement calling for a transfer of political rights to them through parliament (Tai 1992). The political and economic weakness of this class meant that its role in the anti-colonial movement and subsequent position within the post-colonial political settlement was extremely limited.

The other group that played an important role in the early anti-colonial movements but in the long run had limited political influence were the scholar-gentry, whose origins lay in the imperial courts and the Confucian education system (Marr 1971). Many of this group were absorbed into the nascent bourgeoisie. David Marr (1971) argues that the initial opposition to colonial rule from this group was not due to economic competition with colonialists as many of the scholar-gentry maintained their position as long as they collaborated politically with the French. Instead, early opposition resulted from the attack on traditional notions of self and spiritual identity which French colonialism brought about. The political aims of the early anti-colonial movements were based on a desire to restore the position of the monarchy. This was manifested in regionally limited protest movements such as the Can Vuong movement and various secret sects that engaged in sporadic anti-colonial action (Brocheux and Hemery 2001). These early anti-colonial movements were based on Confucian philosophy. They tended to be elitist and were restricted in terms of their membership and action (Marr 1971). After 1920, opposition to colonialism took on a more economic motivation as pressure to integrate into the global economy and domestic changes in the structure of the economy took hold. Tai writes that 'by the 1920s, colonialism had wrought massive changes in Vietnamese politics, society and culture, eroding both the cohesiveness of the elite and its faith in the ideology that had sustained it over the centuries' (1992; 11). The next wave of anti-colonial struggle involved the emergence of mass politics, albeit primarily under the leadership of the intermediate classes who were themselves a product of the colonial state apparatus.

The Organisation of the VCP

In the 1920s various groups existed that had been influenced by Western political ideas of nationhood and sovereignty. These included the Vietnamese Nationalist party (founded in 1927) and radical and anarchist groupings amongst petty bourgeois intellectuals (Tai 1992). However, it was the VCP founded as the Communist Youth League in 1924 by Nguyen Ai Quoc (later to be known as Ho Chi Minh) that became the pre-eminent organizing force behind the independence struggle. Most of the League's members came from Nghe An, Nguyen Ai Quoc's home province. In 1930 the Vietnamese Youth League became the VCP. Despite brutal suppression by the Colonial Government, it gained strength through clandestine organization and publications as well as organizing a major series of strikes in the plantations, docks and factories (Murray 1980). In 1941 the Viet Minh, the League for the Independence of Vietnam, was formed and the VCP shelved immediate plans for radical land redistribution and class based politics. The League was ostensibly a non-Communist, broad-based coalition front of all anti-colonial forces, dedicated to ending both French colonial rule and, from 1941, the

Japanese occupation of Vietnam. The Viet Minh was successful against other anti-colonial groups because it was well organized and was disciplined on Leninist party lines (Tai 1992) and because it benefited from the existence of mass organizations that had been built up by the VCP in the 1930s. At the end of the Second World War, the Viet Minh exhibited considerable tactical and strategic ingenuity and was able to declare Independence for Vietnam with only 5,000 members as the Japanese and Allied troops were still in disarray (Marr 1995)[9].

The way that the army was organised to fight the independence struggle reinforced the decentralised distribution of power within society. In 1945 the Viet Minh had very limited military capacity. It was only in 1944 that it created its first armed units within the small, communist-led, Liberation Army (Giai Phong Quan) (Marr 2007), which in 1945 had around 5000 troops (Kolko). It was one of the central aims of the new state, the Democratic Republic of Vietnam, DRV, in the north, to create a modern army, and one that was also integrated with the political aims of the VCP. In order to achieve this, the VCP designed a system with strict political controls, centralized authority and uniform territorial organization. The VCP wanted to create a political organization within the army that paralleled the military at all echelons to ensure its political dominance over army institutions (Tanham 2006). Within the army there was the Political Bureau, which was organized at different levels of the army, and there was also the Party organization itself throughout the army. Inside the pyramid of the armed forces from the High Command at the top to the infantry company at the bottom, the Party formed a tightly overlapping pyramid and a party apparatus sat at each level of the armed forces command structure (Yoon 1990). The integration of the army within the Party strengthened the overall political power of the party within society.

Yet despite the intention to create a disciplined and hierarchical modern army, the realities and particularities of the thirty years war of independence meant that this centralized and disciplined structure was, for structural, tactical and ideological reasons,

9 In his detailed historical account of the lead up to the declaration of independence in 1945 David Marr (1995) describes the on-going importance of those involved in this independence day for the subsequent decades of rule under the Vietnamese Communist Party: 'The generation of ICP members who had survived repression and jail in the 1930s, and who disseminated the Viet Minh message before August 1945, went on to govern the DRV and command its armed forced for the next forty years. The generation of youths who joined patriotic groups in the summer of 1945, practiced marching, demonstrated, took control of offices, and formed local revolutionary committees became the vital middle echelon of Party, state and military hierarchies for those same four decades, although not a few died in battle or were purged during the bitter 1950s campaigns against 'class enemies'.' (1995; 552)

never as strong as intended. Marr (2007) argued that in the end 'the tyranny of geography, poor communications, severe economic constraints, a paucity of specialized staff, and disruptive enemy counteractions meant that the DRV central government could never exercise the degree of command and control over subordinate institutions, including armed groups scattered around the country, that it wished' (2007; 75). Vietnam's military forces were divided into three troops: the regular army, the regional forces and the popular troops at the village level. This encouraged a disbursement of organisational power within the army structures. Strategic military tactics based on Maoist principles of guerrilla warfare also reinforced decentralised decision making within the army. The basic principle of the military tactics of the VCP was to inspire as much originality and responsibility as possible among the guerrilla and local forces where movement and mobility were the key military tactics (Kolko 2001) in the face of vastly superior military hardware. Another important factor that influenced the legacy of organisational capacity was that the supply system was largely decentralized, so that regional units had to organize their own systems of production (Tanham 2006).

The Impact of the War on the Organisation of the VCP

In the 1960s, the military tactics of decentralized command were adapted to the changing nature of the conflict. In 1955, the southern Republic of Vietnam was officially established. It had been set up initially by the French in 1948 with Bao Dai, the former emperor, as chief of state, and then supported by US military and economic aid under Ngo Dinh Diem who deposed Bao Dai. In 1963, Diem was assassinated and a succession of military governments took over with increasing direct military assistance from the US. In 1964, the US moved to direct military involvement engaging at its peak in 1969 542,400 members of its military on the ground. The human cost of the war was immense with 1.3 million civilians killed or wounded in Southern Vietnam from 1968 until 1972 alone, mainly due to the massive aerial bombing campaign launched by the US and the army of the RVN (Kolko 2001). The US and Southern Vietnamese army depended on advanced weapons technology and heavy equipment with 'the greatest flood of firepower against a nation know to history' (ibid; 2001). Despite the fact that the US won a large number of battles and inflicted enormous loses, the Vietnamese army was able to retain tactical and strategic advantage.

As well as the structural impact of fighting the war on the organization of power within the VCP, the war had a crucial legacy in terms of class relations within Vietnam. It was during the course of the war itself that the Party was able to establish its political legitimacy as the representative of the peasants and workers of Vietnam. The war led to a wide acceptance of the Party in rural society (Wolf 1969). The politicization of the peasantry occurred first as their access to land came under threat in the south as a result of regressive land reform, but then further as the bombing campaign intensified. The lives of the peasantry were profoundly disrupted in the south. In 1971, it was estimated that around 25 – 30% of the south's entire population had been refugees during the previous seven years (Kolko 2001). Many peasants in the south fled to the cities or joined the resistance as guerrilla fighters. VCP military forces, including guerrillas, grew from 34,000 in 1962 to around 51,000 in 1964. In the North, a similar pattern of expanded participation occurred as the centralized army mainly recruited from the peasantry and part-time guerrilla forces were stationed in the villages.

Despite the political mobilisation of peasants across Vietnam, the leadership of the VCP was drawn primarily from the Vietnamese intermediate classes; students and teachers of the colonial school system and employees in the colonial bureaucracy. A self-initiated study of the VCP after the Second World War showed that of 1,855 key positions, 1,365 were held by intellectuals or sons of the bourgeoisie, 351 by peasants and 139 by workers (Wolf 1969). Yet the war itself imposed organisational demands on society that expanded the 'intermediate classes'. It destroyed the traditional livelihoods of workers and peasants and pushed them into the hierarchies of the army and state at the local level where they acquired positions of relative power and organisational responsibilities and access to education and new ideas. This strengthened the distribution of political power in rural society.

3.3.3 Discussion

In both countries, the political institutions of the nationalist parties were formed largely by intermediate class groups from within the colonial state. These groups were able to engage in effective political mobilisation through the institutions of the nationalist parties. They appealed to the support of peasants and of the newly emerging group of workers from industry. The traditional elites that had been co-opted into the power structure of the colonial system became politically obsolete. The party provided an encompassing institutional vehicle for these intermediate groups to pursue political power. Given that the intermediate classes were actually quite small, there was less potential for political competition between political institutions based on intermediate class factions.

The role that the parties played in the independence movement and the nature of the struggle for independence had a critical impact of the distribution of power within each country. In both countries the political legitimacy of the party was forged during the independence struggles. In Tanzania, the relatively short period of political mobilisation and largely constitutional route left a much more circumscribed legacy of political power and organisational capabilities and the party institutions were still quite rudimentary in 1961. Despite the relative weakness of their institutions at this stage, power within TANU was highly centralised. The low level of social and economic differentiation in society more broadly, facilitated the centralisation of power within TANU as there was less scope for political mobilisation. The central party institutions gained a degree of political power over rural society in the course of the independence struggle. However, the appearance of strength was partly a reflection of the weaker legacy of the distribution of power in rural social structures, as well as of the fragmented class structure.

Vietnam's much longer and more intense war for independence imposed much greater organisational demands on the party and on society. While the intention was to establish a highly centralised political institution, the realities of the war meant that within the party, power was much more decentralised. In *Civil War is Not a Stupid Thing* (2006) Christopher Cramer argued that the impact of war is often to impose organisational and financial demands that tend to strengthen the power of the central state. The war in Vietnam certainly did strengthen the political power of the VCP. It decisively resolved any question over the legitimacy of the party as the representative of the people and removed the potential for political mobilisation outside the VCP institutions. However, the war also had a wider impact on the social distribution of power, leaving a more hierarchical and politically differentiated society overall. These features, as well as the much longer legacy of the decentralised distribution of power within Vietnamese society, meant that political organisational capabilities were strong at the local level. This made it more difficult for the Party to centralise power within its institutions. Yet, local level power was largely absorbed into the party institutional structures. Thus, in contrast to Tanzania the struggle for independence left a greater distribution of power at the local level, leaving greater scope for both horizontal and vertical power struggles within the party institutions over distribution, property rights and state created technology rents.

3.4 Constructing the Formative Socialist Political Settlement

3.4.1 Tanzania

Socialist Party Institutions

On independence, TANU had acquired formal control over the state but its own institutional structures were still in formation and the distribution of economic and political power in Tanzania lay largely outside the party structures. The state was still dominated by expatriate and non-African staff, in both senior and middle ranking positions. Although other organizations, notably the co-operatives, the trade union movement and the army, were in alliance with TANU, their separate institutional structures and political power had not been fully subsumed by the Party. During the first decade of independence, TANU struggled to subordinate these other institutions which represented the biggest potential threat to the institutionalization of its control over the state. In 1964 the army launched a mutiny fuelled by resentment at the fact that many senior and middle ranking army positions were still held by British officers. The mutiny was quickly quelled with the intervention of the British army and Nyerere rapidly moved to ensure that the Tanzanian army was integrated within TANU (Coulson 1982). After 1964, the consolidation of TANUs' influence over the army was achieved by giving military personnel jobs inside the Party and establishing TANU branches within army barracks (Bienen 1967).

The independent trade union movement was also emasculated, particularly following the 1965 elections and the detention of trade union leaders (Shivji 1976). Subsequently, union activities were only permitted within the party sanctioned national union. The importance given to strengthening the institutions of the party is evident from Nyerere's decision to step down as President in 1962 and focus his efforts on building up the party institutions across the country. In 1963 he announced that Tanzania would be a one party state and in 1964 party organs at all levels of society from village cells of 10 households up to the National Executive Committee (NEC) were established. Civil servants and police were coerced into joining the Party and a TANU membership card became a requirement for state employment and access to resources in some regions (Brennan 2005).

In 1965 the first elections under a single party state were held and the Arusha Declaration of 1967 committed TANU to building a socialist society where capitalism and feudalism would be abolished and the major means of production and exchange would be under the control of workers and peasants. Yet despite the intention to construct a mass socialist party directly involved in the transformation of society, in reality the party was never as strong nor as organized as in richer socialist countries. The strength of TANU was limited both by the lack of access to sufficient surplus, which hampered the implementation of party policy, and by the relatively limited extent of mobilization that preceded independence.

In many practical ways the party lacked the capacity to turn its rhetoric into reality. It was not very well resourced at the centre; most of its offices were poorly staffed and had very little capacity to implement or monitor party policy. Thus, the National Executive Committee did not have the instruments of coercion, nor the internal cohesion to enforce its policies on lower levels of the Party and could not keep an effective check on the Regional Secretaries. Given the huge task it faced, the bureaucratization of the Party was actually quite slow(Bienen 1967). There were very few specialist staff to oversee key policies. For example, there were only eight educational officers to oversee the implementation of the policy of Education for Self-Reliance (Coulson 1982).

The Party sought to overcome these institutional limitations by establishing a bureaucratized structure down to the village level and ensuring that the existing state bureaucracy constructed under colonialism was under its control (Goulbourne 1979). From the mid-1960s, TANU and the civil services were essentially indistinguishable as institutions (Msekwa 1979). As well as the penetration of the army and national trade union organization, the Party also took over other institutions that represented a potential threat to its power, most notably the co-operatives, with the disbanding of co-operatives and later the abolition of local authorities, in 1972. The local authority institutions were replaced by Party institutions but in reality these policies were more about promoting centralised Party control than decentralising power to lower level institutions (Jerve and Naustdalslid 1990).

Restructuring Economic Power Under Socialism

The critical aspiration of TANU's socialist agenda was to reconfigure the inherited pattern of economic power and bring the economy under the control of workers and peasants, rather than capitalists of Asian and European origin. From the point of the Arusha Declaration, policies were introduced with the intention of restricting capitalist expansion and establishing a socialist economy. In rural areas the most important of these was the Villagization Policy of 1974 that aimed to restructure rural society around viable village communities under Village Authorities with the eventual aim of establishing co-operative farming of shared lands. Private involvement in commerce and trading were restricted by policies such as Operation Maduka of 1976, which attempted to nationalize local shops. The creation of parastatals in manufacturing and trade became the primary institutional mechanism through which the Party exerted economic control. Newly created industrial parastatals drove the industrialisation process which occurred much more rapidly than at any time during Tanzania's history. While the extension of state control was meant to transfer power to workers and to peasants, in reality, economic control was increasingly vested in an expanding group of party, bureaucratic and management officials. This group has been defined as a 'bureaucratic bourgeoisie' by theorists such as Issa Shivji (1976) and Andrew Coulson (1982).

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In reality, the transformation of the distribution of economic power was quite limited in a number of respects. In agriculture, the policy of Villagization and restrictions of trade did put a halt to the emergence of overtly capitalist farming. However, a process of rural differentiation occurred as the unintended result of state policies that allowed farmers with connections to the Party privileged access to state resources and to engage in forms of primitive accumulation that strengthened their relative economic position (Sender and Smith 1990). Similarly in industry, while formal policies restricted the emergence of capitalist production there were still significant sections of economic production that were outside the orbit of formal Party control.

While the impact of socialism in terms of restricting the economic power of foreign capital was quite evident, the impact on the largely Asian commercial and productive activities was much more ambiguous. There were certainly restrictions on many of the economic activities of this group. Given the dominant role of Asian Tanzanians within the economy under colonialism, almost all the firms that were nationalized in certain sectors, such as food processing, were Asian (Mukandala 1988). Through the 1970s, calls for nationalisations by the Party grew and open hostility by members of Parliament towards the commercial class, often framed in racist language, became more common (Brennan 2005). Nyerere was frank about the fact that many of the Ujamaa policies were designed to redress racial imbalance in economic power. In his speech on Economic Nationalism in 1967 he said that the decision to nationalise was not related to a particular path of capitalism or socialism, or to their ideologies, but to the demand by Tanzanians for key positions within their economy (Nyerere 1968).

Attempts by the state to take over small scale commercial capital were undertaken with policies such as Operation Maduka and the nationalization of houses. These policies had a heavy impact on Asians and Arab traders who owned 70% of the shops in Dar es Salaam in the 1970s and led to an exodus of the urban Asian population (Tripp 1997). Thus, socialism did have a significant impact on the economic position of Asian businesses. However, other members of the Asian commercial bourgeoisie continued to operate under socialism and were protected by formal and informal links with CCM (Maliyamkono and Bagachwa 1990), (Mukandala 1988). Private sector economic activities were allowed to continue in certain sectors (Costello 1994) and some of the new parastatal investments were undertaken as joint ventures. In some cases the firms were partly privately owned or managed by the private sector (Silver 1984) and there were a number of cases of industrial units where the Asian owners stayed on as managers under the new ownership structure (Mukandala 1988).

The formal power that Tanzanian Asian business groups held due to their economic resources was severely curtailed during the socialist period. Yet while many Tanzanian Asian business people left the country, others remained and continued to engage in the dwindling area of legal private sector economic activities. For example, the Ismaili community continued to play an important commercial role in rural towns and villages. The Ismailis were not an ostentatiously rich group and their economic role was predominantly as shop keepers and petty traders (Kaiser 1996). Further, informal clientelist networks emerged between Asian business people and Party and State officials. These networks engaged in illegal economic activities such as racketeering and other forms of illegal rent seeking generated by the central planning price controls. The Party blamed the economic decline from the end of the 1970s upon 'racketeers, smugglers and saboteurs' who undermined the official distribution and pricing system (Tripp 1997). In 1983, Operation Economic Saboteur championed by Edward Sokoini, the popular Prime Minister, led to the imprisonment of thousands of Tanzanian Asian shop keepers. Importantly, these arrests were not indiscriminate but targeted those in the commercial class who did not have links to the Party (Maliyamkono and Bagachwa 1990).

The Party faced considerable constraints in its attempts to restructure the distribution of economic power through socialist economic policies. The significant economic challenge of bringing about both a productive transformation and a radical redistribution of economic power were not met by the centrally planned economic system in the 1970s. While at times the Party pushed for a much more dramatic social transformation, at other times the pressing need to generate growth within the existing social structure led the State to allow previously important economic groups to maintain their economic role. For political reasons related to the need to legitimise the political power of the Party in terms of its representation of the majority of Tanzanians, domestic small scale capitalists were largely excluded from holding formal political power. Yet behind the rhetoric, the attitude to private capital was often in reality quite ambiguous. Nyerere himself argued that there was 'no inevitable clash between the government and business', on the contrary 'the government needs private investment if its plans are to be put speedily in place' (1963). Given that open support to the non-African private sector was politically difficult for the Party, the existence of private capital was either completely ignored in development plans or decisions were postponed in order to avoid any forthright statement on the private sector which would alienate the Party's main political base (Hartmann 1990).

3.4.2 Vietnam

The Party and the Distribution of Power

The VCP took full control of northern Vietnam after 1955 and launched a radical attempt to bring about a socialist transformation of society. In terms of overall economic planning, the Party was influenced by the Soviet economic model based on Stalin's Economic Problems of Socialism in the USSR (Post 1989) that emphasised heavy industry and nationalization with a minimal role for the private sector. The priority for economic transformation in the North was to bring about redistributive land reform to strengthen the support of the peasantry for the VCP. By 1956 nearly all the land had been redistributed more or less equally, benefiting 73% of the north's rural population (Kerkvliet 2005). However, the human cost of the land reform was high, with between 5,000 – 15,000 land owners killed by peasant courts and around 20,000 people imprisoned (Kolko 2001). Beginning in 1958, the VCP introduced collectivization and by the end of 1960 nearly 90% of farming households were in collective cooperatives (Kerkvliet 2005).

The VCP also engaged in purges to 'purify' class elements within the party. This mainly involved the removal of land lords and 'rich' peasants from institutional positions and limiting their political power. This constrained potential dissent outside the Party institutions. The process in Vietnam was very different from similar processes of suppression in China and Russia where the larger intermediate class groups in urban and rural areas were seen to be a greater threat to the consolidation of the political power of the Communist Parties. Mao's strategy involved a much more intensive mass mobilisation in rural and urban areas against the intelligentsia and intermediate classes. In contrast, in Vietnam, there were fewer people who could be classified as belonging to the intermediate classes and most of these had been absorbed within the VCP political institutions, leaving much less scope for informal political mobilization outside the VCP.

From 1965 investment priorities were those of a war economy and emphasis was given to industries directly supporting the war, especially mechanical engineering, iron and steel, coal and electricity (Van-Arkadie and Mallon 2003). The start of US bombing led to widespread destruction of industrial capacity and many factories were physically dismantled and removed to rural areas so that concentrations of production were dispersed (Beresford 1988). The amount of investment directed to locally managed enterprises increased four-fold during the war years. Compared to other centrally planned economies, this resulted in a highly decentralised state enterprise sector both in terms of location and decision making (Van-Arkadie and Mallon 2003). The economic transformation of the northern economy remained heavily dependent on aid from China initially and then increasingly from the USSR. Aid was critical both for the military effort and to sustain the non-military population as efforts to bring about a productive economic transition faltered and rural production stagnated.

The war also had a profound impact on the structure of the economy in the South. A crucial feature of the southern economy during the war was its dependence on aid, mainly in the form of 'stabilization' funds for import support, from the US government (Dacy 1986). The colonial economic structures remained largely intact with a number of highly profitable foreign owned industries and plantations dominating the economy as well as a large Chinese commercial class. Land ownership was much more concentrated in the South and the Diem regime instituted regressive land reform which strengthened the position of middle peasants and large land owners (Kerkvliet 2005). The bombing campaign in the South, targeting areas that were perceived to be supportive of the National Liberation Front fighting against the Southern state, led to massive rural dislocation and growing urban populations. The falling rural population encouraged the mechanization of agriculture, increasing rural inequalities (Beresford 1988) and commercial agriculture spread.

With the expansion of commerce, the role of the Chinese commercial class also changed. At the end of the colonial period, Chinese merchant capital took over the role that the French had played in the south and expanded its operations into wholesale and foreign trade (Khanh 1993). Thus, in the South, the economy was rapidly commercialized and social stratification proceeded at a heightened pace during the war while the economy was very dependent on US aid. At the end of the war, in 1975, the fall of the southern regime was rapid, but significant differences in the distribution of political and economic power had emerged between the North and the South of Vietnam.

The Impact of Reunification on the Party and the Economy

Reunification between North and South Vietnam was initiated from 1975 and within two years of the establishment of the Socialist Republic of Vietnam it was claimed that this had been achieved, with the creation of a single customs entity, state budget, and banking system (Beresford 1988). In reality, different trajectories of institutional development and distribution of power remained. In the south there had been considerable development towards rural capitalism, while commercialization and import dependence had mushroomed through US aid dependency. There had been further class stratification and economic power remained chiefly in the hands of a predominantly Chinese commercial class. It was one of the first objectives of the newly unified government to strip economic power from those that had sided with the previous regime and then to follow through a socialist transformation of the economy in order to integrate the two halves of the country. Immediately following reunification, people identified as comprador capitalists were arrested and their property was confiscated. In 1978 nearly all private sector trade and business activities were officially abolished and regulations restricted traders to selling goods only to the state (Beresford 1988). Many private sector economic activities managed to continue, however, by transforming themselves into co-operatives and household production units (Khanh 1993).

From 1978 significant nationalizations took place that led to the creation of around 645 state enterprises from around 1,500 private sector businesses (Khanh 1993). The Party also established New Economic Zones to which many urban inhabitants and members of the commercial classes were sent. Around 30,000 business people from the south and 150,000 of their relatives were sent to re-educational camps in these New Economic Zones (Lindahl and Thomsen 2002). The clamp-down on private capital following reunification led to a surge of Chinese-Vietnamese refugees fleeing Vietnam, which expanded in 1978 as tensions with China were heightened due to the war in Cambodia (Vo 2006). The first wave of refugees, who came to be known as the 'boat people', was mainly from the intermediate classes and particularly from the 1.5 million strong Chinese community in the South.

The exodus was co-ordinated by middle men, often themselves of Chinese origin, along with state officials. The flight of 'boat people' continued into the 1980s. Between 1980 and 1984 a quarter of a million refugees arrived in the camps and the last major crisis occurred from 1988 to 1989 when 120,000 refugees came ashore in neighbouring countries. However by this time the class background of the refugees had changed considerably and in the last years the refugees were mainly students, fishermen and non-professionals. The proportion of Chinese participation in trade and services in relation to their total population in Ho Chi Minh City (HCMC) fell from 70% before 1975 to about 24% in 1988 (Vo 2006).

The exodus of the old commercial classes had a considerable impact on the distribution of economic power as state owned enterprises largely under the control of local Party institutions stepped into the gap. The formal political power of the remaining ethnic Chinese (who were known as Viet Hoa) was greatly diminished. Yet in the South, and particularly in HCMC, the group did retain some informal economic power through continued involvement in production through co-operatives (Dolinski 2006), clandestine trade links with the Chinese diaspora in the region (Beresford and Phong 2000) and with lower level party officials enabling them to engage in illegal rent seeking activities related to state controlled goods and prices (Khanh 1993).

3.4.3 Discussion

The attempt to create a viable socialist political settlement in Tanzania and Vietnam ultimately failed. While most genuine socialist characteristics remained far from being realised, this period did see important changes to political institutions and the distribution of power. These developments had significant implications for the subsequent path of economic transition under liberalisation. The political institutions of the parties in both countries were firmly entrenched during this period. In Tanzania the socialist period started with a more limited distribution of informal power than in Vietnam, but TANU acted to consolidate its political power through its institutional control of the state and suppressed the emergence of other potentially powerful groups outside of the Party structure. In Vietnam, the process of fighting the war had already entrenched the party in the north and following reunification, the southern state was subsumed into the northern party structures.

In both countries, therefore, the institutionalisation of the party and consolidation of its political power was a critical outcome of the socialist era. Yet these party states were very different from those created by the Leninist parties that had taken power in the much richer socialist countries of Eastern Europe and the USSR. The CCM and the VCP attempted to strengthen the formal power of the state through forms of social surveillance and control. However, the capacity of the party institutions to bring about significant social and economic transformation was constrained by the low level of financial and material resources under their control.

The impact of socialism on the distribution of economic power in Tanzania was much less successful than its political impact. Given the relatively short period of socialist economic policies, the achievements in terms of constructing an industrial base were initially very impressive. In addition, capitalist differentiation was largely suppressed and rural society remained very egalitarian. Yet, the attempts to improve agricultural productivity failed. Some state-led primitive accumulation did occur through villagisation as land was taken from peasants to establish larger state-owned farms. To a more limited degree, a similar process occurred in industry. State control of industries through parastatal institutions and restrictions on foreign capital in Tanzania meant that the economic power of large foreign capitalists was significantly reduced.

The expansion of state trading companies and market restrictions also limited the role of the Asian commercial class and petty capitalists. Yet these limitations did not remove the economic importance of Tanzanian Asian petty capitalists to the same extent as measures in other countries that adopted a more violent form of suppression such as under Iddi Amin in Uganda. There were still areas of economic activity that remained under the control of Asian Tanzanian petty capitalists. Mutually beneficial informal clientelist networks were constructed between those with economic power and those who held political power within the Party. The failure to bring about a more productive economic transition meant that the surplus generated by the formal economy remained constrained and informal economic activities became an increasingly critical source of income for those inside the state. It was, however, politically impossible for the Party to openly support a dynamic of private accumulation that would have primarily enriched non native Tanzanians.

In Vietnam, the economic transformation under socialism was much greater than in Tanzania. Foreign colonial capital was removed but foreign capital, largely in the form of aid from the USSR, played a critical role in the industrialisation process under socialism and Vietnam had a much larger industrial base by the end of the 1970s. The political and economic power of factions of the intermediate classes outside the Party, such as richer peasants and Chinese petty capitalists and merchants, were reduced to a much greater extent than in Tanzania during the period of socialism. This left a vacuum in the social organisation of production that was filled by lower levels of the party state and state owned enterprises. Yet in the South, some sections of the Chinese-Vietnamese business class remained and were in a position to play a role in the private sector when it re-emerged under liberalisation.

State involvement in primitive accumulation, explicitly or implicit, was a feature of the socialist period in both Tanzania and Vietnam. Primitive socialist accumulation was first discussed by Preobrazhensky in the 1920. He defined it as 'accumulation in the hands of the state of material resources mainly or partly from sources lying outside the complex of state economy' for example through nationalisations of existing industries and through the 'plundering' of small-scale production and peasant agriculture (Preobrazhensky 1972). In Tanzania and Vietnam policies such as forced collectivization in agriculture and land reform, and nationalisation of industry were used to attempt to re-cast existing property relations with the intention of raising the social surplus and re-moulding the existing economic and political order. The Parties both attempted to limit non-state primitive accumulation through policies that discouraged or banned personal enrichment through legal and non-legal channels. While there were cases of personal enrichment using state channels, these were quite limited. Thus, on the eve of the collapse of the formative socialist political settlement some forms of accumulation had taken place within the state, but this had not created levels of wealth amongst people with political power that could be tapped into when the formal restrictions on accumulation and private sector investment were removed under liberalisation.

Only a few decades separated the initial rapid economic transformation in the early days of socialism in Tanzania and Vietnam, from its ultimate economic demise starting in the late 1970s. Both internal and external factors led to the economic collapse of the formative socialist political settlement as outlined in Chapter One. The industrial growth of the 1960s and 1970s petered off into stagnation and decline. Attempts to transform the rural economy through collectivization were resisted by small scale farmers, who maintained production independent from the state and subverted state imposed controls. The general problems that became evident across many countries that adopted socialist central planning are well known and relate to information (Stiglitz 1997), innovation (Kornai 1992) and motivation (Ellman 1979). The central planning systems in both countries suffered from the same limitations as other socialist centrally-planned economies. Yet the period of socialism was even shorter in Tanzania and Vietnam and their parties were more materially constrained. Ultimately, they were unable to sufficiently transform the underlying distribution of economic power through a productive transition to fulfil the aspirations for viable socialism.

The failure to transform the underlying distribution of power in society also meant that Tanzania and Vietnam shared many similar characteristics with the clientelist political settlement common to other developing countries. Even under socialism, there was a significant degree of informality that operated through and outside the political institutions in managing key processes of political redistribution, primitive accumulation and technology rents. The level of illegality and corruption involved in these critical transformational processes became increasingly apparent as liberalisation progressed in both countries. Yet the comparative economic transition cannot be adequately explained in either country without considering the legacy of the attempts to construct a socialist political settlement for the dominant political institutions and distribution of power.

Table 3.2: Summary of Political Institutions and Distribution of Power under the Formative Socialist Political Settlement

	Tanzania	Vietnam
Main Political Institutions	Tanzania National Union TANU, became the Chama Cha Mapinduzi (CCM) after the union with Zanzibar in 1973.	Vietnamese Communist Party (VCP)
Distribution of Economic Power between main economic groups	**Foreign capital:** Largely excluded from economic activities. Western aid played an	**Foreign capital:** Excluded from economic activities. Aid from USSR played an

	important role in investment. **Domestic capital:** Economic activities of the primarily Asian domestic commercial classes were restricted but segments of the private sector continued to operate. Growth in informal economic activities involving state officials and the remaining private sector. **State owned capital:** Rapid expansion of state ownership in industry and trade mainly under central state institutions. **Peasant farmers:** Attempt to introduce collective farming and land reform. Collectivization was resisted from within. Some large state farms established that took land away from small scale farmers. **Industrial Sector:** Expanding group of industrial workers as industrial parastatal sector grew. The number of managers across parastatals also grew rapidly across the 1970s and early 1980s. Tensions existed between Party officials and parastatal managers.	important role in investment. **Domestic capital:** Chinese commercial capital was restricted after reunification and many business people fled in the 1970s. A small group remained in Southern Vietnam but with greatly reduced economic and political power. **State owned capital:** Rapid expansion of state ownership in trade and industry but much of this was decentralised and was controlled by the VCP at the provincial or district level. **Peasant farmers:** Economic power of richer farmers was reduced by land reform. Attempts to introduce collective farming and land reform. Collectivization was resisted from within. **Industrial Sector:** Expanding group of industrial workers as state owned industry expanded. The managers of these industries were integrated within the Party structures.
Distribution of Political and Organisational Power Outside Formal Political Institutions	Political mobilisation outside party institutions was crushed. Independent co-operatives and trade union movements	Political mobilisation outside the party institutions was crushed. The war brought a large proportion of intermediate

	and opposition parties were closed down. Intermediate class groups were absorbed within the party. Networks of state officials and business people were established and engaged in racketeering and subverting official market controls.	class groups as well as peasants and workers into the structures of the Party. Political and economic power of intermediate class groups in the countryside was removed through land reform and party purges. Some informal economic networks linking Party officials, private sector and Chinese diaspora in the region were established and engaged in illegal trading activities.

3.5 Conclusion

This chapter set out the major characteristics of the political settlement in terms of the political institutions and the underlying distribution of power in Tanzania and Vietnam during the colonial period and under socialism. Under colonialism there were a number of similarities in their economic and political structure. Economic power was held predominantly by non-indigenous groups but the bulk of economic activity involved small scale farming by peasant farmers. Political power in Vietnam had a long history of decentralisation compared to Tanzania. Colonial government attempted to graft a political structure onto the 'traditional' authority structures however new political forces were emerging from within the colonial state itself. The intermediate class groups that led the nationalist movements were smaller in number than in other developing countries like India or China due to the lower level of social and economic differentiation. The different paths of the independence struggle led to a very different distribution of power within the state. The war for independence left a much greater legacy of organisational capability within Vietnamese society and a decentralised distribution of organisations at lower levels of the state. In Tanzania, the more limited independence struggle had less of a transformative impact upon society. Under socialism, both countries attempted to create a new political settlement through the control of the Party over political and economic activities. The attempt to reorganise economic power went further in Vietnam than in Tanzania where more private sector activities by the mainly Asian commercial class continued throughout the socialist period. Land reform and economic restrictions in Vietnam removed much of the Chinese and Vietnamese commercial classes. Yet the socialist political settlement in both countries was actually much more limited than in other more industrialised socialist countries. The period of socialism was shorter and the extent to which the state could re-organise society was also more limited. These features of the socialist political settlement had important implications for the political settlement that emerged under liberalisation and the ways in which the VCP and CCM were able to direct the economic transition processes of political redistribution, primitive accumulation and industrial policy rents described in Chapter Two.

Chapter Four

Public Finances

4.1 Introduction

An analysis of patterns of corruption and reform in public finances provides an important window into the political settlement under liberalisation in Tanzania and Vietnam. Public finance plays a critical function in economic growth through a multitude of different avenues, not least through funding the economic policies of the state, providing direct and indirect finance to businesses and by lowering the costs of production through investment in infrastructure and public services. On the revenue side, the tax structure is an important aspect of the incentive structure of the economy. Public finance also play a vital political role in maintaining political stability in the face of competing demands for state resources from different social groups. Through these activities, the state is the major source of transfers and redistributions. Many of these transfers occur explicitly through the official government budget. These have been extensively explored in conventional economics through the public choice school (see for example (Buchanan and Tullock 1962)) and from a Marxist perspective (for example (Foley 1978), (Goldscheid 1958)) in terms of the way that formal political processes influence public finances.

Yet, for reasons discussed in Chapter Two, many other important fiscal transfers occur outside official budget channels away from the glare of public scrutiny (MacIntyre 2000), where opposition to such transfers is likely to be muted. These take the form of off-budget expenditure where state funds are channelled outside the official budget routes, or through forms of corruption and even outright theft where funds are diverted from their official purpose, sometimes simply on the basis of greed, but at other times to meet politically motivated demands. Forms of corruption and political manipulation on the revenue side can be characterised in the same way. These informal transfers play a critical role in the transition processes outlined in Chapter Two, through political redistribution, primitive accumulation and technology acquisition.

Reforming public finance was a central component of the governance reform agenda under liberalisation in both countries. The approach to reform was based on two main arguments. First, according to orthodox economic theory, high public spending was the root cause of high inflation in both countries, particularly as it was coupled with high levels of government debt. Inflation and price instability constrained private sector investment due to uncertainty. Further, public expenditure was supposed to have crowded out private sector development. Conventional economic analysis, therefore, promoted low public expenditure and low public deficits as the route to higher economic growth. The second argument related to the opportunities for rent seeking that public expenditure was seen to open up. New Institutional Economics portrays public finance as a site of damaging rent seeking that hinders economic growth by diverting scarce resources away from efficient state expenditures. At the same time, political manipulation of revenue systems could lead to political lobbying for rents that may create a tax system that generates little revenue and inefficient economic incentives (Krueger 1974). These orthodox approaches provided the theoretical backbone to the reform programmes in public finance in Tanzania and Vietnam.

During the socialist period in both countries the state budget was the main vehicle for transferring resources to the state owned economic sectors. State revenues were, in turn, dependent on transfers from state owned enterprises, aid, and concessional foreign funding and command lending from the central bank. Actual data on budget activities were highly un-transparent, to the extent that the state budget was classified as a national secret in Vietnam until 1997 (International Monetary Fund 1999). Where data was available in Tanzania it was patchy and inadequate (World Bank 2002). Decisions over expenditure and revenue policies took place behind closed doors away from public oversight. While liberalising prices was the initial focus of the reform programme in Tanzania and Vietnam, this shifted to macroeconomic reform and public financial management along the lines of the good governance agenda in the 1990s. The economic crisis in both countries coupled with increasing donor concern about the sustainability and probity of public finances triggered extensive reform programmes. These became central to donor conditionality. At the very heart of these reforms has been an attempt to redefine and constrain the role of the state in the economy.

In terms of public finance reform, both Tanzania and Vietnam were seen to be relatively successful in many areas. Both countries brought down inflation through a combination of price reform, changing the pattern of deficit financing, reforming the financial sector and the central bank and constraining direct transfers to state owned enterprises. Good governance type reforms also had some notable successes within the arena of public finance. These included increasing the transparency of the budgeting process and reducing corruption on the revenue and expenditure side of the budget, as well as extensive institutional and policy reform of the tax system. Public finances were also significantly decentralised in a number of areas to lower levels of the state.

The success that Tanzania and Vietnam had in ring-fencing particular expenditures and revenues from certain forms of corruption led to investment flows increasing in both countries in a number of areas. In Tanzania the overall improvements in public financial accountability and expenditure tracking led to very high inflows of aid directly through the budget. Further, very generous ring-fenced fiscal incentives were introduced for foreign direct investment, in particular for the mining sector. The impact of these reforms can be seen in the higher foreign investment flows into a number of sectors. Yet, even as Tanzania was championed for its 'good governance' reforms in public finance, grand corruption in public finance involving senior figures within CCM and prominent business people continued unabated.

In Vietnam, foreign direct investment and aid flowed into the country following the reforms. These resulted in a very high level of capital expenditure that was critical for achieving higher growth rates, yet much of the increase in public investment was linked to inefficient and corrupt projects. Rather than achieving the reform objectives of removing direct political influence, the growth in investment inflows through public expenditure and quasi public expenditure in the financial sector were driven by the continued power of local level politicians and SOEs to solicit finance for projects from the state. These off-budget investment flows strengthened the burgeoning private commercial activities of these groups. Thus while public finances were channelled towards productive investment there were also many inefficient investments that were mainly driven by redistributive demands.

The chapter starts with an outline of the perceived problems in public finance in Tanzania and the reforms that were instituted under liberalisation. The chapter sets out the successful areas of reform and the impact that these had in triggering higher inflows of aid and FDI, particularly into the mining sector. The chapter argues that successes in these areas in Tanzania relate to the construction of a centralised party structure under the formative socialist political settlement. The chapter then examines the cases of grand corruption that reform was not able to tackle. The chapter uses these cases to explore the processes of political redistribution and primitive accumulation at the heart of the CCM. The chapter then outlines the main areas of public finance reform in Vietnam. The chapter establishes how redistribution between the provinces occurs through public finances. The rise in capital expenditures both on and off budget are explored and the role of provincial and district VCP institutions working with SOEs is described. The role that the banking sector plays in public finance is set out and the consequences for investment decisions are discussed. Finally the chapter provides a discussion that links these aspects to the political settlement and the path of economic transition.

4.2 Tanzania

On the eve of reform in 1986, public finances in Tanzania were facing a number of difficulties. They were under strain from the war with Uganda, a series of droughts, rising subsidies to the parastatal sector and a shrinking economy that constrained the size of the tax base. The fall in revenues was exacerbated by an increasingly generous exemption system and widespread corruption within the tax system (Fjeldstad 2002). The ability of the state to finance the budget was largely dependent on the availability of foreign finance in the form of grants and concessional loans (World Bank 2002). When these fell short, the Government turned to the central bank to print money. The main mandate of the Central Bank at that time was to cover the shortfall of finance generated by the tax system. The outcome was a fiscal deficit that reached 12% of GDP by the end of the 1970s and an inflation rate of 32% by 1986 (Bigsten and Danielson 2001). Despite the fact that reducing donor dependency had been a central policy aim in the 1970s, public finances were increasingly dependent on aid.

During the 1990s, donor attention firmly shifted from price liberalisation and macroeconomic stability to improving public financial management in line with the good governance agenda. There were a number of crises in the relationship between donors and the Tanzanian state in the 1990s focussing on public financial management. These pushed the state to engage in a more rigorous reform process. These crises were triggered by corruption scandals, primarily on the revenue side of the budget. Corruption within the revenue system came in various forms from petty theft and extortion (Fjeldstad 2002) to political corruption linked to the granting of exemptions to businesses. Falling tax revenues and a number of large political scandals involving exemptions were the primary trigger for donors withholding vital finance from the Tanzanian state in the 1990s.

In 1995 a report into corruption and the revenue system undertaken by the Office of the Controller and Auditor General found that around Tshs 70 billion had disappeared from the revenue system. Out of this, Tshs 20 billion was identified as tax evasion by importers, while Tshs 50 billion was due to tax exemptions (Fjeldstad 2002). The exemption system was perceived to be very generous (Bigsten and Danielson 2001) and most of these exemptions were deemed to have been granted legally. A large minority of cases, however, were found to be illegitimate, involving exemptions granted to various businesses. The source of the illegal exemptions was traced back to the Ministry of Finance and the Minister of Finance, Professor Kighoma Malima was forced to resign (Fjeldstad 2002). A year later, another scandal involving the tax system erupted, with the new Minister of Finance and the Permanent Secretary at the President's Office accused of granting illegal tariff rates to certain cooking oil importers, going against the rates declared in the National Budget (Fjeldstad 2002). Although an investigation did not produce concrete evidence of corruption, the Minister was forced to resign.

The expenditure side of the budget was also increasingly under scrutiny as a number of key donors prepared to change their modalities of giving aid away from projects towards direct support through the budget. As well as petty pilfering of funds channelled through the government system, there was also corruption in public procurement and government awarded contracts for public works (United Republic of Tanzania 1996). In addition, there were problems of off-budget expenditures not accounted for to the public or covered in the official budget document (United Republic of Tanzania and World

Bank 2001). Off-budget expenditures are notoriously difficult to identify given their covert nature but in Tanzania some examples include loans and gifts to the ruling party from business people, offshore accounts and repayments of commodity import support funds into off budget accounts.

Aid projects were also often off-budget with little monitoring by the government of financial transactions. While the off-budget status of this project finance was a major concern of the state, as reflected in the Tanzania Assistance Strategy and subsequent aid policy documents (United Republic of Tanzania 2002), they presented a different political issue from the other forms of off-budget expenditure. Most project finance was not under the discretion of the government but was controlled and managed by donors. There may, however, have been certain off-budget projects that were directly under the control of the state. Another area where state activities were largely kept off-budget is for election expenses and financing political campaigns (Thomas and Barkan 1998). While Tanzania provided official funding for parties on a ratio dependent on the number of representatives in parliament, significant funds were also channelled outside the budget (Thomas and Barkan 1998). The concern over widespread corruption in public finance and the crises in donor financing led to the commissioning of the Warrioba Report on Corruption under the incoming president, William Mkapa in 1995 (United Republic of Tanzania 1996) and a much more rigorous reform programme ensued.

4.2.1 Public Finance Reforms

The reform programme over twenty years was successful at improving macroeconomic indicators but at a heavy cost to society as these achievements were mainly the result of drastic expenditure cuts coupled with high levels of aid, rather than improved revenue performance (International Monetary Fund 2006). Initially, the reform programme had some impact on constraining the fiscal deficit, which by 1998 had fallen to 9%. Significant reductions only took place after 1996, once major changes to budgeting, notably a strict cash budget, had been introduced (Bigsten and Danielson 2001). After concerted efforts at privatisation started with the establishment of the PSRC in 1992, government transfers to parastatals fell from Tshs 20 billion in 1992 to Tshs 2.2 billion by 1996 (World Bank 2002). The cost of the civil service was also cut dramatically as the service was reformed and reduced in size. In addition, there were significant reductions in spending on public services. As a result, government spending as a percentage of GDP fell from 27% in 1992 to 11% by 1998. The inflation rate was brought down from 32.4% in 1986 to 14.4% by 1998 (Bigsten and Danielson 2001). External debt fell over the 1990s from 130% of GDP in 1990 to 60% in 2004 (Utz 2007).

A whole raft of reform programmes were introduced as part of the good governance agenda in public finances. These included the Civil Service Reform Programme, the Public Financial Management Reform Programme, the Legal Sector Reform Programme and the Accountability, Transparency and Integrity Programme. As well as the introduction of the cash budget, which limited payments to cash availability on a monthly basis, a centralised payments system was instituted. Payments were extensively computerized through the Integrated Financial Management System (IFMS) and the development of a medium-term expenditure framework (MTEF). Transparency was increased with the establishment of the Public Expenditure Review (PER) with government and donor participation. The PER reviews prioritised public expenditures in preparation for the budget. The allocation of finance through the budget was supposed to be aligned to fulfilling the targets established in the Poverty Reduction Strategy and its successor the National Strategy for Growth and Reduction of Poverty.

An expenditure tracking system was put in place to reduce leakages at service delivery level. Further, efforts were made to put a greater proportion of the previously 'off-budget' aid financed projects through the official system (United Republic of Tanzania 2002) and by 2002/03 76% of aid flows to projects were reflected in the Development Budget estimates (Ministry of Finance 2003). Annual reviews by the Controller and Auditor General pointed to significant improvement in the financial management of the budget, with fewer audit queries over time (United Republic of Tanzania 2007). Successive Public Expenditure Reviews have also reported a fall in off budget expenditures (United Republic of Tanzania and World Bank 2001).

Following on from the major corruption scandals that hit Tanzania's revenue system in the early 1990s, the Government undertook a radical restructuring of its revenue authorities and oversight systems from 1996. The outcome of this was an independent revenue authority based on an executive agency model of revenue institution reform (Fjeldstad 2002). The intention was that the tax authority would then be insulated from political pressure, particularly by removing all revenue collection functions from the Ministry of Finance. Further, the new TRA was no longer under the control of the civil service, thereby removing the pay and incentive constraints of civil service regulations. It was intended that this would provide a new incentive structure, which would attract qualified staff and make dismissals easier. Nearly all the staff of the agency were initially sacked and subsequently re-employed on different terms (Fjeldstad 2002). Following this extensive reform there was an initial decline in corruption and an increase in reported tad revenue from 11% of GDP in 1995/96 to more than 12% in 1996/97 (Fjeldstad 2002). However, the reforms had very little long term impact on Government revenues during the period under study as these only started to increase after 2005 as illustrated in Table 4.1 below:

Table 4.1 Tanzania: Revenue as a % of GDP

Fiscal Year	Revenue as a % of GDP
1995/96	13.2
1996/97	13.5
1997/98	12.2
1998/99	11.3
1999/00	11.3
2000/01	12.0
2001/02	11.8
2002/03	12.1
2003/04	12.9
2004/05	13.3
2005/06	12.5
2006/07	14.1
2007/08	15.9

Source: WDI 2010

Of more concern for the period under discussion, in the three subsequent years tax revenue declined as a percentage of GDP and there were reports of increasing corruption within the revenue authority (Fjeldstad, Kolstad, and Lange 2003). Tax revenues as a percentage of GDP started to rise again after 2000 yet the tax to GDP ratio remained low compared to other African countries with a similar economic structure (Gray and Khan 2010).

Tanzania continued along its trend of low tax collection, however it retained a diversified tax base with a high proportion of direct taxes of an average of 30% of the Government

Tax revenue (Di John; 2010). However Tanzania's tax effort, calculated as the difference between the actual share of tax and the expected share of tax is only slightly less than what would be predicted, therefore suggesting that Tanzania had a reasonable tax effort given its economic structure. This contradicts the idea that Tanzania's considerable aid dependency may reduce the tax effort, although evidence here is complicated and Gupta et al (2003) find that while grants appear to reduce the tax take of countries, ODA in the forms of loans does not impact negatively on a country's tax effort. Towards the end of the period understudy, Tanzania's Tax to GDP ratio began to improve with an increase from 9% in 2002 to 13% by 2007 (and to 17.2% by 2010) (AfDB 2011).

The composition of Tanzania's Government revenues is shown in Table 4.2 below:

Table 4.2 Composition of Government Revenues (1996/97 – 2007/08)

Fiscal Year	Sales tax and VAT	Income tax	Other domestic taxes	Import duty	Excise duty
1996/97	24.1%	20.2%	15.3%	15.4%	18.1%
1997/98	24.6%	21.8%	14.3%	14.6%	18.1%
1998/99	35.6%	21.1%	9.9%	14.2%	13.6%
1999/00	33.4%	19.8%	8.5%	12.4%	12.6%
2000/01	37.4%	17.7%	2.6%	11.2%	18.0%
2001/02	38.4%	19.2%	2.6%	9.2%	18.2%
2002/03	39.5%	20.4%	2.3%	9.4%	16.4%
2003/04	38.6%	22.4%	2.3%	9.5%	15.4%
2004/05	43.1%	24.5%	1.5%	6.3%	14.1%
2005/06	41.4%	25.9%	1.5%	8.8%	12.9%
2006/07	33.8%	27.0%	1.4%	9.4%	18.6%
2007/08	31.7%	26.6%	2.1%	8.8%	19.1%

Source: ADB (2010)

4.2.2 Impact of Reforms on Aid Flows

The capacity of the state to institute certain 'good governance' type reforms in public finance had significant impacts on inflows of aid and FDI into the Tanzanian economy. Since independence, Tanzania had been a major recipient of aid, however, following on from the reforms to public finances aid flows increased considerably. Aid more than doubled in real value since the early 1990s with an increase of around 70% from 1993 to 2003 (Lawson et al. 2005). However aid as a proportion of GDP has fallen as illustrated in Table 4.3 below:

Table 4.3 Percentage of Aid in GDP 1986 – 2008 in Tanzania

Years	% of GDP
1986 – 1990	16.3
1991 – 1995	19.5
1996 - 2000	10.8
2000 - 2008	13.7

Source: Nord et al (2009)

One of the direct impacts of the improvement in the quality of public financial management was that aid was increasingly funding government expenditures directly. By early 2000, aid accounted for around 40% of total government expenditure, with over 80% of the development budget and 24% of the recurrent budget covered by aid (Ministry of Finance 2003).

There was also a major shift in aid modalities away from stand alone projects towards general budget support as well as basket support in health and education. General budget support involved providing finance directly to the Government to be spent in the same way as other government revenues through official budget channels. General budget support was launched in Tanzania in 2000, and by 2005 14 donors were providing funding through this modality with GBS accounting for almost 40% of aid (Lawson et al. 2005). The growth in GBS generated further donor incentives to monitor the probity of public finances while also providing high incentives for the state to maintain the improvements that it had achieved in constraining certain forms of rent seeking and corruption within public finance. While aid to Tanzania in the past seems to have been dissipated without very much impact on growth, high aid flows since 1995 had a positive and significant effect on growth (Utz 2007) (Treichel 2005) by funding a large increase in public sector spending which in turn fuelled consumption (Utz 2007).

4.2.3 Ring fencing of Tax Incentives for FDI

The other major area where the state significantly modified rent seeking within public finances was in the framework for attracting foreign direct investment. The changing regime around FDI involves a number of policy areas, not least land and technology policy, covered in subsequent chapters. Establishing a fiscal structure that would attract FDI was a central part of the public financial reform programme under liberalisation. The system of granting tax exemptions on VAT and customs taxes as well as special relief and access to tax loopholes, which act as de facto exemptions, was central to this. Exemptions are a form of legal rent while the 'seeking' process that is generated by their availability is often associated with political corruption. The main aims of the structural reform programme were to reduce the number of exemptions, to improve revenue collection and to reduce corruption involved in the granting of exemptions. The state was successful in reducing the number of exemptions overall (Levin 2005). In the first half of the 1990s exemptions granted by government amounted to around 46% of all taxes and duties (Bigsten and Danielson 2001) while by 2005 tax exemptions were at about 22.8% of total tax revenue (Levin 2005).

The state also attempted to tighten control over the routes through which exemptions could be granted. There were three main ways in which tax exemptions could be granted in Tanzania. The first was through inclusion in the exemption schedules of the tax acts. This requires parliamentary approval. The most important Acts outlining the major exemptions for FDI were included in the Tanzania Investment Act of 1997, the Mining Act of 1998, the Export Processing Zone Act of 2002, and the Special Economic Zone Act of 2005. The second route for granting exemptions is through the issuance of a Government Notice (GN). Parliament does not need to approve each of these; instead the exemption requires signature by the Minister of Finance and publication in the Government Gazette. The final system for granting exemptions was through special clauses in the tax acts. An example of this was the Income Tax Act of 2004. The special clauses included in this act meant that any binding legal agreement made by the Government that included promises of tax exemptions had to be respected. This was potentially controversial, as it opened the way for different Ministries or Departments to claim that they were signing for the Government[10]. While different parts of the Government could still potentially award exemptions the reforms gave greater security to

[10] Interview, name withheld, 2008.

the business sector once they had received the exemption that it would not be removed by the government at a later date.

The most important piece of legislation to address exemptions and FDI was the Tanzania Investment Act, which was introduced in 1997 and offered both fiscal and non-fiscal incentives to foreign firms investing in Tanzania. As well as the non-fiscal incentives (which included various guarantees of transfer rights over net profits and emoluments) the fiscal incentives contained in the Act clarified the exemptions which would be available to foreign direct investment. These included import duty and VAT exemption on project/capital/deemed capital goods and an import duty drawback scheme. The drawback scheme allowed for the refund of duty charged on imported inputs used for producing goods for export and goods sold to foreign institutions such as the UN and its agencies operating in Tanzania. For large projects over twenty million USD, special investor status was offered, which allowed further special incentives to be offered by the Government which were not explicitly covered by the Act on the basis of individual negotiation.

The Tanzania Investment Act also established the Tanzania Investment Centre (TIC) to offer advice and investment incentives to foreign investors. The TIC offered exemptions to foreign companies meeting the requirements set up by the various acts mentioned above. As shown in table 4.4 below, since its establishment, there has been a shift away from giving exemptions directly to private sector companies and individuals and a sharp increase in exemptions given via the Tanzania Investment Centre, from 12.6% of total exemptions in 1999 to 37.4% in 2004 (Levin 2005). The TIC was seen to perform its role in attracting foreign investment very well and it has won four international awards for excellence in its services, including an award for excellence from UNCTAD in 2007. It is difficult to know whether the establishment of the TIC reduced the overall informal rent seeking costs to business in gaining an exemption. However it is likely that the establishment of the TIC increased business investment security by reducing the channels for political influence that could lead to arbitrary removal of an exemption.

Table 4.4 Distribution of Exemptions (% total of exemptions)

	1998/99	1999/00	2000/01	2001/02	2002/03
Government Institutions	17.1	16.1	20.6	7.0	6.4
Parastatal Organisations	2.3	2.9	1.7	3.0	9.5

Religious Institutions	6.0	5.2	8.2	8.8	9.6
Non-Government Organisations	27.0	19.4	15.7	33.5	25.9
Private Companies and Individuals	35.1	40.6	33.6	20.0	11.2
Tanzania Investment Centre	12.6	15.8	20.2	27.6	37.4
Total	100.0	100.0	100.0	100.0	100.0
Customs exemptions/total revenue collected	66.0	76.2	39.9	39.4	30.3
VAT exemptions/revenue collected	92.4	22.0	22.7	40.3	34.0

Levin (2005)

4.2.4 Public Finances and the Mining Sector

Under liberalisation, some of the most generous tax exemptions were given to the mining sector. These were critical in attracting the large in-flows of FDI into the sector. The mining exemptions also received considerable criticism, however, as they have meant that fiscal revenues from this sector were significantly constrained. As well as direct exemptions, there were other forms of tax relief, such as large deductions or legal loopholes, which allow companies to avoid paying the full rate of tax under certain circumstances. The fiscal framework for the mining industry in the 1998 Act brought about a lowering and simplification of taxes imposed on the mining industry. As well as the 3% royalty on gold and other minerals, and the 5% royalty on diamonds, the legislation granted a 30% rate of corporate income tax and no additional taxes on profits. There were also very generous capital reductions and additional capital allowances including an indefinite carry forward of losses, no import duty or VAT on mining equipment, expatriate salary tax at 3% and a withholding tax on dividends is 10% (Ministry of Finance 2004).

Table 4.5 Changes in the Fiscal Framework for Minerals

Description	Previous Rates (1979)	Revised Rates (1998)
Income tax	35%	30%
Royalties	3% off gross value (5% diamonds)	3% of net back value (5% diamonds) Nil for cut and polished gemstones (deductible for corporation tax)
Depreciation allowance	40% first year then 10% annually	100% depreciation allowance is available on all mining capital expenditure
Additional capital allowance for	Nil	Balance of unrecovered capital

unrecovered development capital expenditure		expenditure on mine development at the end of each tax year attracts an additional 15% capital allowance each year
Withholding tax on interest	15% not deductible	Nil
Withholding tax on dividend and tax on distribution of branch profits to non-residents	20%	10%
Import duty and VAT on mining equipment and supplies directly related to operations	Various rates	Duty and VAT on imports of equipment waived until one year after production starts. Thereafter, cap limit of 5% import duty and 5% VAT applies
VAT	10% (deductible)	Purchase of inputs and supplies VAT exempt where product is exported
Export duty	2% of sales value (deductible)	Nil
Losses		Losses may be carried forward for an unlimited period of time
State participation	Mandatory state participation	No concessional state participation
Stamp duty	1.2%	Reduced to a minor tax
Ring fencing	Separate taxation of each mine	Ring-fencing around the mining sector – but not within it
Domestic withholding tax on goods and services supplied	2%	Nil
Domestic withholding tax on goods and services purchased	2%	2% (credited towards recipient's corporation tax liability)
Withholding tax on technical service payments to both resident subcontractors and non residents, also management fees	30%	3% of gross payments or 20% of gross if management fees exceed 2% of operating costs
Accounting currencies for tax purposes	Tanzania shillings	US dollar or Tanzania shilling

Source: Ministry of Finance (2004)

As well as these generous fiscal terms, private companies were insulated from changes in fiscal regimes through the Development Agreement of the 1998 Act. The Development Agreement established a Special Mining Licence, mainly applicable to large scale projects involving foreign capital, where the companies could negotiate fixed royalties, taxes, fees and so on, for the life of the project (Butler 2004) outside the existing public financial system. As Butler points out, the Development Agreement had important ramifications as it 'may limit the minister's discretion in approving special mining licences for 'non-entitled applications' e.g. companies or persons not already holding prospecting or retention licences; it may prevent the minister from rejecting an application for renewal of a special mining licence or limit the grounds for refusal; it may limit the ability of the minister to reject an amendment submitted by a company regarding the terms of their special mining licence including terms such as the details of the environmental management plan and plans for training and employing Tanzanians' (Butler 2004). The mining companies were, therefore, given enormous control over their fiscal responsibilities towards the Tanzanian state and were effectively able to opt out of any legislation that they perceived as damaging to their commercial interests.

While FDI into the Tanzanian mining sector actually started to grow from early in the 1990s, the new mining legislation was arguably the main trigger for the rapid increase in foreign investment inflows to the sector. For many of the companies in the sector, it took a number of years for them to raise sufficient finance and start production in Tanzania. For example, in 1996 Ashanti Gold of Ghana acquired the mining rights to the gold deposits in the Old Geita Gold Mine but they had problems raising capital and entered into a partnership with South African owned Anglo Gold. The mine only became operational in 2002 and is presently the third largest mine in Africa (Lange 2006). The changes in the fiscal regime around mining may have given international financiers greater confidence to provide the required financial backing to actually start production in the identified mining sites in Tanzania.

The public financial reforms surrounding the mining sector caused considerable political controversy. The widespread perception within Tanzania was that mining provided very little direct benefits to the people of Tanzania due to the very generous tax incentives and low rates of royalties. Gold accounted for more than 50% of exports and its contribution to GDP grew from 1.1% to 3% by 2003. Thus, while government revenues have increased from mining they are still relatively low and significantly behind the target rate of 10% of GDP (Ministry of Finance 2004). In 2003, multilateral and bilateral aid still accounted for 47 times more as a proportion of government revenue than mining (OECD; 2005) and taxes from the Tanzania Breweries Ltd were more than the fiscal revenues generated by Tanzania's six largest gold mining companies combined (This Day; 2007). In a comparative context the current contribution of the mining sector of around 3% of GDP is low compared to other African countries such as Botswana where mining accounts for 60% of GDP, or Peru where mining accounts for around 5% of GDP (Lange 2006).

The tax revenues generated by the mining companies from 1997 to 2003 are listed in table 4.4 below. The most important revenues generated by the sector should be royalties and corporation tax. Due to delays in production, royalty revenues only became the largest source of revenue from mining in 2001, before which time taxes on expatriate salaries were higher than all royalty payments. Corporation tax returns remain low due to the generous tax relief established under the 1998 Act. In fact, the Tanzania Chamber of Mines (2003) reported that prior to 2003 no mine had paid corporation tax under the new laws. The Ministry of Finance (2004) argued that this may have related to the low profitability of mining firms or the fact that they had brought in considerable levels of capital in the initial stages of production and that in the future their tax returns would rise. There are, however, a number of features of the corporation tax laws as applied to mines that make it possible for them to potentially defer corporation tax payments for a considerable time to come.

Table 4.6: Taxes paid by mining companies (Million shillings)

Name	1997	1998	1999	2000	2001	2002	2003
Paye Expat Salaries	212	220	255	2,743	1,467	6,544	5,952
Payroll Levy-Expats	28	26	29	364	226	397	524
Paye-Expat Gratuity	0	0	0	0	243	534	1,600
Withholding Tax	27	69	263	4,713	4,855	5,403	5,345
Payroll Levy	4	17	92	193	601	976	706
Veta Levy	80	80	169	302	307	315	338
PAYE	202	325	783	1,138	5,516	3,602	3,601
Stamp Duty	0	1	2	92	134	194	21
Road Toll	0	0	149	320	351	580	623
Mining Lease	32	47	112	246	275	326	185
Royalty	433	316	929	3,724	6,180	10,553	6,070
Import Duty	102	133	150	305	220	1,446	2,170
Corporate Income Tax	0	0	0	0	0	0	1,155
Others	0	0	273	0	0	0	1,582
TOTAL	1,120	1,234	3,205	14,138	20,376	30,869	39,873

Source: Ministry of Finance (2004)

In 2006, the Government launched a review of the terms offered to mining companies in the light of the widespread perception that the mining tax regime was too generous. The review commission was chaired by Dr Kibokola who had previously been involved in the committee that established the 1998 Act (Lange 2006). In 2006, the world's biggest gold mining company, Barrick, paid the Tanzanian government 7 million USD as a "goodwill gesture" following the government's decision to review mining contracts (Mines and Communities 2007). Further, three of the major foreign mining companies in Tanzania, Anglo Gold, Barrick Gold and Resolute Gold volunteered to waive a 15% tax allowance on unredeemed capital and to pay annual levies of $200,000 directly to the local government authorities in their respective areas of operation prior to the completion of the review by the committee (this 2007).

In March 2007, the review concluded that there was no basis for a change in the terms applicable to foreign investors in the mining sector. The generous fiscal incentives remained until 2010 when Parliamentarians again pushed for revisions of the tax framework for mining companies. The outcome of fiscal reforms for mining was that the state was able to provide a 'ring fenced' fiscal regime for the mining sector that guarantees it low taxes and considerable discretion in terms of avoiding government policies that it may see as costly, but at a high cost in terms of the sector's capacity to generate revenue for the state. The reasons for this lie not only in the fact that it fits with the general policy direction that has been promoted by development partners and adopted by the state, but also in terms of who benefits from within the state by the generosity of the tax system around mining. Partly this related to the formal interests of the state as the state owned mining company STAMICO was interested in encouraging joint partnerships with international mining companies for new mining activities (Paschal 2004). Outside the remit of STAMICO, some of the most senior politicians within CCM have a direct interest in the sector as part owners or shareholders in mining firms (Lusekelo 2009),(Lange 2008). Further, they may have benefitted in terms of other aspects of the regime around mining such as renting land to mining companies, this is discussed further in the next chapter.

The ability of the state under liberalisation to reduce certain forms of corruption in public finances and to provide greater security for incentives for FDI can be related to features of its political settlement. Compared to other developing countries, the institutionalisation of the party under the socialist settlement reduced political fragmentation within the state. Under liberalisation, the continued strong links between the political elite within the party and the top civil servants enabled the state to act more decisively to reform areas of public finance where the pay-off in terms of aid and FDI inflows would be highest. It also facilitated reforms that attempted to suppress redistributive flows based on bureaucratic corruption and petty predation from within the state bureaucracy. More broadly, the institutionalisation of political competition within the party helped to militate against more overt conflicts in society during the period of liberalisation. This enabled Tanzania to maintain its peaceful reputation as compared to many other African countries, and this facilitated aid flows and foreign direct investment into the country.

4.2.5 Grand Corruption and Public Finances

From the outline above, it is clear that the state appeared to be relatively successful at instituting certain good governance type reforms to the formal system of public finance. In particular, it was effective in resisting certain forms of informal redistributive demands and was able to clamp down on corruption and theft at the lower levels of the bureaucracy. Yet, even as Tanzania was being lauded as a success story of the good governance agenda, corruption scandals in public finances involving high level politicians and business people close to the CCM were beginning to surface. The corruption cases that subsequently came to light involved high level corruption in the exemption regime, corruption in public procurement, corruption and theft of public resources, most notably through activities at the Bank of Tanzania.

Scandals involving exemptions frequently appeared in the media across the whole of the reform period. Even following the extensive reforms and transparency initiatives of the 1990s, there were a number of major scandals involving the granting of exemptions to manufacturing firms such as the exemption granted to NIDA textile firm for the importation of raw materials (Chatbar 2006), these are discussed further in Chapter 6. The most important case of corruption in exemptions since the reforms relates to the mining sector and involved people within the senior ranks of the CCM. In the early 2000s the Government was attempting to bring greater transparency to the activities of gold mining companies in the hope of raising more taxes from the sector. A tender was put out for a company to audit gold production and export. It was won by Alex Stewart Assayers Limited from Britain, but a few weeks later a company with a very similar name from the US, Alex Stewart (Assayers) Government Business Corporation was awarded the contract (Mirondo 2010). The company charged vastly inflated fees amounting to 1.3bn Tshs (around 1.3 million USD) a month from June 2003 until August 2007 (Mirondo 2010).

This caused significant controversy at the time and a committee was established to investigate the auditing process (Mirondo 2009). After the change of President in 2005 and a re-shuffling of ministers and civil servants, charges were brought against two senior politicians and the Permanent Secretary of the Treasury in 2007. The ex-Minister of Finance Basil Mramba, ex Minister of Finance and of Energy and Minerals, Daniel Yona, and the Permanent Secretary at the Treasury, Gray Mgonja, were accused of corruption involving the granting of tax waivers to the gold auditing firm and contracting it at vastly inflated costs, with the company taking 50 million USD in fees (Staff 2010). In court, they were charged with abuse of authority by illegally granting the company full tax exemptions, which lost the Government around 11 billion shillings in tax revenue (Mirondo 2009). Basil Mramba was also accused of having undeclared vested interests in the tender, as he held part ownership of the company (Mirondo 2010). The court case against them was on-going in mid 2011. Both Basil Mramba and Daniel Yona were seen to be very close to ex-President Mkapa and the fact that they were exposed in this way may have related to an internal shift in power once Jakaya Kikwete came to power in 2005.

There were also a number of corruption scandals involving senior figures in the Bank of Tanzania. Corruption cases that were taken to court involved inflated construction costs for a new Bank building (This Day Reporter 2010) and illegal printing of money by senior officials . Probably the most serious case of corruption related to the External Payments Arrears (EPA) account under the Bank of Tanzania. This account was the Banks commercial external debt account, set up to help service the balance of payments. Local importers could pay into the account in local currency and foreign service providers could then be paid by the Bank of Tanzania in foreign currency. Later special measures were introduced that allowed creditors to endorse debt repayment to a third party (Asset Recovery Knowledge Centre 2007). After rumours started circulating on the internet and following pressure from development partners, the Government asked Ernst and Young to undertake an audit into 'dubious payments' to local firms that had been made from the account (Staff 2010).

The firm identified 131 million USD that had been improperly paid to 22 local firms. Five major banks were also identified as having colluded in laundering the money (Asset Recovery Knowledge Centre 2007). Dr Daudi Bilali, the Governor of the Bank of Tanzania, who had previously worked for the IMF as well as advising the President of Tanzania, was directly implicated in authorising the payments. The firms that received the money belonged to a number of prominent business people with strong links to CCM and to senior members of CCM. Following the accusations, the Governor was sacked and fled to the USA where he died shortly afterwards, reportedly from cancer although there was much speculation in the media as to whether he had actually been murdered or had faked his own death (Staff 2010). The President issued an ultimatum that the stolen funds had to be repaid and in 2008 it was announced to the media that most of the money had been repaid, although who actually repaid money and how much remained a secret (Asset Recovery Knowledge Centre 2007). Some business people were later sent to prison; however the Government was accused of protecting the business people who had links to the CCM (Reuters 2011).

The business people and politicians involved were a small clique whose names crop up time and time again in the cases of grand corruption in Tanzania. It includes a group of very successful Asian Tanzanian business people, some of whom have formal links to CCM, while others are business associates of senior politicians (Asset Recovery Knowledge Centre 2007). As described in Chapter Three, under the socialist political settlement the predominantly Asian business class were largely excluded from formal positions of power within CCM, although there were a small number of Asian Tanzanian MPs even during this period (Fazal 2005). Over the period of liberalisation the relationship between the CCM and prominent figures from the private sector changed as the needs for private, non state financing for CCM grew (Mmuya 1998) and the ideological animosity of the CCM towards private economic activity diminished. Many more institutionalised channels of communication between the private sector and the State were constructed since the 1990s such as the National Business Council, chaired by the President. There were also an increasing number of CCM MPs from the private sector, including Asian Tanzanians, such as Rostam Aziz and Mohamed Dewji who had major private sector companies. However, these more formalised relations were often built on informal relationships that had already been constructed during the socialist period. The on-going informal relationships between the business sector and the party remained very opaque but the corruption cases provide an insight into the distribution of power within the CCM party under liberalisation.

Probably the corruption cases that had the greatest political repercussions involved large procurement deals. A deal with the British firm BAE for the purchase of a civil aviation radar led to an international scandal when investigators from the British Serious Fraud Office identified the deal as significantly corrupt and BAE was forced to pay 30 million pounds in fines. On the Tanzanian side, the deal was brokered by a Tanzanian Asian business man Sailesh Vithlani and the investigators found that part of the considerable kick-backs paid to him by BAE were used to bribe senior government officials working in Mkapa's government. The main political support came from a number of figures whose names were frequently associated with corruption scandals of the era including the Attorney General at the time, Andrew Chenge, as well as the Governor of the Bank of Tanzania, Dr Daud Bilali and Dr Idris Rashidi, a previous Governor at the Bank of Tanzania (This Day Reporter 2010). While Mr Vithlani was pursued by local courts over this case, the Tanzanian Prevention of Corruption Bureau was not granted consent by the Tanzanian Director of Public Prosecutions to prosecute other cases related to the affair (Tanzanian Affairs 2009). Andrew Chenge initially resigned from his position but was later brought back into the Cabinet by President Kikwete as Minister for Infrastructure Development.

Similar patterns of corruption in public procurement have emerged within the energy sector. An early case during the reform period involved a large power supply contract signed in 1995 between the IPTL company and the Government. IPTL was set up by a Malaysian firm, Mechmar, which had been involved in energy projects in countries outside Malaysia before, and a Tanzanian company, VIP Engineering Ltd (VIPEL), which had no previous experience in energy provision but had been involved as a negotiator in a number of previous investment projects (Gratwick, Ghanadan, and Eberhard 2007). The project was controversial from the outset. No official tender was received for the project and it was opposed by a number of key officials within the Ministry of Energy and Minerals (MEM) (Cooksey 2002). At the same time the Songo Songo IPP was under negotiation as part of a wider project of gas production in Tanzania which had backing from the World Bank, EIB and SIDA. The important business figures in this case were a group of prominent Tanzanian business people whose names feature in a number of reports on other major corruption scandals. In terms of the political actors, it involved a number of senior CCM elected officials within the inner circle of the CCM, again including Andrew Chenge (Cooksey 2002).

In the context of extreme power shortages, the IPTL proposal was discussed by high level officials within the energy sector in 1994 but was rejected on the grounds that it could not fulfil the short term needs of electricity production, although it might be considered in the context of the longer term plans for IPPs within the sector (Gratwick, Ghanadan, and Eberhard 2007). Despite this decision, a twenty year agreement was signed in 1995 between the Government of Tanzania and IPTL for a 100MW diesel generator which would eventually be replaced by gas powered turbines once the Songas project had been completed. The cost was USD 163.5 million, including an Engineering Procurement and Construction contract (EPC) price of USD 126.39 million, and with a 'reference tariff' of USD 4.2 million per month plus 3.25 US cents per kWh of electricity actually produced. The contract stipulated that the final tariff would depend on actual costs incurred (Cooksey 2002). Finance for the project was eventually provided by two Malaysian banks, Sime Bank and Bumiputra Bank, and an informal guarantee by the Malaysian Government to the banks that their investment would be secure in Tanzania (Gratwick, Ghanadan, and Eberhard 2007).

From the evidence reported in Cooksey (2002) and in Gratwick et al (2007) it is clear that the agreement was significantly over priced and not in the economic interests of the country. There were serious accusations of corruption surrounding the tendering process. Opponents of the project included the Commissioner for Energy when IPTL was first launched, Patrick Rutabanzibwa, and a number of others involved in the Energy sector as well as the World Bank. The attitude of senior politicians towards the project appeared to waver. President Mkapa was under pressure from Prime Minister Mahathir of Malaysia to support the deal and domestically did not want to be seen to be caving into what sections of the media and IPTL presented as donor pressure (Cooksey 2002). Cooksey reported that at one point the Tanzanian Prevention of Corruption Bureau (PCB) was close to pressing corruption charges over the case, although these never materialised. Nevertheless, the case was finally referred to the International Centre for Settlement of Investment Disputes (ICSID) in 1998 and TANESCO requested the ICSID to consider corruption charges in 2000.

Sworn statements on corruption charges were provided by the Permanent Secretary of MEM, the Assistant Commissioner for Energy and the Assistant Commissioner for Energy. Finally, however, the charges of corruption were dropped as the Government failed to provide sufficient evidence within the given timeframe imposed by the ICSID. The Tribunal did, however, force IPTL to reduce its capacity charges to more accurately reflect the costs it had incurred (Gratwick, Ghanadan, and Eberhard 2007). The eventual outcome of this case was that, although no one was officially charged with regard to the allegations of corruption, Tanzania was locked into a costly twenty year agreement with IPTL whose charges were almost double those of the other IPP, Songas. Gratwick et al (2007) point out that IPTL had the highest costs of construction per kilowatt compared to other independent power producers of similar size and technology in other developing countries. The case did little to dent the political careers of the senior CCM officials involved, for example Andrew Chenge was appointed onto the ethics committee of CCM in 2010 (Muga 2010).

The second major case of corruption in the power sector was of a lesser financial magnitude than IPTL but the political fallout was much greater. This corruption story started again with the acute power shortages in 2005. In June 2005 TANESCO advertised a tender for emergency power supply, but in February 2006 all the proposals, including one from a firm called Richmond Development Company LLC (Richmond) that had previously been involved in a failed attempt to construct an oil pipe line from Dar es Salaam to Mwanza (Athumani 2008) were rejected as none of them showed sufficient competence and financial surety (United Republic of Tanzania 2008). The main political support for Richmond came from Mr Msahaba, the Minister for Energy and his successor Mr Nazir Karamagi as well as from the Prime Minister Edward Lowassa.

Despite TANESCO's rejection, Mr Msahaba moved all tendering to his Ministry and Prime Minister Edward Lowassa instructed that officials in the Ministry of Energy and Minerals should disqualify other bidders and award the tender to Richmond (Navuri 2008). Thus an agreement was signed with Richmond in 2006 to provide 100 MW of emergency power. Problems started shortly afterwards, however, as Richmond failed to achieve financial backing and it was only with funds provided by the Government of Tanzania that it was able to bring in the generator to convert gas from Songo Songo into electricity as it had agreed to do (Gratwick, Ghanadan, and Eberhard 2007). Later that year, the Prime Minister, Edward Lowassa, intervened to ensure that Richmond's contract was extended, despite contrary advice from TANESCO (United Republic of Tanzania 2008; BBC Correspondent 2008).

The on-going electricity crisis and Richmond's failure to deliver electricity brought the company under scrutiny in the media in Tanzania. The contract was signed by a company registered in Houston, Texas. However, investigations revealed that no such private company was registered in Houston at the time that the contract was signed and the address provided was a residential address (United Republic of Tanzania 2008). Once the company had been traced, it turned out that the Parent company was in fact a small publishing company. Two Tanzanian born business men were listed as the share holders in the company, which had a turnover in the US of between 1,000 USD to 499,000 USD per year (Athumani 2008). By the end of 2006, Richmond was facing extreme difficulties in fulfilling its commitment to produce electricity and it approached Dowans, which operated in South Africa, but was registered in the UAE, to take over the contract (Gratwick, Ghanadan, and Eberhard 2007). While the acute power shortages that inspired the original Richmond contract had diminished it was revealed that the government was paying the company 100,000 USD a day despite non performance (BBC Correspondent 2008).

Concerns about irregularities in the tendering process led to an investigation by the Prevention of Corruption Bureau, which announced that they had found no evidence of corruption. Nevertheless, within a few months a Parliamentary Commission was set up by Samuel Sitta the Speaker of Parliament to investigate the Richmond saga (United Republic of Tanzania 2008). It concluded that there had been corruption in awarding the contract to Richmond. As a result, the Prime Minister Edward Lowassa tendered his resignation as did Mr Msahaba and Mr Nazir Karamagi. While Lowassa himself had previously been removed from his position over a corruption scandal involving land under President Mwinyi (BBC Correspondent 2008), it was unprecedented for such senior members of CCM to resign over a corruption scandal. The scandal nearly reached the door of the President (Staff 2009) but in the end the party pulled together to stop any further outcry. The full political fall-out from the case was limited as the government issued a response to the report which exonerated all politicians and senior civil servants from wrong-doing. The only people that were prosecuted in this case were the owners of the Richmond company itself. The implication of these cases of corruption within public finances for the political settlement and transition are discussed in 4.4 below.

4.3 Vietnam

When Doi Moi was introduced in 1986, Vietnamese public finances were in disarray. Prior to the reforms, the public finance system had been based on the Soviet model of direct control of resource allocation, incomes and prices(Van-Arkadie and Mallon 2003) with the transfer of an agreed surplus from state enterprises to the central state. Public finance was redistributed to lower levels of the state based upon on-going negotiations between the provinces and the centre with the intention that richer provinces would transfer resources to poorer provinces (McLure and Martinez-Vazquez 1998). Lower levels of the state had considerably more discretion over the use of state resources than in many other centrally planned economies. One of the reasons for this was that under central planning there were substantial financial gaps in the central plans that had to be made up by local funding from provincially managed state owned enterprises (Malesky 2003). This strengthened the already existing tendency for local public finance independence due to the war as outlined in Chapter Three.

In addition to domestic resources, for most of the 1980s Vietnam was heavily dependent on Soviet aid. Soviet aid made up about 10 percent of GDP and covered more than 40 percent of the government budget and 75 percent of total public investment at its peak in the mid-1980s (Forsberg and Kokko). On the expenditure side, large transfers to underperforming SOEs were a significant drain on public finances. In fact, transfers from the state to SOEs were larger than the transfers from SOEs to the state (Ngu 2002). Inflation spiralled out of control, leading to an inflation rate of over 700% in the mid 1980s (Van-Arkadie and Mallon 2003). The collapse of government revenues as the economy declined and Soviet aid dried up led to a squeeze across the system of public finance. Local authorities responded to this by increased reliance on illegally generated revenues at the local level. This involved various illegal practices such as the sale of goods above official state prices or the manipulation of other state owned assets for private gain (Beresford and Phong 2000). Tensions, therefore, existed even at this stage between the centre and lower levels of the state over the control of public finance. Apart from these activities, there is very little information in the public domain about corruption within the state during this period, given the secrecy and media control that existed at the time.

The reforms ushered in by Doi Moi were initially focussed on price and trade reform. Macroeconomic stabilisation policies included tighter credit policies, enhanced revenue collection and a reduction in subsidies to SOEs. The monopolistic role of the Central Bank was reformed in 1991 and a two tier banking system was established with its commercial activities being split from its macroeconomic management role. These reforms had a large impact on reducing the rate of inflation, which fell to 67% by 1991 (Van-Arkadie and Mallon 2003). As the 1990s progressed, macroeconomic stability was achieved and the reform programme moved from a focus on price liberalisation and inflation towards the quality of public financial management. Public finances for most of the reform period were still undertaken largely behind closed doors with a very low level of transparency. Moves towards increasing transparency were only launched in 1998, the year that the Government published the first fiscal out turn for the previous year, 1997, and the approved budget for 1999, but with highly aggregated data (Allen et al. 1999). Statistical data on public finances from the Government Office of Statistics only became available from 2000.

The State Budget Law of 2002 increased the degree of transparency and following this, the Ministry of Finance State Budget Department produced consolidated operations of the state budget, published after 18 months, covering all four levels of government: central, provincial, district and commune (eStandards Forum 2008). Notwithstanding these changes, budget transparency remained extremely low (eStandards Forum 2008). However, there was growing awareness of corruption within public finances through court cases, the national and international media and donor funded studies. An Anti-Corruption Management Unit was established, which produced the Government's Anti Corruption Strategy in 2005. Bureaucratic corruption and petty theft of public resources were identified as major problems within public finances (Anti- corruption Management Unit 2005). On a larger scale, there were increasing reports of public procurement deals and investment projects linked to grand corruption (Asian Development Bank 2005) and a number of high profile corruption cases went to court in Vietnam in the reform period. These are discussed further below.

The State responded to the perceived growth in corruption within public finance by launching a Public Administration Reform Master Plan in 2001. This covered the main elements of good governance within public financial management. Many facets of the reform programme were similar to those implemented in Tanzania, under the tutelage of the donor community, particularly the World Bank. The Government introduced an Integrated Financial Management System (IFMS), a GFS-based functional classification budget system and moved towards the introduction of a Medium Term Expenditure Framework. Other areas of reform included increasing transparency, separating and clarifying the powers of different arms of the state in the budget process, decentralisation to local People's Committees and People's Councils and devolution of control over allocations to spending units.

The push of the reform programme was both to increase fiscal decentralisation in line with good governance principles and to achieve greater clarity in terms of the accountability of different parts of the central state for different parts of the budget. In terms of the central state, the Ministry of Finance was designated the lead agency in preparing the budget but centralised control of the budget was weakened by the fact that in reality other parts of government continued to play an important role in setting expenditure. In practice, the Ministry of Finance controlled the Current Budget while the Ministry of Planning and Investment controlled the Capital Budget. Departments of the MPI at lower levels also prepared the Public Investment Program and the investment budget, including capital expenditure and donor funds (World Bank 2009). The National Assembly was given a strengthened role of oversight and review of the budget and formally the ultimate responsibility for the execution of the budget was given to the Prime Minister.

Along side this attempt to clarify the role of the central state in the budget, a process of fiscal decentralisation was also undertaken after Doi Moi. This was one of the hallmarks of the reform process (World Bank 2009). The degree of fiscal decentralisation, both in terms of revenue and expenditure, was considerable. The sub-national government share of total expenditures increased from 26% in 1992 to 48% in 2002 (Socialist Republic of Vietnam and World Bank 2005). In 1996, the State Budget Law constituted the first attempt at providing a legal and publically available framework for government finance and fiscal relations between the centre and lower levels of government. This law was modified in 2002 with the approval of revised laws that strengthened fiscal decentralisation and increased transparency in budgetary processes, as well as introducing a number of administrative reforms.

The new formula for the redistribution between centre and localities was designed to impose greater transparency and predictability within the budget process. The transfers between the provinces and the centre were fixed for three years. Within the budget three types of revenue were defined: first, taxes that accrue just to the central level. These included export and import taxes, VAT and excises on imports, taxes and other revenues from the petroleum industry, and corporate income tax on enterprises with uniform accounting. Second, there were taxes assigned totally at the provincial level. These include land and housing taxes, natural resource taxes (excluding those on petroleum activities which still accrue to the centre), license tax, tax on transfer of land use rights, fees on land use, land rent, revenues from the leasing and sale of publicly owned dwellings, registration fees and most other fees and charges. Finally, there were shared taxes between central and provincial government. These included all VAT receipts with the exception of VAT on import goods, corporate income tax with the exception of receipts from enterprises under the whole-unit accounting system, personal income tax, special consumption tax on domestic goods and services, gasoline and oil fees.

As well as greater control over revenues at lower levels of the state, the reform process also further decentralised control over expenditures. As described above, the local and provincial levels have long had considerably more control over expenditure than in many other centrally planned economies, particularly over capital expenditure (McLure and Martinez-Vazquez 1998). While the central government remained in control of very large investment expenditures, whose impact was beyond the province, provincial governments took charge of other capital investments. Provincial and local governments were also permitted to establish off-budget financing mechanisms for capital projects and to modify fiscal policy, in certain respects, in order to attract FDI.

4.3.1 Outcome of Public Finance Reforms

The reform programme in public finances was very successful at bringing a number of macroeconomic indicators, such as inflation, under control and at bringing down subsidies to SOEs over time (Warner 2001). Probably the most remarkable feature of public finances over the period, however, was the increase in on-budget revenues and expenditures. This was in striking contrast to Tanzania where revenues and expenditures were severely squeezed during the initial period of reform. Between 1998 and 2003, total government spending rose at the remarkable average annual rate of 16% (Socialist Republic of Vietnam and World Bank 2005).

The driving force behind the increase in overall expenditure was the rapid rise in capital expenditure. Growth in capital expenditure outpaced growth in recurrent expenditure and capital expenditure grew faster than the increase in total public expenditure (Thanh et al. 2008) with capital expenditure growing at 20% between 1995 to 2005 (Socialist Republic of Vietnam and World Bank 2005). Local expenditure as a proportion of total expenditure grew until 2003 (Anh, Thai, and Thang 2007). The picture of capital expenditure was not, however, fully captured in budget data as there was also a very rapid rise in off-budget capital investment projects, which form a part of public investment figures, but not of state expenditure. These were reflected in very high investment rates in Vietnam, which were driven, for the most part, by public rather than private investment (International Monetary Fund 2007).

Reforms of public finance, however, did little to reduce the perception that corruption related to public finance remained high under liberalisation (Gainsborough, Dang, and Tran 2009). One of the critical areas that seemed largely to have been untouched by the good governance type reforms was corruption associated with capital investment spending of the state (Asian Development Bank 2005). While only a few of the cases of corruption associated with capital investment spending have been exposed in the media or taken to trial, let alone successfully prosecuted, estimates put losses from corruption involving infrastructural investment projects at between 5 – 40% (Asian Development Bank 2005) and surveys place corruption in public construction projects as the second most corrupt area of state activity, after land (Dang 2008). The magnitude and speed of the growth in capital expenditures reflected the nature of a rapidly industrialising economy. Capital investment was driven by economic growth and fuelled growth in turn (International Monetary Fund 2007). Sources of finance for investment included on-budget increases in revenue generated through the tax system and increases in foreign financing, much of it on concessional terms. Finance for investment has also flowed in from off-budget sources. Some of this was recycled aid funds channelled through off-budget investment vehicles, while other sources included the banking system which acted as a semi-fiscal channel of finance to SOEs and local government.

In terms of on-budget revenue, the rise in domestic revenue was a huge success of the reform process in Vietnam. The reforms reduced inflation while not constraining the economy. Early economic take-off in oil exports as well as rice and marine exports and increased capital inflows were the most important contributors to the increasing budget resources (Weeks 2001). Although Vietnam was one of the top 5 recipients of ODA in the world, the share of ODA in the national budget declined from 23.9% in 2000 to 7.1% in 2008 (Cox et al; 2011).

Unlike the situation in many other developing countries undergoing structural adjustment, government on-budget expenditure and revenue grew across the reform period as the economy grew. The changing structure of the economy meant that there was a shift away from dependence on SOEs towards greater revenue collection from foreign firms and the private sector, although the SOE sector remained the largest revenue contributor. Revenue from foreign enterprises rose rapidly from 10.2% in 2000 to 18% in 2007, while revenue from domestic private sources increased from 12.5% to 17.9%. The other dramatic change in the structure of domestic revenue was the increase in revenue generated by land and houses, from 6.1% of total domestic revenue in 2000 to 19.5% in 2007 (General Statistics Office of Vietnam 2011). It is important to note however, that these resources were not generated from a modern property tax but mainly from fees generated from land transactions and sale of government land as well as one-off land use charges. These resources represented a one-off source of revenue for the state. In fact, in terms of revenues generated from property tax, Vietnam is in line with other developing and transition countries in that it struggled to implement an effective progressive modern property tax. Despite the appeal of this form of taxation, property taxes in developing and transition economies raise revenues of an average of around 0.6% of GDP (Bahl and Martinez-Vazquez 2007) In Vietnam, the Tax on Buildings and Land, which is the land tax that approximates to a sustainable property/land tax only generated about 2.58% of land-based revenues and represented just 0.06% of GDP from 1996 until 2008 (Loan and McClusky 2010). The role of land taxes is discussed further in Chapter 5 page 178).

Overall, since the first published data by the GSO in 2000, the contribution of domestic revenue to total government revenue remained stable at just over 50%. Oil revenue accounted for around a quarter of domestic revenue over the same period, custom duty contributed around 20%, while grants recorded in the budget as revenue accounted for around 2% of total revenue. The composition of government revenues shown in table 4.7 below:

Table 4.7: Vietnam Composition of Government Revenues (% share of revenues) 1998 – 2002

Type	% of Revenue
Oil Revenue	26.5
Trade Taxes	13.1
Consumption Taxes	21.1
Corporate Income Tax	12.8
Other taxes	7
Non-Tax revenue and grants	12.4

Source: IMF (2006)

While revenue from state owned enterprises continued to be the largest contributor, this declined from 42.6% in 2000 to 28.0% in 2007 (General Statistics Office of Vietnam 2011). In contrast, over the 1990s, around a quarter of total state revenue came from SOEs and two thirds of these were generated by the largest 200 SOEs (Painter 2003). In fact the return from SOEs was concentrated even further than this, with the largest contributor, the state owned oil and gas company, Petrovietnam, accounting for a very large proportion of the tax collection of the state (Socialist Republic of Vietnam and World Bank 2005).

The second source of increased funds for capital investment was the great increase in concessional foreign financing and aid (International Monetary Fund 2007). Concessional financing from IFIs has played a major part in increasing budget revenues since the reforms, with Vietnam becoming the World Bank's largest recipient of funds (Forsberg and Kokko). Such finance covers state expenditure through a number of different channels. In some cases, these resources are channelled directly for investment projects that form part of the capital budget of the state. In other cases, foreign financing is recycled through on-lending to various investment vehicles that are off budget, such as the Development Assistance Fund. These are discussed further below. The third source of capital investment related to changes to the financial system. These increased the availability of off-budget resources from state owned banks that acted as semi-fiscal channels of financing for capital expenditure. Changes that allowed local government to raise investment finance through investment bonds also increased funds for capital investment at the provincial level (Socialist Republic of Vietnam and World Bank 2005).

In certain respects, the reforms to public financial management have enhanced transparency around the capital expenditure of the state, in that investment projects on the official budget records are now open to some degree of public scrutiny. Yet during the reform period there was also a huge increase in off-budget funding for state capital projects and many of the investment projects, both off and on budget, were mired in corruption that seems not to have been dented by the reform programme (World Bank 2009). Many of the grey and illegal activities associated with capital investment were linked to redistributive demands and primitive accumulation activities from within the state. Despite numerous attempts to reduce corruption associated with this aspect of public finance, the VCP was quite ineffectual at stopping a large number of investment projects that not only involved corruption allegations and scandals but were also questionable in terms of their economic efficiency (Thanh and Dapice 2009).

4.3.2 Corruption Associated with On-budget Capital Expenditures

This section outlines the types of corruption associated with the huge increase in capital expenditure in the budget, how this helps to explain the distribution of power, and its implications for the economic transition under liberalisation. On-budget expenditure increases were driven by the state undertaking large infrastructure investment projects. There were a number of cases of grand corruption at the central level which were associated with these large public investment projects. Exposure of senior politicians to allegations of corruption was still very tightly controlled. While there were often rumours linking senior central politicians to local corruption cases that were taken to court, there were very few cases where the links were made formally (Gainsborough 2003). An example of this is the PMU 18 corruption case that was widely followed in the media (McKinley 2009). In 2005 it emerged that the head of a Project Management Unit (PMU) within the Ministry of Transport responsible for road and other large infrastructure projects was being investigated for corruption over the use of aid funds. Investigations led to the downfall of the Minister and arrest of the Deputy Minister for Transport, although charges against him were eventually dropped. Commentators argued that the reason that this case was allowed to be exposed in the media related to high level political manipulation just prior to the elections for the new VCP Central Committee, for which both politicians were standing at the time (McKinley 2009).

At the provincial and district level, politicians involved in corruption are more regularly exposed (Gainsborough 2003). For example, cases that were followed in the media included a case where the former director of the Ho Chi Minh City Department of Transport was accused of accepting bribes from a Japanese construction consultancy company (Duc 2009). Corruption in construction projects in one province, Thanh Hoa, from 2000 to 2006 involved huge losses to the state and implicated a number of provincial level institutions and individuals (Dang 2008). There was considerable evidence in the public domain of on-going corruption surrounding public investment projects throughout the period of liberalisation (World Bank 2009).

In reality, the local and central levels were often inextricably linked in these deals. Many of the investment projects were undertaken at the request of provincial governments based on regional development plan proposals and then developed by SOEs and provincial governments in partnership (Thanh et al. 2008). The central Government had a critical role in giving consent to the largest of these investment projects, yet in many cases there were political pressures for the investment from below to which the state succumbed. One reason for these political pressures at the central level was the political power that different provinces hold over the central decision making process. For example, an important feature of the state's infrastructure investment was that the projects were scattered across the country in both rich and poor provinces. This suggests that having the political influence to attract central investment in large infrastructure projects was not simply a function of the economic strength of the province but may have depended on political influence within the party structures. Such decision making is not transparent but the fact that major investment projects have been allocated along grounds which appear not to be efficient suggests that the political influence of provincial governments relates to other factors, such as the influence of the leaders of the provinces within the party. Thanh and Dapice present evidence that 'a disproportionate number of infrastructure projects … are economically non-viable but approved under political pressure with inflated costs.' (3; 2008).

The pattern of these redistributive demands relates to the construction of the political settlement, as outlined in Chapter Three. The structures of the VCP were institutionalised in the course of fighting the war. During the war, provincial level party structures gained a high level of independence from the central party institutions. Patterns of political influence within the party structures were created at this time as some provinces produced leaders who played important roles during the war and held considerable influence within the party. This distribution of power survived under liberalisation. The on-going impact of the war on the distribution of power within the party was reflected in the difficulty that Southern politicians had in entering the top power ranks within the VCP (Malesky 2008). Over the period of liberalisation there was a slow shift away from this as the economic power of different provinces diverged. By the mid 1990s, the Party Chairs of the high growth cities, Hanoi and HCMC, had been promoted into the Politburo (Gainsborough 2003).

Possibly the best known examples of large scale on-budget investment projects with dubious economic rationale have been the construction of a number of oil refinery plants. The first oil refinery was proposed for construction at Dung Quat. Construction of the refinery took much longer than initially planned, mainly because the required foreign financing was not forthcoming (Energy Information Administration 2007). The main reason for this was that there were serious concerns about the location of the proposed refinery as it was more than 600 miles from Vietnam's main oil field at Bach Ho and far from the population centres at Hanoi and HCMC. Construction finally began in 2005 (Thanh and Dapice 2009).

The political influence of Vietnam's state owned oil company can partly explain the Party's commitment to building these oil refineries at huge public cost. The state oil company, PetroVietnam held a monopoly position in all segments of Vietnam's oil and gas industry. It was also the single largest contributor of taxes to the state, in 2007 it contributed 31% of total state budget revenue and in 2008 it accounted for 18% of Vietnam's exports (Staff 2009). Yet, the influence of PetroVietnam is not the full story. Another political dynamic related to the fact that that Dung Quat is situated in a poor province that had been the birth place of Ho Chi Minh. Leaders from this province were given a high status within the VCP given their historic role in the independence struggle. Two further oil refineries are currently under construction, one at Nghi Son in the north of the country, which is closer to users but very far from the main oil producing areas, and the third at Vung Ro in Southern Vietnam (Energy Information Administration 2007). Both provinces were relatively poor but could exercise significant political power within the party structures based on the distribution of power that was established under the formative socialist political settlement.

Another factor that facilitated transfers from the centre to poorer provinces through capital projects was the centralised control over oil and aid revenues. The fact that the centre had control over high levels of revenue from these sources meant that the political pressure to take resources from richer provinces to support poorer ones could be minimised, while at the same time meeting the aspirations of the poorer provinces for capital investment. The proposal to construct 100 deep sea ports is an example of the political influence of poorer provinces on central investment decisions. These were proposed by provincial level party institutions working with provincial level SOES. The central Government agreed to these investments despite evidence that building a major port in nearly every province lacked economic rationale. Thanh and Dapice (2009) argue that this decision was a result of political pressure to invest heavily in under developed areas to eliminate the gap between richer and poorer provinces. The impact on Vietnam's economic transition under liberalisation of investment flows determined by demands for redistribution is discussed in section 4.4 below.

4.3.3 Off-budget Funds and the Relationship between SOEs and VCP Institutions

The patterns of corruption surrounding capital expenditure and the inappropriate allocation of investment expose a complex relationship between the centre and lower levels of the state in Vietnam. As well as investment projects being driven by demands on the central state from poorer provinces, another dynamic emerged where provincial governments and SOEs co-operated to attract significant capital expenditure independently of the central state. The political dynamic that drove these increased expenditures related to the power of local and provincial level officials to leverage finance to support their own burgeoning private or quasi-private economic interests. Many of these activities involved political redistribution and forms of primitive accumulation as they involve the exercise of political power to manipulate formal, official and market based processes.

The level of capital expenditure during liberalisation was actually much higher than was officially recorded in the state budget. In reality, much of the finance was shifted off-budget. Some off-budget funding was relatively transparent and the extent to which such funds could be considered as part of the fiscal system was open to different interpretations. The question of whether other more explicitly 'political' funds were hidden and were fully under the control of the political elite is not known and would be difficult to explore, given the closed nature of the VCP. Off-budget expenditure, which was left out of the official budget record of capital expenditure, included extra budgetary funds such as the Social Security Fund, Enterprise Restructuring Fund, Development Assistance Fund, Export Support Fund, local development funds and the Sink Fund (for the repayment of loans). Many of the banks that had officially become commercial banks also continued to be involved in policy based lending influenced by their formal and informal links to the party. IFIs pushed for further separation between policy based lending and commercial lending and pointed to the risk of macroeconomic instability generated by the fact that so much lending that was essentially state directed was kept off-budget (Biallas and Dan 2008). In reality, the distinction between off-budget and on-budget liabilities of these funds and banks was blurred in Vietnam, as in other countries, given that state interventions to re-capitalise banks and funds in the face of high levels of non-performing loans would by default bring off budget loans back on budget by default. The attempts by the state to minimise the impact of non-performing loans by these funds and banks is discussed on p 149 below.

A significant feature of public finance after reform was that despite the fall in on-budget subsidies to SOEs, they continued to attract a very high level of state subsidy for various forms of investment through these off-budget investment vehicles. SOEs in partnership with provincial and local party leaders were able to maintain, and even expand, their activities over the period despite the formal commitment by the VCP to cut subsidies to SOEs. The financial institutions mentioned above and many state owned banks acted in a semi-fiscal role by channelling public resources to investment projects which, in the end, fulfilled the commercial aims of these organisations (Du 2005). Provincial and local party structures played a pivotal function in this process. Provincial and district Party

Committees worked closely in a tri-partite relationship with SOEs and financial institutions to attract high levels of capital investment. The increasing power of provincial level governments over public finance had divergent outcomes. Some provinces used these powers to raise significant resources off-budget and attract high levels of capital flow, while attempts in other provinces to manipulate public finance to attract higher capital inflows failed. The characteristics of successful versus unsuccessful provinces in attracting capital inflows are discussed further in Chapter Six.

One of the largest sources of off-budget finance for capital projects undertaken by provincial governments and SOEs was the Development Assistance Fund (DAF). The DAF was wholly owned by the state and it was actually the largest financial institution in Vietnam, managing assets equivalent to 14% of Vietnam's GDP in 2005 (Loi 2006). However, similarly to other investment funds, it was not under the control of the State Bank of Vietnam (Du and Kien 2005). The DAF was created in 1999 after policy lending through SOCBs was formally abolished. The main tasks of the DAF were to mobilise funds for economic development and to provide finance for long term investment projects in eligible sectors. Since 2002, it has also been involved in short term export support (International Monetary Fund 2007). Further, it acts as the main agent in disbursing and collecting on-lent funds from ODA. The DAF had 61 branch offices across the country and a head office in Hanoi. At a local level, the DAF carried out loan appraisals and servicing functions as well as mobilising corporate deposits in the local market and managing trust funds for large investment projects in the area. DAF local branches worked closely with local government and in 11 regions they managed the development funds that were established by chairmen of local People's Councils, which are funded from local revenues (International Monetary Fund 2006).

Control of the DAF was ultimately vested in the Prime Minister but it operated under the supervision of the Ministry of Finance. All of DAFs operations were kept off budget, except the interest subsidy provided by the State (International Monetary Fund 2006). A major source of off-budget finance to SOEs was through the DAF to SOE's undertaking investments deemed to be of 'strategic importance'. In fact, around 70% of the total number of projects financed by DAF were channelled through SOEs (International Monetary Fund 2006). Funds to be on-lent through DAF were mobilised from ODA sources and domestically through borrowing from pensions and social funds such as the

Vietnam Social Insurance fund, Post Office savings through the system of Vietnam Posts and Telecommunications Group and the issuance of government bonds. Policy lending through DAF expanded very fast. Lending was based on plans submitted by Ministries in priority sectors. The DAF has invested in numerous large scale projects such as the Vietnam National Shipbuilding Corporation, Son La Hydro-power project and the Haiphong Cement Project but most of its investments were in transport infrastructure (Socialist Republic of Vietnam and World Bank 2005).

Officially, the percentage of non-performing loans was very low at around 2%. However, the IMF (2006) argued that this is likely to be a serious underestimate given that the Fund was relatively recently established and that the General Director had considerable discretion over extending and rescheduling outstanding loans. There was also little direct scrutiny of the Fund. The first external audit was performed by the State Audit of Vietnam (SAV) in 2003 but their findings remained unpublished (International Monetary Fund 2006). This meant that the DAF was operating with very little public scrutiny of the type promoted by the good governance reform agenda. The DAF channelled resources for investment based on demands emanating from the politically powerful coalition of provincial party officials and SOEs.

Thus, more important than the official status of the DAF and other development funds as off-budget financing institutions was the fact that their lending decisions appeared to be influenced by informal political processes outside the official mechanisms established for project approval as described below. In Vietnam, the rapid pace of economic transition and the power of politicians at the provincial level and below meant that demand for investment finance was greater than what the central state wanted to, or could, provide. The demand for investment finance from below fuelled the creation of local investment vehicles that inhabited a grey area in terms of their position within public finance. As well as the DAF, there were other local off-budget sources of finance for capital projects. In total, there were 13 non DAF local investment funds and the DAF at HCMC and Dong Nai had their own staff and were administered independently from the central DAF (International Monetary Fund 2006). These became increasingly important for provincial and city level investment strategies as the growth rate of transfers from the centre to the provinces fell. One way round dependence on the centre for transfers was for provinces to borrow from banks, and HCMC was even allowed to issue bonds (Rosengard et al. 2007). With the introduction of the State Budget Law of 2002, provincial governments were given the right to borrow domestically without requiring further approval from the central state. Districts and communes were not allowed to borrow, but provinces relied increasingly on borrowing to cover not just capital investment but also their recurrent expenditure on a regular basis (Hani and Huyen 2004).

Provincial governments were very dependent on assistance from the central state to cover their planned expenditure: 28 out of 33 provinces depended on the central state to cover over 50% of their total planned expenditure in the early 2000s (Hani and Huyen 2004). The fall in central transfers compared to rising local expenditure meant that there was a growing fiscal gap at the provincial level. While the richer provinces provided an input into the revenue collection of the central state and were allowed to keep a proportion of revenue collection above this amount, this still did not cover their increased capital expenditure, particularly in the case of the fastest growing provinces and of cities such as HCMC.

HCMC's size enabled it to engage in more creative ways of raising finance, as well as using the investment vehicles discussed above. For example, it was the first city or province to issue a municipal bond and it also used Build-Operate-Transfer Mechanisms, and city land plus private construction packages for many infrastructure projects (Rosengard et al. 2007). Growth in spending outpaced growth in revenue within HCMC and the city increasingly depended on forms of off-budget investment. Rosengard et al (2007) estimated that around 80% of total capital mobilised for investment in HCMC was generated through off-budget resources. At the local level, off-budget resources were generated through the credit system, for example, through the investment vehicles and state-bank relations discussed below. Yet HCMC's official debt statistics excluded the city's considerable contingent liabilities, incurred through its explicit and implicit guarantees of off-budget borrowing not only by the provincial level Party Committee but also by local government entities at the district level.

The HCMC Investment Fund for Urban Development (HIFU) and the Thu Thiem Urban Development Project Management Unit were two city owned financing entities that played a similar role to the DAF in terms of providing semi-fiscal off-budget resources, but entirely at the city level. The HIFU was established in 1997 with a board of directors and management separate from the local and provincial state, while at the same time being under the ultimate control of the People's Committee of HCMC. It was given the task of financing urban infrastructure development projects and the infrastructure for industrial parks presented in the City's development plans (Thanh 2008). The control of the fund was closely linked to the city's political structure. While there was supposed to be central influence over the Fund, the central level was represented on the board by a member from the city level office of the State Bank of Vietnam and by the city department of the Ministry's Bureau of Investment and Development. Thus the board was entirely made up of individuals whose positions depended on the political dynamics of the Party within HCMC. On establishment of the HIFU, all outstanding loans made by the Ministry of Finance in HCMC were transferred to the HIFU, effectively placing outstanding debt off the official state budget records.

The HIFU played an extensive role in funding investment projects and from 1997 to 2005 it lent around USD 190 million for around 200 projects (Rosengard et al. 2007). Further, HIFU arranged for co-financing with banks and insurance companies of USD 88 million for another 40 projects. It also engaged in direct investment, which totalled around USD 9.8 million (Thanh 2008). The types of direct investments that were undertaken by HIFU involved buying stakes in equitized SOEs and in activities in the real estate market, such as building houses (Rosengard et al. 2007). Thus, the HIFU facilitated the construction of needed infrastructure in HCMC but also served the commercial interests of the local party and state organisations such as People's Committees and SOEs. These institutions engaged in profit making activities across a number of markets including real estate, where rising prices created opportunities for speculative profit making. These local investment vehicles made it even more difficult for the central state to control the spending commitments of lower parts of the state. They had little control over investment in projects that may have been adopted for speculative reasons with dubious economic justification, thus risking fuelling inflation and instability rather than longer term growth (Binh 2008).

4.3.4 The Banking Sector

As well as the off-budget development related funds at a central and local level, another critical source of off-budget finance for capital expenditures of the state came from the banking sector. Segments of the banking sector played a significant semi-fiscal role in channelling funds, particularly to SOEs, under the direction of the state. The changes that happened within the financial sector over the reform process that permitted this situation to arise started with the breaking up of the Central Bank. From 1975 until the reform period there was no independent financial sector. Instead, there was one bank which essentially carried out the budgetary activities of the state. In 1990, however, new regulations were introduced which split the Central Bank into two levels. At the top level the Central Bank continued with state financial management, overseeing the state's financial policies and issuing money (Du and Kien 2005). Below this, commercial banks were allowed to operate, and the state established a number of large State Owned Commercial Banks (SOCBs).

Prior to 1990, the Central Bank had had an extensive branch network at provincial level with a high degree of formal branch autonomy. This created the potential for political pressure for targeted credit at the provincial level (Van-Arkadie and Mallon 2003). From 1991, foreign banks were allowed to enter the market and joint-stock commercial banks were also permitted (Du and Kien 2005). There was also considerable diversification within the financial sector and other financial institutions emerged such as insurance companies, pension funds, leasing companies and under-regulated finance companies. Many of these were established by the powerful SOE groupings called Economic Groups (discussed further in Chapter 6), seeking to diversify from their core activities (Biallas and Dan 2008). During the 1990s finance companies also emerged linked to local party and government institutions, particularly to city-level departments and the districts in HCMC (Gainsborough 2003).

A number of different institutions were involved in the quasi-fiscal role that the financial sector played through government directed or influenced lending not recorded in the state budget. The most important institutions in this respect were SOCBs and to a lesser extent the joint stock financial companies. Much less is known about the role of the finance companies linked to local party institutions (Gainsborough 2003). While SOCBs were established in 1991 with an explicit role as policy driven lending vehicles, successive changes in the regulatory framework have tried to break the link between the government and these banks and put them on an increasingly commercial footing (Loi 2006). The four biggest SOCBs were the Bank of Investment and Development of Vietnam, the Bank for Foreign Trade of Vietnam, the Industrial Commercial Bank of Vietnam and the Agriculture and Rural Development Bank.

Table 4.8: Relative Size of Financial Institutions

Dong (Tril.)

	Chartered Capital		Outstanding Loans	
	2003	2004	2003	2004
SOCBs				
VBARD	5.45	6.14	87.08	123.47
VCB	2.42	4.03	30.00	46.49
BIDV	3.75	3.87	48.09	64.01
ICB	2.91	3.33	49.63	62.10
DAF	4.98	4.98	64.81	76.93

Source: IMF (2006)

SOCBs accounted for around 70% of the credit market (Loi 2006) and loans grew consistently across the sector. Much of SOCB's loaned funds came from overseas finances as well as from state capital through the State Bank of Vietnam. While the DAF was meant to be the main agent channelling on-lent ODA funds, in reality around 20% of ODA was channelled through SOCBs up to 2005 (International Monetary Fund 2006). Each SOCB originally focussed on certain industry segments but in 1999 the government officially removed the policy based lending role of the SOCBs. In reality, however, they have continued to perform an important role in policy-based lending and remain strongly influenced by their links to local government and SOEs. It is widely accepted that SOCB lending provided an important source of off-budget finance to state institutions during the period of liberalisation (International Monetary Fund 2006).

Many branches of SOCBs were involved in loaning money to local authorities to fund aspects of their socio-economic plans, or even directly for their budgets. Thus SOCBs acted as a 'budget channel providing capital for ministries and branches and enterprises.' (Du 2005). Du (2005) argued that there was a tri-partite relationship between local authorities, SOEs and SOCBs. This was generated in a number of ways. Part of the reason for their strong links to local government and SOEs was historical and related to the formative socialist political settlement. When the Central Bank was split up, the SOCBs were established from very strong branch networks that were politically integrated and already had a high degree of formal autonomy from the central offices. SOCBs had a centralised management system but, in reality, a high degree of autonomy from the centre, and strong local influences continued.

One of the routes through which local government maintained influence over SOCBs was through the appointment process for senior managers. While formal control over the appointments system was held by the head office, in reality it was impossible for a head office to appoint a director or vice-director of a branch without agreement with the local Party Committee. In many cases, the local party committees effectively vetoed candidates until they had someone they approved of (Du 2005). This meant that local branch managers of SOCBs were keen to remain on good terms with the local Party Committee by providing funding for development plans and even direct support of the budget (Du 2005). Local branches of SOCBs had a considerable degree of independence from their Head Offices, to the extent that there were cases where, despite proposals for projects from local authorities being refused by the Head Office, branch offices went ahead and provided loans (Du 2005).

The tri-partite relationship extended to the influence of local Party Committees on SOEs. Appointment of senior managers within SOEs was also heavily influenced by local Party Committees and this created the motivation for SOEs to take on local socio-economic development objectives that may not have related to their core business activities (Du 2005). SOEs and local Party Committees and authorities drew up investment proposals for which they requested funding from SOCBs. The outcome of this relationship was that SOCBs played a semi-fiscal role by providing funding for state projects at a local level and channelling credit to SOEs with the purpose of maintaining investment and employment targets of provincial and local governments. Beyond the relationship between local authorities and SOEs, SOEs were highly dependent on SOCBs for maintaining their operations. Credit for SOEs in the total volume of credit gradually declined from 1998 but SOEs remained the main customers of SOCBs (Biallas and Dan 2008).

The SOCBs took on loans for political reason but often with very poor economic rationale. This led to a high level of non-performing loans (NPLs) in the sector. The actual extent of NPLs is difficult to gauge as the data is weak (Loi 2006). While overall outstanding bank loans in Vietnam were at around 55% of GDP in 2005, which is quite low by international standards, the vast majority of the NPLs were held by SOCBs through loans to SOEs (Loi 2006). SOCBs were sheltered from bankruptcy by the state despite their poor economic performance. The political fall-out from a collapse in many SOCBs would have been too high for the state to deal with. For example, in 2001 the state, through the State Bank of Vietnam, stepped in to supplement the capital of SOCBs and to restructure NPLs. The SOCBs are thus another channel through which the state has been able to continue to channel huge amounts of public finance to SOEs despite the fall in explicit, on-budget, subsidies to SOEs. This strengthened the economic position of the SOEs and their supporters in local party positions within the rapidly commercialising economy.

While SOCBs played the most direct role in politically influenced lending, there were other segments of the financial system which played a similar role. These included the joint stock banks which tended to be smaller than SOCBs but by 2006 accounted for 12% of the credit market (Loi 2006). A number of these joint stock banks were set up by SOEs and Economic Groups (Economic Groups and General Corporations were conglomerations of SOEs that were formed during liberalisation and are discussed in Chapter 6). In other cases, Economic Groups or General Corporations have taken large stakes in these joint stock banks (Thanh et al. 2008). This gave the joint stock banks privileged access to state assets, such as land and natural resources, in a similar way to SOCBs. As well as joint stock banks, there was a rapid expansion of new finance companies, often set up by local Party Committees working with SOEs. This sector was very poorly regulated and there is little information about its activities (Biallas and Dan 2008), but it is likely that the political system at the local level had even greater discretion in directing the resources of this type of financial institution towards investments that furthered its commercial interests.

4.4 Discussion

Underneath the appearance of relatively successful good governance reforms and orthodox macroeconomic stringency in public finances in Tanzania and Vietnam lies a much more complex story of informal redistribution and primitive accumulation shaped by the underlying political settlement. In Tanzania, the state made considerable efforts to reduce corruption in public finance, as well as adopting macroeconomic reforms that constrained state expenditures and investment. The state was successful in reducing petty and bureaucratic corruption within public finances, and in improving many of the technical aspects of the budget process. Successes in these areas had an important impact on aid and FDI inflows. The increased inflows played a pivotal role in enhancing GDP growth under liberalisation. Donor approval of the reform process brought in high levels of aid, and particularly direct budget support. These fuelled consumption and demand within the economy and led to higher growth. Further, ring fencing investment incentives for FDI promoted foreign investment, in particular into the mining sector.

The greater political control over the bureaucracy that was established under the formative socialist political settlement facilitated the reforms that reduced petty corruption and financial mismanagement as there was a lower degree of institutional fragmentation within the state, compared to many developing countries. The continued strength of the CCM under liberalisation helped to provide greater overall political stability by constraining political competition. In this respect, the situation in Tanzania compares favourably with the situation in some other developing countries, such as neighbouring Kenya, where such competition has spilled over into more overt forms of conflict. Ring fencing incentives for FDI by establishing the TIC and enacting laws that reduced the ability of politicians to change the incentive structure appeared to have provided greater security to investors and helped to generate higher investment inflows. Whether this greater security was also accompanied by a reduction in the cost and overall extent of rent seeking is difficult to assess. Yet, the ability of the state to tackle certain forms of bureaucratic corruption did not strengthened its capacity to manage more complex rent processes linked to industrial policy and managing backward and forward linkages from FDI, that are discussed in Chapter Six.

However, the attempts to constrain corruption through good governance reforms appear to have had little impact on the prevalence of grand corruption involving large investment and infrastructural projects. These infrastructural investments clearly involved huge kickbacks to senior politicians. While this may be common practice in many developing countries (Khan 1996) the types of investment projects that Tanzania ended up had particularly negative effects on economic development and the long term burden that they imposed on the Tanzanian state. The fact that the central party leadership could not discipline the internal factions within the CCM at the top level that backed these projects shines a light onto the otherwise closed workings of the party at the most senior level and provides clues as to how political stabilisation within the Party has been achieved under liberalisation. It suggests that the political strength of CCM that was constructed during the socialist period, endured under liberalisation. The party continued to exert a centripetal political force that constrained factions from organising outside the party institutions. However, the most senior politicians do not appear to have the political power to overrule these internal factions.

The distribution of power between these internal factions appears to be relatively equal insofar as no one faction was able to consistently dominate within the National Executive Committee of the CCM under liberalisation. Factions appear to emerge on an ad hoc basis when big rents and transfers are at stake, such as in the case of the private power plants. Similarly, for the public finances surrounding gold mining, the aim of getting a greater return from the sector failed when internal factions at a high level within the party had a commercial interest in preserving a generous fiscal policy towards mining companies. One of the reasons for the weakness of these factions vis-à-vis each other is probably the limited legacy of political organisation outside the party. The relatively short period of anti-colonial struggle and the subsequent suppression of political organisation outside the party (as described in Chapter Three) limited the scope of political organisers to tap into clientelist networks outside the framework of the Party. The apparent strength of the CCM therefore, probably relates more to the limited distribution of political power outside the party, rather than the CCM itself having a very strong centralised power structure. This conflicts with the heterodox model of the successful developmental state, discussed in Chapter Two. It is likely that increased economic differentiation and growing political mobilisation surrounding multiparty politics may change this weak but stable political equilibrium as the capitalist economic transition continues.

The cases of grand corruption within public finance also highlight the changing distribution of power between the CCM and domestic capitalists. At the highest level within the Party, there were close links between certain business people and the top leadership. The political power of this group of domestic capitalists became increasingly formalised over the period of liberalisation. While under the formative socialist political settlement, Asian domestic capitalists were largely excluded from formal power, they did build up informal networks with CCM politicians. Under liberalisation, some of the most economically powerful domestic business people became prominent CCM politicians while others operated in a more shadowy role as party funders. Overt political relationships between politicians and domestic Asian business people were still often controversial, however, given that many within the CCM still supported more radical programmes of economic indigenisation (Fazal 2005), (Tripp 1997).

The close links between fractions of domestic capital and the CCM is in contrast to the situation in Kenya. In Kenya, Kenyan-Asian capitalists were largely excluded from formal political positions. The fact that the Asian Kenyan business elite had a harder time accessing formal state power and state created rents may have pushed Asian Kenyans to engage in more risky forms of economic investment such as in industry. The inclusivity of the CCM is one of its strengths in terms of its ability to absorb the potential for political mobilisation outside its own institutional framework and hence maintain stability. Yet, this inclusivity may also have reduced the capacity of CCM to effectively manage rents for economic development.

At one level, it has been difficult for the CCM to pursue policies that would more overtly lead to enrichment of the private sector. It was politically difficult for the party to provide backing to broader groupings or institutions representing the interests of domestic capitalists. This factor is discussed further in Chapter Six on industrial policy. Yet inclusivity may also have restricted the ability of the state to enforce stronger performance criteria on powerful rent recipients, thus establishing a political equilibrium that discouraged risk taking by domestic capitalists. However, it is not the case that fewer political links between domestic capitalists would have strengthened the ability of CCM to manage economic rents effectively. Instead, the highly particularistic nature of the relationship between domestic capitalists and the CCM led to fragmented support to individual capitalists and did not generate effective solutions to collective action problems generated by the high costs of economic transition in Tanzania.

In contrast to Vietnam, where the local level of the state has played a critical political role in directing public finances both on and off-budget, the Tanzanian state at a local level played a much weaker role in public finance. Widespread bureaucratic and petty corruption existed over public finances at the local level but these seem to have taken place on the basis of fragmented individualistic interests outside any kind of economic institutional framework. While the party had built a structure down to the village level, this did not lead to the strength or depth of institutional structures at the local level as in Vietnam. Thus on liberalisation, there were fewer and weaker organisations related to the state at the local level. The constrained political role of local political elites in public finance in Tanzania partly results from the fact that the volume of state finance channelled to lower levels of the state was quite small. In addition, the liberalisation programme emasculated the lower levels of the state by shearing off state economic entities, such as parastatals, that could have sought to access public finance in partnership with local party institutions. The fact that the state has been reduced in these areas fragmented economic power at the local level. Local political actors appear to be tapping into ephemeral factions of the CCM at a higher level to use local political influence to acquire land and natural resources potentially for speculation (Gibbon 1996), (Gibbon 1995), (Kelsall 2000), and is discussed further in Chapter Five, but this has not occurred to the same degree in public finances. This means that while the type of primitive accumulation associated with corruption in public finances at lower levels of the state may lead to individual enrichment there is little systematic accumulation within the lower levels of the party state of the kind that occurred in Vietnam.

In Vietnam, attempts to institute reforms of public finance and reduce rent seeking and corruption had important implications for how the budget was managed. The appearance of a more transparent rules based system that conformed to the demands of the international financial institutions and investors for macroeconomic stability was achieved. The on-budget resources to SOEs were constrained and standardised transfers to lower levels of the party state were instituted. Public finances in Vietnam during the period of reform were remarkable for the rapid growth of revenues and expenditures, which took place within a context of rapid growth. The formal budget, however, only captures a partial picture of the much wider phenomenon of rapidly increasing capital investment at all levels of the state. Despite attempts to reduce corruption associated with public finance, many of these investment projects have been mired in corruption both at the central, provincial, and lower levels of the state. The provincial and district VCP institutions played a critical role in collusion with SOEs in pushing for investment. This occurred through central investment vehicles such as the DAF but also through investment vehicles that were under the control of provincial level party institutions.

Patterns of primitive accumulation relating to corruption in public finance were very different in Tanzania and Vietnam. In Tanzania, there is little evidence that corruption in public finances generated a process of primitive accumulation that led to productive economic investment. In contrast, many of the investments related to corruption in Vietnam were linked to projects that supported the wider economic transition, albeit often with high levels of inefficiency. The reasons for this relate partly to the weakness of lower party organisations in Tanzania. Fundamentally, however, the distribution of power within the respective party structures was a reflection of the differences in the organisation of the underlying society. Tanzania and Vietnam are similar in that the intermediate class groups were largely contained within the institutionalized structure of the party and the scope for political mobilization outside this structure were limited compared to many other developing countries where intermediate class groups have been the backbone of political mobilization (Khan; 2010). Tanzania and Vietnam did not have to deal with political problems generated by redistributive demands from intermediate class groups outside the party structure. This did not however translate into central state effectiveness in rent management along the lines of the successful developers in North East Asia such as South Korea. In Tanzania, the lack of political mobilization outside the party meant that the state could impose a degree of social order to maintain the political stability for the state at a relatively low cost. Yet the much more circumscribed history of state formation and relatively limited social transformation that occurred during the course of the independence struggle and construction of socialism meant that central state authority was also more limited than in Vietnam. Thus, while the central state in Vietnam only had limited control over primitive accumulation at lower levels of the party state, the central party had much stronger capacities to direct economic management than in Tanzania.

The relative weakness of the lower party organisations in Tanzania compared to Vietnam was a reflection of the greater weakness of all lower-level organisations both within the Party and within society in Tanzania. This reflected the different patterns of economic differentiation and organisational development under the colonial and socialist period. Lower level political and economic organisations in Vietnam had a long history of decentralisation and this was further strengthened during the socialist period. As a result, at the lower level there was a greater density of organisations such as banks and financial institutions that played a role in allocating resources through corruption and primitive accumulation processes relating to public finance. Individuals or small factional networks within the VCP at the local level were, therefore, probably less able to engage in forms of corruption that simply led to capital flight as happened in Tanzania, where local level organisations were significantly weaker. Individuals and organisations from the private sector in Vietnam were largely excluded from processes of primitive accumulation related to public finance due to their more marginalised political position. Political power was overwhelmingly held by people with positions within the VCP hierarchy. In Vietnam corrupt activities led to investments that were not productive and many of the financial institutions were financing political projects driven by redistributive demands, rather than investing in efficient infrastructure. However, the greater financial discipline imposed by lower level organisations led to a higher degree of investment overall in Viet Nam that supported a more rapid economic transition under liberalisation than in Tanzania.

The legacy of the distribution of power within the VCP from the formative socialist political settlement also impacted on the way that the central party institutions allocated public funding to the provinces. At the central level of the VCP, a number of poorer provinces exerted a strong political influence for historical reasons. This encouraged a relatively egalitarian distribution of investment spending. The formalisation of transfers from the richer provinces to the centre and the redistribution to poorer states helped incentivise provincial party structures to push for growth that generated revenues overall. Too much redistribution from the richer provinces might have discouraged the effort needed to make economic growth successful. Central control of oil and aid rents also helped the central state to meet the redistributive demands of poorer provinces, while minimizing the redistributive pressures on richer provinces. Huge economic inequalities between provinces persisted across the period of liberalisation. This exacerbated the already decentralised distribution of power as a legacy from the formative socialist political settlement. While the VCP was committed to addressing these economic inequalities through infrastructural investment, it may be that on-going uneven economic transformation will reduce the political influence of poorer provinces over time.

A further aspect of public financial reform and the political settlement relates to the continued influence of SOEs on the state. The many off-budget sources of investment finance, such as the DAF, SOCBs and other banking institutions, allowed high levels of capital investment to occur off-budget. This permitted the state to maintain a façade of macroeconomic control and a commitment to the more fiscally austere approach that was promoted by the IMF and other IFIs. Maintaining high levels of investment may have served some of the political interests of the central party institutions, for example, keeping lower levels of the Party content and providing higher levels of employment and demand during the economic transition. The continued support to SOEs through off-budget mechanisms may also have reflected a desire on the part of the state to preserve the commanding heights of the economy in state ownership (Cheshire, Penrose, and Nguyen 2006).

The power of local party officials and SOEs over the pattern of lending of these institutions served to strengthen their burgeoning commercial interests. Yet many of these commercial interests have been in speculative activities, based on the rising prices of critical assets in the context of increased marketisation, rather than in productive investments. The central state seems to have been very weak in terms of its ability to constrain lower levels of the state from taking on inefficient economic investment projects. The efficiency of the high level of capital expenditures is explored by Thanh et al (2008) who calculate the ICOR for Vietnam during its rapid growth period from 1991 to 2007 with the ICOR of other countries in the region during their rapid growth periods. Their data is presented in Table 4.9 below

Table 4.9 ICORs in Selected Asian Economies

	% GDP Growth	ICOR
Vietnam 1997 – 2007	7.2	5.1
Korea 1969 – 1988	8.4	2.8
Malaysia 1977 – 1996	7.4	4.9
Thailand 1976 – 1995	8.1	3.6
Taiwan 1963 – 1982	9.8	2.9
Indonesia 1977 - 1996	7.2	2.8

Source: Thanh and Dapice (2009; 7)

They find that Vietnam was one of the least efficient users of capital in their sample and capital efficiency actually got worse after 2000. Only Malaysia, which is renowned for inefficient subsidisation of state owned firms and politically connected businesses, performed worse than Vietnam in terms of the amount of capital needed to generate a unit of growth. Another indicator of the inefficiency of capital expenditure is that, despite such high levels of infrastructural investment, poor infrastructure is increasingly identified as the biggest hindrance to Vietnam's international competitiveness (Thanh and Dapice 2009).

There is little evidence that the state in Vietnam had the capacity to correct or change economic activities linked to primitive accumulation of lower state actors. However, provincial and district party institutions did not have a completely free hand in terms of their ability to engage in forms of primitive accumulation over public financial investment. Such activities had to be, at least formally, justified in terms of their contribution to economic development to a much greater extent than in Tanzania where much weaker large scale investment projects were adopted by the central party institutions. Further, at lower levels of the Party in Vietnam there have been increasingly frequent court cases and exposure of corruption surrounding investment projects. This suggests that there is an internal tussle for power with the centre trying to impose its will on lower levels (Gainsborough 2003).

There has been a greater degree of competition within the party structures than in Tanzania, which has led to a closer monitoring of investments. The complexity and density of organizations within and outside the party in Vietnam made it impossible for an individual or small network to operate on its own. This also meant, however, that the centre was constrained in its ability to impose its rules on lower levels. If a significant coalition within the VCP could find some type of collective action that provided enough rents to satisfy the coalition, it could go ahead even if the resulting investment project was basically speculative rather than developmental.

This form of competition between networks within the party shares certain common features with the competitive clientelist model that has been used to describe Thailand's political economy (Doner and Ramsay 1997) Donner and Ramsay (1997) argue that competitive clientelism in Thailand was based on intra-elite rivalries that were the basis for competing networks of politicians and the mainly Chinese commercial classes. The institutional richness within Thailand's private sector supported the development of successful collective action solutions within the business community that did not rely on effective state institutions for economic development. The clientelist competition over state-created rents led to an economic transition based on the rapid growth of exports of agricultural and basic manufactured products.

The pattern of Vietnam's clientelist competition differs from this model of Thai competitive clientelism in a number of important respects. First, the institutionalisation of the VCP and suppression of political competition outside the party framework meant that clientelist competition was constrained within the party institutions. Second, the suppression of the Chinese commercial classes and private economic sector meant that struggles over accumulation and rents occured within state institutions. The institutional richness of the state rather than the private sector, as in Thailand, is therefore a critical feature in explaining why there is a higher degree of competition between clientelist networks within Vietnam than Tanzania and why primitive accumulation has been mainly channelled back into Vietnam's economy rather than largely generating capital flight as in Tanzania.

The central problem for Vietnam is not that the centre cannot stop public finance-based primitive accumulation by lower levels of the Party that strengthen their commercial interests. This has clearly been successful insofar as it has generated a rapid economic transition based on export growth and diversification into low value added manufacturing. In contrast to the neo-classical economic models where allocative efficiency is seen as critical for achieving economic growth, Vietnam's experience highlights the importance of dynamic processes of accumulation that may involve considerable deviations from an efficient allocation of resources based on current market prices. Yet the main problem for Vietnam is that the type of clientelism that has generated this economic transition did not promote greater coordination to overcome inhibitions to more complex forms of technology acquisition that would strengthen Vietnam's longer term economic transformation.

Chapter 5

Land

5.1 Introduction

Control of land played a pivotal role in the struggles for independence, in the ambitions for socialist transformation and, more recently, in the rapid re-emergence of capitalism in Tanzania and Vietnam. With 885,800 sq km and a population of 37 million by the mid 2000s, Tanzania has a relatively small, but growing, proportion of its land under agricultural cultivation and around 0.1% of land under urban settlement (Gordon 2007). In contrast, Vietnam has a land mass of 310,070 sq km and a population of 82 million and was already highly urbanised by the end of the socialist period. Despite these different conditions, a transition in land use occurred very rapidly in both countries under liberalisation. Land reform since the 1980s involved instituting market based mechanisms and reforms to the state along good governance lines with the intention of improving transparency and reducing corruption in land transactions. Yet the path of land transition occurred, to a considerable extent, outside this official framework. In both countries, informal political dynamics featured prominently in these transitions and high levels of corruption and primitive accumulation in land became the most contentious area of governance during the liberalisation period.

The land reform programmes initiated by both countries under socialism had many common features. Both Tanzania and Vietnam aspired to overturn inequality in land ownership and strengthen communal land rights while keeping ultimate control over land vested under the central control of the party-state. The collective agricultural system that both countries attempted to install was also very similar (Kerkvliet 2005). The collectivization programmes made a proportion of land in each village communal, under the control of the village level party institutions, while peasants continued to have control over a small amount of land for domestic production. In both countries this system was subverted from the inside as peasants effectively used the communal lands for private production and tried to withhold their labour from collective production. Land transactions between individuals occurred illegally within this framework. By the early

1980s, the official land rights system was increasingly dysfunctional and was seen to be a critical barrier to driving up agricultural productivity.

The reforms that were implemented since the mid 1980s tried to mediate between the desire to maintain equity and the rights of smallholders. They sought to institute market based reforms while maintaining the power of the state to manage the land transition process in the national interest. The economic justifications for these different approaches relate to different theoretical perspectives on the role of property rights in economic development, ranging from 'land to the tiller' type arguments to the standard market orthodoxy of neoclassical economics. A full discussion of the theories behind these arguments is beyond the scope of this thesis. However, it is worth outlining briefly the theory that has become the dominant influence on official reform in both countries among the competing elements that have informed the new corpus of land policy. In recent years, the drive has been for individuation, formalisation and marketisation of land rights. This approach has been popularised by Hernando de Soto's 'The Mysteries of Capital' (de-Soto 2000) and promoted across developing countries and with International Financial Institutions through his Institute for Liberal Democracy.

This theory holds that the most important element of land reform is to grant secure and formal rights to land for individuals. This transforms the 'dead' capital of the poor into potentially productive capital. Land transactions in an efficient market are then able to re-allocate land to the most productive users, in turn resulting in higher levels of growth. In addition, the land market reforms need to be supported by an efficient, corruption-free and transparent state system for granting land rights to the poor (de-Soto 2000). There are a number of problems with this theory, not least that it is based on the idealised market of neo-classical economics that has little basis in the realities of developing countries. The theory also overlooks the historical record that shows that capitalism emerged in contexts where property rights were highly unstable for the many; widespread security of property rights resulted from capitalism and wealth rather than the reverse (Khan 2004). Further, the amount of land that is actually owned by the poor in developing countries is often so small that realising its capital value has a negligible impact on the owner's chances of pulling him or herself out of poverty.

The realities of land reform in Tanzania and Vietnam are in stark contrast to the idealised theories that provided its intellectual foundation. Over the period of reform, types of corruption and unlawful primitive accumulation, as well as legal forms of primitive accumulation such as compulsory land purchases, became more prevalent in land transactions than in any other area of state activity in both Tanzania and Vietnam (Dang 2008), (Shivji 1998). This is not surprising given that land expropriation under various guises is the archetypal form of primitive accumulation (Marx 1990). It is clear that many of the land transfers in Tanzania and Vietnam since liberalisation were accompanied by examples of grave injustice towards existing land owners, where land was expropriated forcefully or without adequate compensatory payments. To identify the impact of these transfers on the path of economic transition under liberalisation is more complex. Establishing the political contours of corruption and primitive accumulation in land transfers is critical to understanding their implications for economic growth in Tanzania and Vietnam.

In Vietnam the land transition was shaped by the fast pace of industrialisation. The transition from small scale agriculture to industrial and commercial activities was, to a large extent, mediated by the state but not through the formal system established by the land reforms since Doi Moi. The most contentious land struggles occurred in rural land near cities. Here, land was in high demand for development, both as industrial zones and for residential and commercial use. While the central VCP institutions sought to control the land transition primarily in the interests of rapid economic development, it was the lower levels of the VCP that had had the most direct control over land transactions. Increasing commercial interest in land transactions at the lower end of the state generated corruption and political manipulation over markets. While this led to speculation and hoarding of land in some cases and the transfer of land to inefficient users, there were sufficient transfers to more productive users to largely accommodate Vietnam's rapid industrialisation process under liberalisation.

This chapter starts by providing the historical context to land transition from the colonial and socialist periods in Vietnam. The main features of land policy under liberalisation are then described. The impact of formal and informal land transactions in rural areas and in the creation of industrial zones is examined and the role of SOE and VCP institutions at the provincial and district level is established. The outcome of these processes on economic transition is related to features of the political settlement in Vietnam. The Chapter then sets out the main historical features of land management in Tanzania and the changes to land management under liberalisation. The impact of corruption and informal primitive accumulation are examined through transactions that occurred in land for mining and agriculture and in urban areas. In both countries, aspects of the formative socialist political settlement endured under liberalisation. The distribution of rural land was fairly egalitarian and organised political competition was largely constrained by the Party institutions. These features minimised the number of serious case of political conflict generated by the rapid land transition that was occurring in both countries under liberalisation. However, in neither country was the land transition process directed 'from above' by the central state. Instead, political dynamics at the lower levels of the Party and society were more important for explaining the outcome of land transition. The pattern and economic consequence of this decentralised land transition were very different in the two countries and this is also related to important differences in the evolution of their political settlements.

5.2 Vietnam

5.2.1 Historical Overview of Land Management

Prior to the colonial period, land was predominantly administered by autonomous village level structures where community members had rights to use land but not to sell it. The succession of feudal dynasties that ruled Vietnam before the arrival of the French attempted to introduce more centralised land management on top of these traditional practices (Tinh 2001). Throughout the colonial period, the economy remained dominated by peasant agriculture based on small plots of land; however there were changes and divergences in the pattern of land tenure in the north and the south. In the south, there was a more rapid process of land concentration and land dispossession. Land expropriation in the south led to large tracts of land being given by the colonial state to French investors and to some Vietnamese, primarily from a small group of rich southern Vietnamese bourgeoisie, who rented the land out in small parcels for continued rice production. Wolf (1969) estimated that there were around 7,000 Vietnamese who became owners of large estates. The rapid expansion of rubber plantations, mainly owned by French companies, up until the end of the 1920s was also a cause of growing concentration of land and landlessness (Kalikiti 1999). By the mid 1930s large land owners owned about half of the arable land producing rice in the Vietnamese south and a growing class of landless tenants constituted around 57% of the rural population (Wolf 1969). Most farmland was either owned by French plantation owners or by large Vietnamese land owners, with 53% of farmland owned by only 3% of the indigenous population (Do and Iyer 2008).

In the north, colonial land grants never reached the same scale in the areas that were protectorates. Across the whole of Indochina, speculation and land hording was rife, leading to a situation where only around 40% of cultivable land was actually under production (Murray 1980). The redistribution of land to peasants by the Viet Minh was an important way of mobilizing support in rural areas for the anti-colonial struggle. In practical terms, this meant that by the time French colonial rule came to an end in 1945, approximately one-quarter of cultivated land had been redistributed to the peasants (Kerkvleit 2006). In the north, after 1945, a radical land reform programme was adopted and around 73% of land was redistributed (Kerkvleit 2006), benefitting over 2 million peasant farmers.

The human cost of this land reform process was, however, extremely high. The figures for the number of land owners killed at the height of the land reform process vary considerably. Kolko (1997) estimates that between 5,000 – 15,000 land owners were killed by peasant courts and around 20,000 people imprisoned, while others have put the figure for the number of people killed as high as 50,000 (Fall 1963). In August 1956, Ho Chi Minh apologized to the nation for the excesses of the land reform policy (Kolko 1997). Beginning in 1958 the party introduced collectivization in the north and by the end of 1960 nearly 90% of farming households were in collective cooperatives (Kerkvliet 2005). While the land reform programme was very popular, collectivization had less support. Under the collective system all households were paid a share of output depending on the hours that they had contributed to work on the local communal land (Do and Iyer 2008).

In the south the initial system of land management followed a very different path from the north. Under Ngo Dinh Diem, land holdings became more unequal and there were growing numbers of large privately owned farms. This led to increased rural unrest and support for the Viet Minh. Attempts to reverse this process and win rural support were launched with a 'land for the tiller' programme in 1970 which gave greater land rights recognition to small holders and involved some redistribution of land to the poor (Dacy 1986). In the last years of the Southern regime however, large parts of the rural south were under de facto control of the Viet Minh who implemented land reform in the areas they controlled.

On re-unification there were attempts to institute radical land reform and collectivization in the south but commercialization of agriculture had already taken root and was harder to dismantle (Beresford 1988). By the early 1970s there was a perception that the rules of collective farming were being flouted and a major campaign to reverse this trend and improve collective farming was introduced. Yet by the end of this decade it was clear that the collective farming system was running into difficulties as agricultural output fell and discontent in rural areas became widespread (Kerkvliet 2005). Across Vietnam, the collective system started to fragment from the inside as farmers found ways to subvert the requirements of collective farming and use their land for private production (Kerkvliet 2005). While farmers had no rights to sell or lease land, in reality informal arrangements occurred relatively frequently which allowed famers to by-pass the state and buy or rent land from other farmers. The formal process of land redistribution coupled with the limitations on private accumulation and limited impact of 'socialist' primitive accumulation of land means that land distribution was highly egalitarian by the end of the socialist period.

5.2.2 Land Reform Process Since Doi Moi

In many ways the 1988 Land Reform Act was a formalisation of the informal markets that had developed under the formative socialist political settlement. The 1988 Land Laws granted greater rights to occupiers but did not extend to full ownership rights over land. The most important component of the new law was 'Resolution 10' that permitted land that had previously been owned by cooperatives under the collective system, to be allocated to organisations, households or individuals for long term use. Land was distributed to households through the local commune, the lowest level of the state in rural areas. Further, land that was owned by farmers prior to 1975 was supposed to be reallocated to the original owners (Do and Iyer 2008). The 1988 Land Laws, however, forbade the selling of land. Thus, while land transactions continued informally there was no official market for land. These land reforms were credited with dramatically increasing agricultural output by giving producers greater control over their surpluses and improving incentives for longer term investment in agricultural capital (Van-Arkadie and Mallon 2003).

Subsequent changes to land policy in Vietnam focused on three, sometimes conflicting, areas. These were, first, the granting of secure tenure and establishment of land markets through Land Use Rights (LURs), second, the decentralisation of land administration and particularly the process of land use planning, and third, improving the processes of compulsory land purchase by the state. Dissatisfaction with the pace of the emergence of formal land markets led to the introduction of new land laws in 1993. The central focus of these laws was to expand the coverage of formal titles to land and to establish efficient land markets. This involved the introduction of land title certificates called Land Use Rights (LURs). Formally, the LURs did not confer full ownership of the land; this remained with the state. Nevertheless, the certificates conferred five critical rights over land. Holders were given the right to exchange, transfer, lease, bequeath, gift or mortgage land and to use land as a guarantee. Thus, to all practical purposes the LURs conferred the rights of ownership to holders. Further, possession of a LUR permitted the householder to receive compensation in case of land recovery by the state and allowed them to use their land as a form of capital contribution to enterprises wishing to use their land.

The idea behind these reforms was that a market in LURs would address the initial inefficiencies in land distribution following the allocation of communal land by administrative means after the 1988 land laws (Ravallion and van de Walle 2006). The formal pricing system for land, however, remained largely under the control of the state through statutory pricing formulae based on the intended use of the land and the status of the purchaser (AusAID 2001). This opened up significant divergences between the official price of land and the cost of land in shadow markets, where the price of land could be three to four hundred percent higher (AusAID 2001). Attempts to address this anomaly were introduced with the amendment to the Land Act that aimed to create a more market oriented mechanism to 'price' land and grant further rights to business holders of LURs (Carlier and Tran 2004).

Under liberalisation, there was a decentralisation of control over the formal land management system. Thus, by law, while all land belonged to the state, in practice local government played the most important role in implementing and interpreting national guidelines and laws (Kerkvleit 2006). At the local level it was the commune People's Committees that were most involved in the formal land management system. In order to claim title over land, an individual had to apply for a land use certificate through the commune level People's Committee. Commune party structures had to work with state institutions in the next level up to get approval for certain forms of land sales and activities. The District Bureau of Land Administration (DBLA) held the information on local land ownership. A land registration committee, made up of the DBLA and representatives of the party committee at commune, district and provincial level assessed transfer applications. Once the committee had made a decision, a public meeting was held to announce the decision; disputes were aired and if unresolved were forwarded to the General Department of Land Administration (Do and Iyer 2008). In 2004 an amendment to the land laws introduced a registration system through a network of district Land Registration Agencies (Carlier and Tran 2004).

The granting of LURs initially proceeded at a slow pace. By 1999 only 11% of urban households had received land use certificates (AusAID 2001). The slow pace of allocating LURs restricted the growth of private sector economic activity. LURs were critical for gaining credit and for engaging in joint ventures with foreign companies. Foreign companies were not allowed to own land directly, nor were domestic firms legally allowed to rent land directly to a foreign enterprise. A private enterprise, however, could contribute its LUR, often its most valuable asset, to a joint venture with a foreign company on condition that the land rent was paid for the entire lease period or that the rent for the land had been paid in advance for at least five years. In practice, these financial requirements restricted most private enterprises from taking on joint ventures with international companies. In contrast, SOEs continued to have privileged access to land under liberalisation, although there were some formal restrictions on their abiliy to lease land out to other companies (Carlier and Tran 2004).

As well as granting title, the state managed land through land use planning and through compulsory purchase orders under liberalisation. Land use planning played a critical role in the transfers of land to new economic activities. Land could not be formally acquired for commercial or industrial use without having been included as such in local land use plans. Formally, this process was managed by the state at the provincial, district and commune level. The consequence of such planning was to control the amount and location of land available for development (Hung 2007). The process of land use planning was central to the establishment of Industrial Zones. These Industrial Zones were critical for Vietnam's economic transition under liberalisation but their establishment was also a focus of conflict over changing patterns of land ownership.

Compulsory purchase of land was an important aspect of the formal process of land management under liberalisation. Land rights could be claimed by the state through Compulsory Purchase Orders for various reasons including national defence, company bankruptcy, wrongful use and for the purposes of economic development. Economic development was the most common justification for the state engaging in compulsory purchases of land under liberalisation (Hung 2007). While compulsory purchases could be directed by the central state, it was, in most cases, the local party institutions that managed this process. Once land use plans had been devised by the local People's Committee, the state could require existing land owners to sell their land to the state. Prices were determined by People's Committees. The prices that owners of land received depended on the use to which it was currently being put. For example, a farmer would receive the official rate for agricultural land, rather than the official price for industrial land even though it was intended to be used for industry (Hung 2007). In fact, official prices used by People's Committees were generally much lower than the non-official market prices that owners would receive if they were not forced to sell the land through Compulsory Purchase Orders. This was one of the major reasons for conflict around Compulsory Purchase Orders, as is discussed below. The 2004 amendment to the Land Act strengthened the state's ability to use Compulsory Purchase Orders, particularly to re-claim granted land that it deemed to be under-utilised (Carlier and Tran 2004).

5.2.3 Corruption and primitive accumulation associated with land transition under liberalisation

The outcome of the new land laws was a formal land management system based on increasing marketisation but with significant powers vested in the state through land use planning and compulsory purchase orders. The reforms were designed to improve the governance of these state-led processes by devolving power to the local level. The reality, however, was very far from this, with the land sector increasingly dominated by informal arrangements and corrupt practices. Over the period of liberalisation, a land transition occurred very rapidly, yet most land transactions involved informal arrangements rather than operating through the official channels outlined above. Informal arrangements also operated through the official channels because officials had considerable discretion and often ignored the formal system. For example, over 95% of household land was bought and sold outside the formal system for purchasing LURs in 2000 (AusAID 2001). The dominance of the informal land market meant that a dual pricing system operated in Vietnam: one price was the official price of the LUR as determined by the state. This depended on the intended use of the land and who the leasing parties were. The second was the market price. This bore little relationship to the official price (Carlier and Tran 2004). The informal market price reflected the necessity of paying illegal side payments to the local authorities responsible for issuing the LUR.

In fact, over the period of reform, land constituted the most corrupt sector in Vietnam (Joint Donor Report 2005). Illegal land dealing became so widespread that the land market in Vietnam was seen as one of the least transparent in the world. Jones Lang LaSalle, a US-based real-estate-services provider, rated Vietnam's real-estate transparency index as the lowest among 56 countries it surveyed (Lam 2006). Corruption related to land involved a multitude of different activities. These included taking advantage of state projects to appropriate or share land; abuse of power to award favourable land settlements or sell land below official prices to companies offering kickbacks; and seeking to profit through land grants, especially for investment purposes. Gifts or bribes were also demanded to perform formalities related to land, such as land allocation, land lease, land rights transfer, land use certificate granting, land compensation and site clearance (Molen and Tuladhar 2006).

On occasions, cases of corruption in land, such as those described in the next section, involved actions by the central party institutions. Provincial level party institutions were also implicated in corruption and illegality surrounding the establishment of larger Industrial Zones (Lam 2006). Yet, the vast majority of corruption cases involving land that came to light through the media involved illegal actions by the state at the lower levels, particularly at the commune and district level. For example, in 2009 Vu Chi Thanh, a former vice chairman of Haiphong People's Committee, and eight other officials and civil servants from Haiphong were prosecuted for having inappropriately allocated hundreds of acres of land lots from an "urban housing project for the poor" to family members and officials from various offices in Haiphong (Bureau of Democracy 2010). Land use plans were often manipulated by Commune officials to enable profiteers to buy land designated for agricultural use and then sell it under another category for vastly inflated profits (CECODES and Finland 2008).

One caveat to this portrayal of extensive land management corruption at a local level is that stories of corruption that were exposed in the press were usually tightly controlled by the central Party. Thus it may have been that the media coverage of local level corruption in land was officially orchestrated by the central party institutions in an effort to bring pressure on local officials to reduce abuses (Bureau of Democracy 2010). Notwithstanding the cover up of corrupt activities in land involving the central party institutions, the local level dynamics of corruption have undoubtedly had important implications for the outcome of informal land transactions for Vietnam's growth path.

5.2.4 Rural Land Transition

In many cases, corruption associated with land transactions did not occur in a way that necessarily restricted the pace of economic transition. On the contrary, there was a very rapid land transition to accommodate the dramatic speed of industrialisation and expansion of commercial agriculture in Vietnam. The type of land transition in rural areas, however, has been different from the land transition experienced in urban and semi urban areas. In rural areas, most of the land was still held by smallholder farmers across the period of liberalisation. The commitment to egalitarian land rights that was established under the socialist political settlement continued to be important under liberalisation. There were formal attempts to stop the emergence of large farms through legal restrictions on the amount of land any one family could hold. A household farming rice and other crops with short growing seasons was allowed no more than three hectares. For other kinds of crops, the limit was 10 hectares in lowland regions of the country and 30 hectares in upland regions (Kerkvleit 2006). Despite these restrictions, there was some concentration of land over the reform period with the emergence of large farms, particularly in the south (Akram-Lodhi 2005). Given that LURs were often sold informally in rural areas, as in urban areas, the pace of concentration may have been more rapid than was officially recognised.

Despite formal restrictions, some large farms started to emerge after Doi Moi, particularly in the South (Akram-Lodhi 2005). For example, while the 1993 land law set a maximum farm size of 5 hectares, by 1995 there were already 113,700 farms larger than this and 1,900 in excess of 10 hectares (Akram-Lodhi 2005). The process of granting land titles was faster in the south, particularly in the Mekong Delta (Hare 2008). In this area land was less fragmented and plot sizes were larger due to the more limited socialist land reform. The extent to which local state institutions in rural areas were complicit in the emergence of larger land holdings varied across the country.

Given the decentralised distribution of power within the VCP, the attitude of local officials to larger land owners and to 'outside' investors influenced this process. In some cases local officials hindered market based land transactions that threatened to push local farmers off their land. For example Ravallion and De Walle (2001) described a case where local officials resisted purchase of land by 'outsiders' and pressured the local commercial agricultural bank to refuse to accept LURs as collateral for loans. Probably the area where there was most contention was when local authorities were complicit in larger expropriations of land. As with the urban and semi-urban land transition discussed below, many of these land appropriations were for the purposes of infrastructural investment or for the creation of industrial land or state owned plantations.

Some of the largest land expropriations in rural areas were directed by the central state. Probably the most notorious example was the establishment of coffee plantations in the Central Highlands. The phenomenal growth in coffee production was linked to land transfers directed by the central level of the VCP in the Central Highland Provinces where 85% of Vietnam's coffee harvest originates (Greenfield 2004). The coffee farms have their origins in a massive state orchestrated resettlement program of ethnic Kinh to the borderland region to ensure political stability in the face of potential unrest from local ethnic groups. The state exercised its right to purchase land by compulsion to set up New Economic Zones in the late 1980s and early 1990s on land traditionally owned by tribal groups and encouraged ethnic Kinh to move into the area and establish coffee farms.

The economic success of coffee production attracted a massive flow of migration into the area. This further hastened the transformation of land into coffee plantations. An estimated 80% of coffee trees in the Central Highlands were owned by small scale farmers with less than two acres while the remaining 20% were owned by the state-owned Vietnam Coffee Corporation (VINACAFE) (Greenfield 2004). Thus, while small holding farmers were the main producers, their access to land was a result of actions by the Central VCP institutions. The region faced unrest and riots by ethnic minority groups unhappy with the state led expropriation of their homelands (BBC 2001). In 1997 the worst episode of unrest since the end of the war occurred in the Central Highlands in north-eastern Thai Binh province, with protests involving thousands of people against land distribution (Johnson 2001). Small scale uprisings against land appropriations by local government in rural areas were relatively frequent across the reform period (Kerkvleit 2006). While these incidents of revolt against land expropriation may have slowed down the land transition in certain cases, for the most part the transition has occurred without generating significant political unrest. The consolidation of political power within the institutions of the VCP under the formative socialist political settlement probably helped the VCP to maintain a high degree of social order in spite of the rising tensions around land over the period of liberalisation.

The example of central state interventions in land to support coffee expansion supports the argument that the central state in Vietnam did have a degree of control over property rights transition that was also described in the previous chapter in terms of its control over redistribution of oil rents. However, similarly to the case of public finances, the control of the central state was subject to on-going challenges from lower levels of the state that had significant power. Thus, while the central state was initially successful in its intentions to encourage coffee expansion, it was unable to push through its policy of restricting the output of coffee in the face of collapsing global prices. In 2000, the global price of coffee had fallen dramatically due to rapid increases in supply. The Vietnamese state announced that it would stockpile coffee in order to push up global prices. Despite this formal policy, the state was unable to restrict the supply of Vietnamese coffee onto the global market and traders continued to sell coffee above state imposed quotas

(Greenfield; 2004). Further, agricultural policies to encourage diversification into higher value added coffee and coffee processing have been largely unsuccessful (World Bank; 2004). The failure of central state policies to encourage technology acquisition are further explored in Chapter six.

5.2.5 Industrial Zones

Notwithstanding the tensions in the highland areas, the major pressures on land and the focal points for political disruption linked to corruption and mismanagement were in semi-urban areas and rural areas near large cities. Extensive conversion of land from agricultural use to industrial and commercial use took place in these areas under liberalisation. Rapid industrialisation led to construction of housing, infrastructure and industrial zones on formerly agricultural rural land on the outskirts of cities. The pace of transition was very high, but exact figures are difficult to obtain as prior to the 2003 land laws, land for industrial and commercial purposes was simply included in the 'special use' category of non-agricultural land (Hung 2007).

Local institutions of the VCP engaged in formal and informal land transactions that promoted and facilitated investment. Making land available for investment in infrastructure, new industries, commerce and residential properties offered opportunities for job creation and economic growth, but also for personal enrichment by officials in Party Committees at the commune, district and provincial level. As outlined in the previous chapter, many infrastructural projects were undertaken by coalitions of local People's Committees, SOEs and foreign investors. This encouraged Party Committees to engage in the illegal or informal sale of land to investors. Investment projects often bought 'kick-backs' to commune leaders. Land was the critical resource over which local Party Committees and SOEs had control. Where local budgets were limited, or central funds were not forthcoming to fund new projects, land sales to investors were often used as the main mechanism for financing infrastructural deals. Direct land swaps by the state with private investors also became common (Thanh and Dapice 2009). These deals were often problematic as they were usually non-transparent and provided scope for corruption, inflated investment costs and loss of state resources. They also created incentives for private investors to take on non-viable investment projects in order to get valuable land in return (Thanh and Dapice 2009). Land transfer arrangements in HCMC were particularly important given the rapid growth of the economy and the high price of land.

Investment in transport infrastructure often came with lucrative land swap deals, for example the road infrastructure investments that have taken place in HCMC (Rosengard et al. 2007). In 2007 and 2008, the provincial government signed memoranda of understanding with three large construction companies, from Vietnam, South Korea and Malaysia, for the construction of new toll roads in HCMC. Despite the offer of toll revenue, the deals also came with additional land access and lucrative rights to develop housing and commercial properties. The ability of the state to offer land to private investors pushed up the rate of investment and allowed increasing private sector participation in public sector investment projects. The Phu My Hung residential area is an example of this. The city granted the residential property rights to 600 ha of land to a foreign company that wanted to invest. In return, it received a 30% share in the joint venture and was able to raise further finance to build the road infrastructure of the surrounding area (Rosengard et al. 2007). Within the context of the vibrant HCMC economy, much more land was developed without the city's equity participation. In other areas of Vietnam where the economy was less dynamic offers of land for investment deals have not been so successful (Anh, Thai, and Thang 2007). (These cases are discussed in chapter 6)

Such activities could not however continue completely without sanction from higher levels within the party and many communes used up to a third of the revenues generated from such sales to pay off higher levels of the state, the district or the provincial level (CECODES and Finland 2008). Researchers for the Finnish Embassy in Vietnam found that in Trieu Son District, Thanh Hoa Province, 16 communes revealed they had all sold land illegally, with the cost of side payments to officials at the district level and above (called 'transaction' and 'reception' costs) accounting for 30–35% of the budget (CECODES and Finland 2008). From the 1990s, the central state defined investment in infrastructure as critical to its national goal of promoting economic growth. This led to a situation where local Party Committees were keen to put investment projects in place that would gain approval from higher levels within the VCP on the basis of their contribution to economic development. However, many of these projects were also about securing property rights over land for local party institutions. Many district and commune Party Committees tried to take advantage of access to land that could be offered by the state for economic development by setting up infrastructural development projects which would then be allocated land (CECODES and Finland 2008).

Land and housing sales became an increasingly important part of local government finances. All housing and land tax were assigned to the local level. Taxes related to land included the land transfer tax, the agricultural land use tax (which was phased out from 2003), land use fees, rental of land, proceeds from the sale and use of state owned houses and buildings and Land registration fees (Hanai and Huyen). As described in Chapter Four (p x), the high revenues from land were not a result of Vietnam implementing an effective modern property tax. The importance of revenues generated through land transactions were particularly important at the district and commune levels of the state. However, they were also very important for city level provincial governments of HCMC and Hanoi where land sales and sales of government housing was an important one-off source of revenue. For example, 80% of licences and registration fees, the second largest single source of local revenue for HCMC, came from the registration of new and transferred real estate in the early 2000 (Rosengard et al. 2007). Other sources of income from real estate include annual fees and charges on land use. HCMC's non-regular income generated from one-off activities of the city has a very high dependence on the growth in the real estate market with the share of the contribution to revenue from the sale of land use rights and buildings rising from 30% of special revenue in 2001 to 70% in 2004 (Rosengard et al. 2007).

As well as the needs for land transactions to generate public revenue, the proliferation of business interests within the VCP at the local level also encouraged a rapid land transition. Local Party Committees were interested in promoting land transition as they profited directly from land sales through the establishment of land holding companies and real estate agencies (Gainsborough 2003). The department and district levels were particularly prolific in establishing housing and land companies to take advantage of the rising land prices in Ho Chi Minh City (Gainsborough 2003).

Many of the local VCP commercial activities in land were purely speculative and did not facilitate a productive land transition. However, land transactions of local VCP institutions did also contribute to the rapid development of Industrial Zones.

Establishing industrial zones became very attractive for local VCP institutions from the 1990s. Industrial zone creation allowed the local state to make money on the sale or lease of land to the companies operating the zones and subsequently the companies locating in the zones boosted the tax revenue and employment in the area. Provincial line ministries, particularly the Ministry of Construction and the Ministry of Agriculture, also derived income from the sale of large tracts of land (Hung 2007). The creation of industrial zones was largely a politically driven process involving non-market transactions under provincial and district authorities. After the first step of land use planning outlined above, the compulsory land recovery process gave the local state discretionary powers in terms of site approval and lease or allocation approval.

Land in industrial zones was in very high demand and it often took two or three years for a firm to be allocated land within an industrial zone. Firms often had to provide extra benefits required by the local authorities to gain leasehold, for example by promising to employ a proportion of their work force from the local area. In well managed zones, land was very expensive, out of the range of most domestic private firms, while cheaper industrial zoned land tended to be in 'uncleared' industrial zones where firms had to face the costs of compensation to existing occupiers and to prepare the land. In addition, infrastructure services in these sites tended to be limited (Carlier and Tran 2004). The poorer and more remote provinces have tended to impose higher entry requirements for firms wishing to locate in their industrial zones, for example with local input and employment requirements. Hence, while the formal price of the land is cheaper, the other costs make such options less economically attractive (Carlier and Tran 2004).

By the end of 2004, 162 industrial zones had been approved by the government and 68 were in operation, while 44 were under construction. The political implications of the expansion of industrial zones was significant given that seventy-six percent of land in industrial zones had been converted from agricultural land and on each site an average of over two thousand people had been affected (Hung 2007). The prices used to compensate occupiers for the acquisition of land use rights over their land proved to be one of the most contentious areas. As described above, prices for land taken under compulsory purchase orders were determined by the relevant People's Committees. Farmers were only entitled to receive compensation based on the value of their land for agricultural use and therefore, did not share from the increase in value when the land was converted into industrial use (Hung 2007). The problem of providing adequate compensation to existing land users was exacerbated by the fact that compensation levels were often inconsistent across administrative boundaries and across time so that farmers from the same area received different offers of compensation relating to the same development project.

As a result, the creation of 'new' industrial land from re-zoning of agricultural land faced stiff political opposition from existing residents and users of the land. Such opposition has slowed the process considerably. The state sometimes responded to this by engaging the security forces to induce residents to move off land under compulsory purchase (Hung 2007). In some cases, land disputes disrupted investment plans. An example of a very large scale investment project that was delayed by land disputes was at the 30 hectare An Khanh Industrial Zone in the Ha Tay province outside Hanoi. The residents of the area resisted the conversion of their land for many years claiming the compensation that they were being offered was too low. Many of the enterprises that were allocated land subsequently failed to find sufficient funding to initiate production in the Zone as investors were frightened off by the conflict (Carlier and Tran 2004). Another example occurred in the construction of the Trung Trac Industrial Zone in Hung Yen province. Here, additional retrospective compensation demands were made on enterprises that had received land use rights in previous years (Hung 2007).

While corruption in land in many cases did not constrain economic growth, there were cases where the informal political pressures that mediated land management had a clear negative impact on investment. In some cases, the interests of local government in profit making from land went against the interests of the central party to achieve development goals. As well as exposing local level corruption in land in the media and pursuing local corrupt local officials through the courts, the central party institutions tried to impose greater control over local party management of industrial zones by for example, setting time limits on approval processes (Hung 2007). In reality, the power to control land seemed to be largely within local hands. An example of different levels of government struggling for control of land can be found in a major foreign investment deal involving Tata Steel. Tata Steel's proposed steel project was delayed because of problems over land allocation. The USD 5 billion steel project was a joint venture between Tata Steel and the Vietnam Steel Corporation and the Vietnam Cement Industries. The project involved the construction of an integrated steel mill in the Ha Tinh province. The Planning Department gave clearance for 1,100 hectares of land to be available for the project within an economic zone. Problems emerged, however, as the local VCP organisation had granted land access to firms in parallel to the central VCP institutions. Too many projects were accepted within the same economic zone by the local authorities in charge of setting up the industrial zone and there was not sufficient space to accommodate these firms alongside the proposed steel mill (John 2008). It was not immediately possible for the central state to grant the land that it had promised to Tata Steel, despite the considerable size of investment and the fact that it had been firmly behind the investment deal.

Another impact of the greater power of local level VCP institutions on land transition was that they often lacked sufficient staff and budgets to manage the land transition well. This meant that frequently the offices responsible were weak and there were overlapping responsibilities and control between the provincial level and district state authorities (Gomez-Ibanez 2008). Further, the content of land use plans tended to be based on politically generated targets (Hung 2007) influenced by where real promoters and city officials believed the profits would be highest and the resistance lowest (Gomez-Ibanez 2008) rather than on rational planning to accommodate changing economic demands for land.

Many private sector businesses faced restrictions on growth because of lack of availability of suitable land and the high price of land. Tenev et al (2003) found that most companies said they would expand if they had more reliable and cheaper access to land. Despite the growth in officially designated land for national and foreign firms, most industry and commerce owned by domestic businesses was not located on land that had been officially designated for such activities. Very few domestic private firms could afford to operate within an Industrial Zone or hold the correct LUR. As a result most domestic private businesses had to rely on their own residential land. This is clear from the evidence gathered by Tenev et al (2003), in Table 5.1 below, who interviewed 746 private enterprises on their land tenure across Vietnam.

Table 5.1: Land Tenure Type

Land Tenure Type	% of sample
Leasing land in industrial zones	8%
Renting residential land from households	13%

Renting land from SOEs	14%
Using owners residential land	50%
Other	15%

Source: Adapted from Tenev et al (2003)

Overall, expansion of economic activities was restricted by the high formal and informal cost of land in Vietnam under liberalisation. These high prices were partially a reflection of the fervour of activity in land markets, often driven by the actions of local party institutions which had hoarded land to make profits for their related businesses in real estate and land management (Gainsborough 2003). Rising land prices were a major feature of the economy since the mid 1990s. There were intense periods of land price speculation, for example in 1995 and in 2000. During these periods, market prices rose to among the highest in the world relative to GDP (Carlier and Tran 2004). Another factor in the lack of availability of suitable land for expansion of economic activities was the control that SOEs exercise over land. SOEs had privileged access to land as they were granted land for an indefinite period by the state or paid rents to the state at a subsidised rate of twenty to forty percent of the market based rents (Staff 2009). SOEs typically had more land than they could use efficiently, while private enterprises had to wait many years to be allocated appropriate land officially (Tenev et al. 2003).

Formally SOEs were only permitted to use the land for the purposes for which it was allocated and were not allowed to sub-lease or sell it without permission from the state. In addition, as land was treated as having no consumption value in the Marxist value theory adopted by the state, the price at which SOEs were evaluated for equitization did not formally reflect the value of land which they occupied. In reality, land was often the most valuable asset that SOEs had under their control. SOEs had little incentive to lease or sell their land through formal mechanisms as they were not officially allowed to retain the proceeds. In some cases, SOEs rented their land illegally. For example, an investigation by the provincial Economic Committee in HCMC found that more than 3.8 out of 6.3 million square metres of public land lots and houses allocated for use by SOEs were being illegally rented out to the private sector (Staff 2009). In many cases, however, SOEs simply occupied the land without putting it to productive use. For example, in HCMC, land lots of up to 60,000 square metres owned by SOEs had been neglected and left unused for years (Nam 2009). The attitude of provincial Party institutions to SOEs hoarding land in this way was ambiguous. While the provincial Party Committee of HCMC revoked 165 plots owned by SOEs, covering 605,900 square meters (Nam 2009), SOEs would not have been able to maintain control of the land nor engage in illegal renting or sale of their land without the complicity of the local and provincial level administration (Staff 2009).

The ability of the lower levels of the VCP and SOEs to exercise significant political and economic control over the land transition under liberalisation facilitated certain forms of land transfers where they had a direct economic interest. Similarly to the situation with regard to corruption in public finances, if a faction within the VCP at the local level could find a way of using land that provided enough return to satisfy that group, it could feasibly go ahead with the action. Competition between lower level organisations may have driven officials to look for productive uses of land that could generate greater returns over time and, therefore, attract greater protection from higher levels within the VCP. However, this distribution of power also meant that the central VCP could not effectively discipline lower levels of the Party and many land transactions were merely speculative, rather than productive.

5.3 Tanzania

5.3.1 Historical Overview of Land Management

The struggle to tame the land in a context of low population density meant that over most of Tanzania during the pre-colonial period, the pattern of land use was primarily based on shifting cultivation patterns (Iliffe 1979). There were varying practices surrounding land tenure under different social and agricultural systems such as pastoralism, banana cultivation in areas of heavy rainfall, special areas of intensive cultivation such as the irrigated settlement at Engaruka and on the island of Ukara in Lake Victoria where all land was owned by the oldest male in the household and was divided between sons on marriage (Iliffe 1971). Changing land tenure would also have been driven by trade with Zanzibar whose growth as a major trading centre for slaves and ivory caused increasing demands for food, which led to agricultural specialization and exchange production in mainland Tanzania (Iliffe 1979).

The exchange driven processes of change in land tenure as a result of trade with Zanzibar were brought to a halt with the German conquest of Tanganyika in the 1880s.

As under other colonial regimes (Mamdani 1997), the Germans introduced a dual land tenure system based on the distinction between 'customary' land rights and statutory land rights. Customary rights were based on the assumption that individual ownership of the land did not exist traditionally in Tanzania and did not need to be protected in law. Among peasants and pastoralists, therefore, ownership was established through membership of a 'native' community, these ownership rights had no legal protection through the colonial state (Tenga). As outlined in Chapter Three, village level chiefs who had been elevated to official positions within the colonial government structure were responsible for land issues. They depended on the support of powerful clans and families within the village (Daley 2005). Their role was to maintain the traditional patterns of land transaction and land holdings while at the same time implementing colonial policy towards increasing the productivity of peasant agriculture. In contrast, in the urban sector and on plantations, land ownership was controlled by statute, and ownership was supported by documentary proof in the form of title deeds. Probably one of the most important aspects of colonial land policy was the vesting of radical title, and thus the ultimate ownership and control of all lands, in the state.

This land rights structure was concretized under the British with the Land Ordinance of 1923 (Shivji 1998). The British land policy continued along the same basic principles established under German colonialism. The policy aimed to protect settlers and plantations in the face of conflicting interests with existing peasant communities. Land could, therefore, be alienated from peasants to new settlers on the basis that the land was not in productive use (Shivji 1998). However, the colonial state was also unwilling to push a radical programme of land transition in the face of political resistance from Tanzanians. The ambiguous attitude towards customary tenure was perpetuated, partly as a result of the status of Tanganyika as a Trust Territory under the League of Nations. This had imposed a duty on the British to protect indigenous rights with the long term aim of eventually returning the land to Tanzanians. There were increasing pressures for change in land tenure during the British colonial period. The first was the development of plantation and settler agriculture, the second was the evolution of African capitalist farming, which was encouraged by the colonial state after 1940. The promotion of settler agriculture never became official colonial policy under the Germans, or the British, and thus remained modest for most of the colonial period. By the time that the plantation sector had grown to a substantial size, a rival African cash crop sector had developed (Iliffe 1971).

In terms of the consequences for land tenure, the limited spread of plantation agriculture meant that peasant land tenure patterns remained largely intact. This is in contrast, for example, to Kenya where the Kikuyu were expropriated by powerful European farmers. Prior to the late 1940s, the basic principle of British agricultural policy in Tanzania had been to preserve peasant farming and stabilize peasant farming systems through promoting forms of communal land tenure which the British had construed as traditional. This attitude changed towards a desire to increase capitalist farming following the second-world-war, partly due to the increased metropolitan demands for agricultural produce, but also due to the emerging political pressures from a class of wealthy African farmers (Iliffe 1971).

Despite the changing direction of colonial land policy as the colonial period drew to a close, peasant land tenure remained stronger politically than the emerging pressures for freehold and formal land markets. An attempt by the colonial Government to introduce individual freehold land rights to Tanganyika in 1958 was resisted by the nationalists. While in Kenya, nationalists campaigned for years for freehold rights, the nationalists in Tanzania, led by TANU, actively campaigned against this change (Iliffe 1979). While there was a growing group of African capitalist farmers who wanted to change the law, this group did not hold sufficient weight to influence TANU, which feared that the law would simply strengthen the non-African farmers that dominated the capitalist agricultural sector.

On Independence, in 1962, all land was nationalized and placed under the ultimate control of the President and in 1972 the Native Authorities that had held control in the regions were abolished. In terms of control over village level lands, this meant that formal responsibility was vested in the new Village Councils (Daley 2005), which in many places were simply a re-configuration of existing power structures at the village level. In 1967 the government also nationalized a number of large farms that had been established in the colonial period under leasehold tenure and set up parastatal farming companies (Coulson 1982), probably the best know of which was the Tanzania-Canada wheat growing scheme under the National Agricultural and Food Corporation (Freeman 1982).

These farm nationalizations were marginal compared to the vast area of land that was held under customary ownership. In this regard, the most important process concerning land in the post-independence era was the policy of Villagization which was a central component of Nyerere's Ujamaa programme.

The Villages and Ujamaa Village (Villagization) Act was adopted in 1975 with the intention of grouping people into viable villages rather than scattered settlements. The eventual aim was to establish co-operative farming of shared lands. In fact, the compulsory process of locating all rural inhabitants into recognised villages run by Village Councils started before this in 1973 and was the largest resettlement effort in the history of Africa. The Village Council had responsibility for allocating land to households. Each household was granted a homestead plot of 0.5 ha and communal lands were also maintained by the Village Council that were intended to be farmed and used co-operatively by the village inhabitants. By the close of the Ujamaa period, Tanzania had a more equal distribution of land compared to other African countries of a similar income level. For example, in 1983 Tanzania had a land Gini co-efficient of 0.35 while the Gini co-efficient was 0.55 in Kenya, 0.55 in Somalia, and 0.64 in Ghana (Ghai and Radwan 1983).

5.3.2 The Reform of the Land Laws

Parallel to developments in Vietnam, the formal land laws constructed around cooperative land ownership and villagization were beginning to fragment from the inside by the end of the 1970s (Kerkvliet 2005). This process was driven by villagers who resisted working on communal lands, the subversion of regulations surrounding land allocations by those with power within the village (Kerkvliet 2005), and population pressures which meant that village governments were no longer able to provide younger people and newcomers with land (Daley 2005). These features led to the emergence of informal land markets. In 1983 the National Agricultural policy recognised these changes and permitted private ownership of land within the boundaries of the village (Tenga). Despite the official policy that forbade formal village land markets prior to this, actually, there has been a much longer process of commodification of land within the communal, 'customary', land tenure systems that were dominant in Tanzania.

An extensive land reform process began in 1991 with the establishment of the Presidential Commission on Land Reform under Professor Issa Shivji. Its recommendations were to establish strong security for peasant land rights at the village level (United Republic of Tanzania 1996). A National Land Policy was adopted in 1995 and the final land laws were enacted in 1999. The Acts deviated from the conclusions of the Commission in a number of important areas. In the Acts, the Ministry of Lands, supported by numerous consultants sought to strengthen the role of land markets and the rights of new investors in lands as opposed to the Commission, which focused on securing customary tenure (Shivji 1998). The outcome was a set of laws that attempted to combine these contradictory pressures (Manji 2001). The final Acts had three main features; first, the formal registration of individual land claims, whether statutory or customary, second, increasing the marketability of land but with a high degree of bureaucratic discretion, and third, formalizing decentralised control over village lands under Village Councils. Thus the corpus of land reforms was very similar in many aspects to the land reforms implemented in Vietnam over the same period.

The new land legislation consisted of two land acts of 1999. These were the Land Act which covered the general category of land including urban and reserve land and the Village Land Act. Reserved land was defined as land that the state was planning to use for purposes such as environmental protection areas as well as land set aside for spatial planning and future infrastructure development. This accounted for around 28% of the land area. Village land was defined as land within the boundaries of the village. This category covered around 70% of land in Tanzania and supported 80% of the population. Only 2% of land was classified as general (mainly urban) land supporting 20% of the population (Kironde 2009). While the Village Land Act and the Land Act set up different processes for the recognition of land rights and rights over transactions, all land was still ultimately under the ownership of the President of Tanzania and he had the power to transfer any area of village land to the category of general or reserved land for the public interest. Further, unused or unoccupied Village Land was defined as general land in the Land Act, thus putting it automatically under the control of the President rather than the Village Councils (Olenasha 2006).

5.3.3 Title Recognition and Registration

Registering formal title over land was pivotal to the policy on land in Tanzania based on the economic logic outlined in the Introduction to this Chapter. Most land in Tanzania lacked formal records of ownership yet across the country land was 'owned' and used by groups and individuals without formal documentation and there were often multiple competing claims of ownership. One of the most important aspects of the Village Land Act was that it removed the distinction between customary and granted land rights by making both equally recognizable within the law (Palmer 1999). The processes for recognising and recording title were different according to the type of land. For general, reserved and urban land under the Land Act, title required statutory documentation to be presented to the Ministry of Lands, for development or use conditions to be fulfilled and any fees to be met. The Commissioner for Lands at the Ministry of Land, Housing and Urban Development (MLHUD) was vested with the formal role of approving titles but in reality this power was decentralised to District Land Officers in the 132 local authorities (Derby 2006). Five zonal land registries were established to record titles within their respective regions and feed information back to the central Registrar of Lands (Kironde 2009).

For Village lands, the intention of the land laws was to decentralise control to the village level. The Village Councils were vested with the formal power to register and administer land within their boundaries. Prior to this, Village Councils had maintained records of land ownership and transactions but these did not have the same formal status as statutory land rights recognised and recorded at the central level by the Ministry of Lands. Under the new laws, the Village Council was required to first obtain a certificate of village land that involved determining borders with neighbouring villages. The village was then required to identify three sorts of lands within its borders – communal village land, individual and family land, and reserved land. Villagers and non-villagers could apply to receive a Certificate of Customary Rights of Occupancy, which could be allocated by the Village Council based on the length of occupancy and development of the land. The Village Council would then issue a Letter of Offer stating development conditions, yearly rents and any fees (Sundet 2005). Once the fees had been paid and agreed, the Village would issue the Certificate of Occupancy and would register the land in the Village Land Register. This information would then be shared with the regional land registries.

On both General and Village lands, if development conditions were not met, the land could be reclaimed by the state and be re-allocated to new owners. This was supposed to reduce land speculation (Sundet 2005). Where disputes over ownership occurred for Village lands, the dispute resolution mechanism relied first on the Village Land Council Dispute Committee, set up as part of the Village Council. Impartial adjudicators could then be called upon if a resolution was not forthcoming. Finally, land dispute settlements could be decided by the Courts under the Land Disputes Settlements Act of 2002 (Kironde 2009). The courts, however, were very effective at resolving land dispute cases and the Commissioner for Lands retained an important role in adjudicating in land disputes. Despite the commitment to decentralisation, formal power over land transactions remained fairly centralised under liberalisation.

5.3.4 Buying and Selling Land

Contradictory pressures to create fully functioning land markets but also to protect small holders from expropriation by larger investors, meant that the intentions of the new land laws with regard to markets were rather confused. The Land Act itself set up a straightforward process for buying land in urban areas or under the category of general and reserved lands. If the land was free of title disputes and had already been registered at the Ministry of Lands the seller had first to obtain an official search at the Land Registry. If all taxes had been paid, then a valuation report had to be obtained. A government valuer would inspect the property to determine its value. The disposition of the property had to be formally approved by the Commissioner for Lands; in practice, this meant that approval had to be given at the level of the district land office. This required full documentation of ownership and an official valuation of the land. The official fees for completion of a land purchase transaction were very low. However, the actual costs involved in selling or buying land were usually much higher in reality due to the significant bureaucratic corruption in land management. Transacting partners often had to pay bribes to officials to recognise the various steps of a sale (United Republic of Tanzania 1996).

Informal land market transactions actually had a long history in Tanzania. In both the colonial and socialist periods, formal land markets were severely restricted. While the main direction of policy was to strengthen market processes, particularly through the

Land Act Amendment of 2004, there was still a high degree of bureaucratic control over land transactions under liberalisation. This political control over land transactions was exercised from the village level up to the highest level of the state. The level of the state that was in control of the transactions varied depending on the size and scope of the transaction in question. District land officers had an official and direct role in managing land. Considerable powers were vested in district council land offices to determine prices and allocations of land and to refuse to let transactions take place if they contravened numerous conditions, for example, that the land had not been sufficiently developed (Sundet 2005). For Village Lands, if the owner leased or sold land held under a Customary Right of Occupancy, it became a 'derivative' right. The state also held considerable powers over these 'derivative' rights transactions. The Village Council had the power to veto the issuing of a derivate right and to establish joint ventures with domestic and foreign firms who wanted to use Village Land.

For large investment projects, however, land sales were under the discretion of the central state. For land over 250 hectares, the final decision was reserved for the Minister of Lands. The new laws that vested considerable power in District level authorities and above for large land transactions meant that the ability of the Village Assembly to use formal mechanisms to halt a land transaction was weak relative to the formal power of higher level state institutions. In rural areas the people with the greatest formal political authority were the District Commissioners, the Regional Commissioners, (who were Presidential appointees) and important village leaders, who often also have an official position within the Village CCM and state institutions (Kelsall et al. 2005). Aside from the formal process of land management, those with formal and informal political power were able to influence land transactions under liberalisation through more informal forms of political mobilisation, such as by organising popular protests or bribing local security officials to harass investors.

The formal regulations surrounding foreign ownership of land were, on one level, unequivocal. Non-nationals were not allowed to 'own' land and individual Tanzanians were not allowed to sell land directly to non-nationals. There were a number of routes however, in practice through which foreign companies were able to gain rights to land in Tanzania. For Village Lands, investors had to reach a deal with the Village Council to put together a joint investment plan, which would then have to be approved by the District

Council Land Committee (Centre for Human Rights and Global Justice 2010). Once this was approved, the land would be transferred from Village to General status, making it available to be leased by the foreign investor. Foreign companies were allowed to hold derivative rights over this land. For land classified as General Land, foreign investors were required to go through the Tanzania Investment Centre. Foreign investors could formally only lease General lands if approved by the Tanzania Investment Centre and if they were in target investment sectors covered under the 1997 Investment Act (Sundet 2005). Compensation to existing land owners was based on rates determined by the Commissioner for Lands. As in Vietnam, compensation rates reflected what the land has been previously used for and in many cases where the land had not been formally developed, it was assigned a very low value, regardless of its potential value to the investors.

For Village Lands, in practice it was the investor who was responsible for negotiating and compensating existing land users. For General Land, the TIC was supposed to have undertaken negotiations with Villagers on behalf of investors. In order to facilitate foreign investment in Tanzania, the TIC established a Land Bank in 1998. This was essentially a depository of records of lands that were deemed to be suitable for investment (Olenasha 2006). Much of this land was the privatised land assets of defunct parastatals. Officially, the Land Bank had 743 land parcels which covered 3.14 million hectares of land. The idea behind the land bank was that the TIC would act as a mediator between the potential investor and the village and would, therefore, facilitate mutually beneficial land transactions. The success of the Land Bank was, however, quite limited. Some land was sold via the Land Bank, including land in prime beach locations and some land held by ex-parastatal companies such as the Mufindi Paper Mills in Iringa (Olenasha 2006). Local level conflicts over the land that was supposed to be in the Land Bank meant that in reality it was not a very effective way of delivering new land rights to investors (Global Exchange 2009).

5.3.5 Corruption and Primitive Accumulation Associated with Land Transition under Liberalisation

The formal arrangements outlined in the previous sections suggest that new investors should have been able to acquire land through transparent processes that also gave rights to existing land holders to just compensation. In reality, the type of land transition that occurred apace across Tanzania largely happened outside the formal remit of the state land management systems (Manji 2001). The manner in which the distribution of power affected processes of corruption and primitive accumulation in land had important implications for the economic transition under liberalisation.

The predominance of informal transactions was partly a result of the slow establishment of formal market mechanisms for land management. For example, the actual process of establishing formal title was very slow. By 2008, only about 2% of rural land, and 20% of urban land, carried titles; overall there were only 165,000 registered land parcels out of 8 million land parcels that were still to be registered (Kironde 2009). The establishment of the institutions and capacities needed to implement the new laws also proceeded very slowly and the process was very dependent on donor funded programmes in specific districts. For example, by 2005, only 40% of villages had a village land council and only 20% were functional (Pedersen 2010).

The formal land reforms did very little to constrain the growing corruption in land transactions and the widespread unrest over land issues. The extent of contestation over land is also evident from the findings of the Presidential Ad-hoc Committees which were established by the newly incumbent President Kikwete in 2005. The disputes submitted to these committees are outlined in Table 5.2 below:

Table 5.2: Disputes submitted to the Presidential Ac-hoc Committees, May-2006

Nature of the Dispute	Numbers
Lack of adequate compensation in cases of compulsory land acquisition	2,717
Double allocation	1,355
Plot and farm invasion	1,225
Stopped from developing the plots	936
Invasion of open or other public spaces	714
Failure to develop the plots	639
Taking plots without following proper procedures	605
Change in land uses without following proper procedures	469
Plots and farms being taken	453
Showing prospective owner the wrong plot	348
Failure to give letters of offer after plot allocation	202
Boundary disputes	179
Plot allocation without following proper procedures	167
Boundary changes by surveyors	156
Wealthier people taking over farms belonging to poorer people	81
Surveying of squatter areas	44
Levying of land rent without following procedures	15
Other disputes	3,453
Total	13,758

Source: Kironde 2009

As in Vietnam, there was a high degree of corruption associated with land matters under liberalisation. The extensive role of corruption and informality within the emerging land market framework is very similar to the situation in many other developing countries, for reasons outlined in Chapter Two. Despite high levels of corruption and frequent incidents of popular protest against particular land deals, in neither country did these incidents spiral into widespread civil unrest. In both countries the institutionalisation of political competition within the party structures helped to maintain a higher degree of social order in the face of structural change in patterns of land tenure. There were, however, important differences in the way that informality impacted on land transition that then had implications for the pace of economic transition under liberalisation. Differences in the political settlement under liberalisation in the two countries affected the pace at which land was transferred to new economic activities. This is explored next through the cases of land corruption in different sectors in Tanzania.

5.3.6 Land for Mining

Mining was a rapid growth sector under liberalisation, as described in Chapter One, with new mining sites opening and existing mining sites being expanded and the transfer of small scale mining operations to larger international mining companies whose operations covered larger areas of land. The 1998 Mining Act set up different ownership patterns over mineral rights in land from the rights over land established by the land laws outlined above. Rights over land were legally separated from rights over minerals found in the land. The Land Acts established rights over the surface land and below but excluded rights over minerals and petroleum (Hernandez 2003). With the expansion of the sector and the changing patterns of production from small scale mining to larger international companies, there were a growing number of disputes over land within the sector. Yet, while the tensions between small scale miners and international mining companies over mining rights spilled over into civil unrest, the land requirements of the sector were met overall without generating high levels of conflict.

One of the reasons for this was that power over issuing mining licences and resolving disputes surrounding land issues that might arise with respect to mining were highly centralised under the Commissioner for Minerals and the Minister responsible for Minerals (Lange 2008). The Mining Act gave the Minister responsible the right to designate any 'vacant' area as an area exclusively reserved for prospecting and mining operations (United Republic of Tanzania 1998) without specifying exactly what 'vacant' land meant. Most mines were on land classified as General Land (Hernandez 2003) although given that Village Land could be transferred to the category of General Land based on a decision of the President, as described above, it may be that some mines were established on land that was historically defined as Village land. Legally, the landowner should receive rents from the companies or miners for the use of the land, but small scale miners who were usually immigrants to the area were often already in dispute with local landholders before the larger mining companies appeared on the scene.

Most of the conflicts over mining and land rights were solved by private agreement and involved the regional mining offices playing the role of arbitrators between mining firms and local land holders or mining rights holders (Hernandez 2003). Lange (2008) describes a number of cases that involved conflict between small scale miners and international mining companies. Most of these cases primarily concerned the conflicts between small scale miners and international mining companies over mining rights, rather than over land. In these cases, land was not a contentious issue as the land had already been mined and, therefore, competing claims for its use had been dealt with informally over a longer period of time. Under liberalisation, international mining operations tended to occupy larger areas of land that were blocked off with security fences in order to exclude small scale miners. In these cases, the Commissioner for Lands was involved in establishing a settlement between existing land owners and companies. A few cases went to court over settlement payments, for example, at the Bulyanhulu gold mine there were disputes between the company and the local authority over the appropriate level of compensation to land owners (Hernandez 2003). There were also tensions between mining companies and pastoralists over land and access to water on land identified for mining activities (Lange 2008). One other important factor in explaining the relatively low level of conflict surrounding the land aspect of mining is the asymmetric power relations between international mining companies and local communities. International mining companies invested in private security by bringing in guards and security officials. They did not have to rely on local provision of security provided by regional or district officials to the same extent as other smaller scale investors.

Nevertheless, in most of the disputes that have reached the media, district officers normally supported the international company's claims rather than the land interests of the local people (Lange 2008). This was in contrast to the position taken by many MPs representing areas where mining was taking place who spoke out vociferously against international mining companies, reflecting the sentiment that these companies returned very little to the local communities. The most senior politicians, however, such as President Mkapa supported the expansion of international mining activities (Dean 2001). High level support and a centralised system for granting rights over mining and over land aided the formal process of land transition to mining companies. Conflicts at a local level have been muted, perhaps because of the existing pattern of small scale mining and the co-option of district level leaders by mining companies.

Forms of primitive accumulation such as land grab by people with political connections played a role in the transfer of new land into mining activities. For example, it was reported that in the Mpwapwa district where ruby mining had been undertaken by small scale miners, large areas of land were grabbed by the District Commissioner as well as by local MPs, a district security officer, and leaders of CCM, the CCM youth wing, the women's wing, the parents' wing and their family members (Staff 2009). Undocumented reports based on personal communication[11] indicate that similar land grabs also occurred with land that was subsequently mined for gold involving senior politicians, although no cases were ever prosecuted or exposed in the media. These incidents suggest that initial primitive accumulation in land through land transfers based on the use of formal executive power as well as land-grabbing by people with strong political connections may have facilitated the transition of land use towards mining under liberalisation.

5.3.7 Land for Agriculture

The transition of land in agriculture is a much more complex story. Agriculture is the most important sector in terms of output and employment and, while small scale farming remained dominant under liberalisation, there were diverse land holding patterns across the country. Large commercial tea and coffee estates of the Southern Highlands coexisted with smallholder coffee and horticulture that dominated production around Kilimanjaro. The pace of transition in rural land appeared to speed up under liberalisation, with more land under cultivation and larger farms emerging, but also with rising levels of land speculation. As with land rights in the mining sector, the transfer of property rights over agricultural land occurred mainly outside the formal framework and with high levels of conflict, as shown by the increasing number of demonstrations, riots, clashes with security forces and deaths resulting from land disputes in rural areas (Hirschler 2004).

A number of factors drove the land transition process in rural areas with different types of political involvement and different implications for longer term economic dynamism. One factor has been an expansion of the total amount of land under agricultural production. In the 1990s, the agricultural growth process was largely driven by the expansion of land under production (Gordon 2007). The proportion of land under regular cultivation was quite low in Tanzania, so farms of all sizes expanded production by taking more land into use (Utz 2007), rather than adopting higher productivity

[11] Interview with employee from the mining sector, name withheld by mutual agreement, Dar es Salaam, August, 2006.

farming techniques. Much of the land that was integrated into agricultural production in the 1990s would have been used by pastoralists, or as a source of non-agricultural food for local communities from woodland. This is reflected in the many cases of conflict between pastoralists and settled farming communities in Tanzania (Myenzi 2009).

In addition, there was a slow re-emergence of larger privately owned farms. This continued a longer term trend that had been brought to a temporary halt under the socialist period. The process was partly driven by the return of land that had been confiscated from larger land owners during Villagization (Shivji 1998). Larger farms also emerged through the privatisation process as land that had been nationalised in the establishment of agricultural parastatals was sold off under liberalisation. While this land was supposed to be under the management of the Land Bank, in reality much of it was directly redistributed to people with strong political links to the state (Gibbon 1995). In the Arusha region in the horticulture sector, a lot of private estates that had been established during the colonial era were nationalised under Ujamaa and then broken up again in the 1980s. People with the right political connections were able to obtain this land, but there were considerable disputes over ownership with local villagers and investors (Kelsall 2003).

A third factor in agricultural land transition under liberalisation was the increasing level of international investment in land globally. The reasons for this included food security concerns in rich countries, expansion of bio-fuel production, rising commodity prices and expectations of land price rises (Cotula et al. 2009). Large scale land claims were still only a small proportion of total land claims in Tanzania (Cotula et al. 2009) but they grew significantly in importance over the period of liberalisation. One reason why Tanzania was seen to be an attractive investment location for biofuels was the perception that land rights were quite weak (Sulle and Nelson 2009) and that there was a considerable amount of 'underused' land. The expansion of biofuel production has become a policy goal of the Government and there was increasing interest in biofuel production (Centre for Human Rights and Global Justice 2010). This did not necessarily involve the establishment of large farms, however, as biofuel production was also carried out on a contract basis with existing farmers (Sulle and Nelson 2009). Jatropha was the crop that was associated with some of the largest foreign investments and land acquisition proposals from foreign companies (Sulle and Nelson 2009). These land deals attracted international concern over land grabbing and loss of land access for local residents of areas around Dar es Salaam, where the large scale jatropha plantations were established (Kachika 2009).

The political settlement in Tanzania that generated higher levels of political stability may have encouraged international investment in land. However, other aspects of the distribution of power under liberalisation led to a slower land transition than that experienced in Vietnam. For example, despite official commitment to expand biofuel production and facilitate foreign investment in agriculture, the central state was not able to secure access to land rights for foreign investors to the extent that it intended. By 2009, over four million hectares of land had been requested for biofuel investments, particularly for jatropha, sugarcane and oil palm. By 2008, 640,000 ha of land had been allocated for large scale investments in biofuels, but out of that, only 100,000 had been granted formal rights of occupancy (Sulle and Nelson 2009).

Thus while an increasing number of projects were formally allocated land by the state, very few investors were able to obtain formal rights of occupancy of land (Gordon-Maclean et al. 2008). Legal disputes over the allocated land and conflict between Villagers and investors slowed the process and increased the actual costs of buying land (Sulle and Nelson 2009). Often the key players in rural areas, the Regional Commissioners and District Commissioners went against the wishes of Village Assembly leaders and intervened to ensure land transfers to foreign investors took place. For example, a UK company, New Forest Limited, set up a carbon off-set project with a plan to plant mainly pine trees on 3,000 hectares of land. A lot of pressure came from central government on the Village Assembly to approve the request for land, which led to a transfer of the land from its status as Village Land to the status of General Land which made it leasable to the foreign company. While the lease of land to the foreign company went ahead with the backing of the central state and the Regional Commissioner, Villagers were able to stop the investors gaining access to the land (Kachika 2009). Another example of the difficulty that the central state had in enforcing land transfers that were not supported by local Villagers included the case of Bioshape, a Dutch/Belgian company, that acquired 33,000 hectares of land for investment. The land contract was signed with the Regional Commissioner without the villagers being aware of the deal (Kachika 2009), which led to resentment and resistance at the village level.

Kelsall (2005) also described a case of a foreign investor who had bought land that had originally been parastatal land. The purchase was resisted by the local villagers and the investor had to use political connections at the highest level within CCM to put pressure on the Regional Commissioner to intervene. The high level political intervention did lead the Regional Commissioner to intervene and ensure that the District Commissioner supported the investor by persuading the villagers to accept his land claim. Sufficient hierarchical control existed within CCM for the centre to be able to sway lower levels of the Party structure. However, despite commitments of senior CCM officials, the Villagers continued to encroach upon the land and undermine the effective property rights of the investor. The investor had to maintain a significant private security presence to maintain control over the land. These cases of resistance by villagers to land transfers suggest that the central party institutions did not have sufficient power over lower levels of society to enforce their desired property rights changes. Local power holders inside and outside the formal state structures were able to successfully mobilise to protect their existing property rights, even though the hierarchy within the Party structure appeared to be respected.

[redacted]

[redacted]

Despite the formal commitment to encouraging private sector investment in agricultural land under liberalisation, the actual political commitment within CCM to a capitalist transition process in land where rights would be transferred to private businesses was much more ambiguous. The legacy of the formative socialist political settlement on the attitudes within CCM to a more overt capitalist land transition constrained the extent to which the state was prepared to sanction land transfers to new investors. This is in evidence in land cases where rights were supposed to be transferred from parastatals to private sector investors. Under the formative socialist political settlement, land held by parastatals had privileged protection from the state. In the process of privatisation this was sometimes lost as land was transferred to new owners who had a more complicated relationship to state power. An example is reported by Ojalammi (2006) concerning a land dispute that emerged between the Soitsambu village in northern Tanzania and the parastatal company Tanzania Breweries Ltd, which was later to be privatised.

In 1984 Tanzania Breweries Ltd acquired land for a large scale agricultural project for commercial wheat and barley farming from the Soitsambu village. The land had been communal land used by the Maasai for homesteads and grazing. Ten years later, the local Maasai group raised a case to sue the company with the help of a local NGO. The land grant decision by the village authorities was taken to the High Court. During the course of the drawn out court case Tanzania Breweries Ltd went into a joint venture with a South African private company for barley production on the land. In 1994, the Maasai were told that they had lost the land case on the basis that the land was public land that had been granted to a state owned company TBL and, therefore, the land grant was legal. Following on from this decision and the privatisation of TBL, the land grant was transferred solely to the South African investors. Shortly afterwards, however, the land title was revoked and the land returned to the Maasai group on the basis that the utilization of land and resources was meant for wildlife conservation along with livestock grazing, not for large-scale agriculture (Ojalammi 2006). The South African company could not protect its interest in the privatised land in the face of mobilised actors at the local level who put pressure on the central state to intervene in their favour. CCM had a formal commitment to an ideology of economic development based on the promotion of foreign investment, however, as this example shows, local political realities meant that this commitment sometimes failed to translate into active support to foreign investors. This contrasts with the mining sector where foreign mining companies received greater political protection. One of the reasons for this is that the high centralised rents generated by this sector contrast with the lower scope for centralised rent control from agriculture, as well as the greater scope for mining companies to use private means of protecting their property rights rather than relying on the Tanzanian state as described in the previous section.

5.3.8 Urban Land, Manufacturing and Tourism

While there is a low percentage of urban land in Tanzania, conflicts in semi-urban areas abound with the proliferation of land grab, informal markets and high levels of speculation (Kombe 2010). Much of this land had previously been under Village councils but the expansion of cities, particularly Dar es Salaam, merged the lines of authority over semi-urban land. Unlike Vietnam, the pressures on urban and semi-urban land were not primarily due to industrial expansion although there were cases, where industries struggled with local authorities to get land in urban areas. One case involved land that had been allocated for the expansion of a cement factory on the outskirts of Dar es Salaam. This land that had originally been designated for industrial use in the 1979 Dar es Salaam Master Plan (Kombe 2010). The cement company, originally established as a parastatal in 1965 bought the title deeds to adjacent land from Village leaders in order to expand its activities in 1993 (James 2010). The company did not immediately develop the land and the company was privatized in 1998 and bought up by foreign investors, becoming a subsidiary of the Norwegian Cement giant Scancem (which has since become a subsidiary of the German company Heidelberg Cement). It changed its name to the Tanzania Portland Cement Company (Hargen 2008). In 2003, the company attempted to evict the residents but faced concerted opposition. The Villagers were taken to court by the company. Various court rulings were issued in favour of the company and in 2007 the inhabitants were ordered to leave the area by the courts (James 2010).

The case became increasingly politicised as the villagers sought to resist eviction and raise awareness of their plight. Kombe (2010) reported that the municipal council was generally seen to be on the side of the company as key members had been paid off by the company while opposition parties CUF and CHADEMA were able to make political capital by supporting the villagers. Initially CCM was seen to be supporting the company but the rising unrest and political advantage that the opposition was able to gain led the Regional Commissioner to intervene in 2008 on the side of the Villagers and he overturned the court ruling in favour of the cement company (Kombe 2010) and allowed the residents to remain on the disputed land. This was despite the fact that TPCC, which was producing over 40% of Tanzania's cement, threatened to reduce production if they were not allowed to take over the land (Kombe 2010).

The multi-party aspect of the political system under liberalisation had an impact on the outcome of land transition in this case. While CCM was prepared to push through an unpopular land deal in the interests of wider economic development, opposition parties were able to give political voice to the opposition to the deal of local residents who would directly lose out from the transfer. While in the cases of failed land transfers discussed above, where fragmented political power at local levels allowed local power holders to block transfers to new investors, in this case, formal electoral competition may have slowed down a potentially productive land transfer. The trade-offs between the potential for greater voice that multiparty politics in Tanzania may achieve and the need for directed state interventions to promote a productive economic transition defy the simplistic conclusions of the 'good governance' agenda about the benefits of multiparty politics for economic growth.

Another critical feature of land transition in urban and semi-urban areas was the very rapid increase in the formal and informal cost of land due to speculative activities that have emerged as land has become increasingly marketized. Rising land prices encouraged corruption by politically connected people to grab land with the intention of hoarding land until market prices made it worthwhile to sell. These actions were very prevalent in prime beach locations across Tanzania, and particularly in Zanzibar, where expectations were high that future investors in the tourism sector would purchase the land at inflated prices. This may have facilitated investors in tourism over the period of liberalisation, in the same way as land grab facilitated the transfer of land rights to mining investors. There is no guarantee that these types of land speculation will necessarily lead to an economically positive land transition. For as long as the market price of land continues to rise there may be little incentive for entrepreneurs to put the land to productive use.

The development criteria in the reformed Land Laws were meant to minimise hoarding by requiring that land invest in land or risk losing title to the land. However, these criteria could be met with minimum investment in building foundations rather than substantial land investment. Whether a land holder risked losing land due to lack of development depends depended on political connections to the state that enabled the land owner to resist legal development requirements. For many firms and households, land became by far their most valuable asset even without any investment in the land. This led to the sometimes perverse situation of previous manufacturing firms abandoning production in favour of renting out land for warehousing or lower value-added assembly type activities. For example, Khan (2010) discussed the case of a manufacturer whose most profitable activities changed from cashew processing to dependence on the rising value of the urban land owned by the company that had previously been used for production. The incentives around manufacturing are discussed further in the next chapter.

5.4 Discussion

Similar approaches to land under the formative socialist political settlement in the two countries had created a highly egalitarian land distribution in rural areas and private land accumulation had been suppressed. State led primitive accumulation had also been quite limited. The reforms under liberalisation sought to reduce corruption and introduce transparent market based mechanisms, while retaining state control of the process of managing land transition in the interests of national economic development. However, in both countries strong elements of corruption and illegal primitive accumulation by individuals and institutions influenced the outcome of land transactions.

Market processes operated with considerable informality and there was extensive manipulation and corruption associated with the formal processes of buying and selling land. In both countries there are examples of how the central Government attempted to direct this process. Overall, the most important dynamics were generated by local level political power holders. The different patterns in the distribution of power within the Party and society help to explain why Tanzania and Vietnam had different outcomes from this decentralised process. In Vietnam land transition was rapid and accommodated extensive transformation of agricultural land into land for industry and commerce. In Tanzania land transfers to accommodate new economic activities, such as mining, tourism and commercial agriculture, occurred. In both countries there were rising tensions surrounding land over the period of liberalisation, yet these tensions did not spill out into more serious cases of conflict of a kind that might have risked undermining the central authority of the state. The centralisation of political power within the CCM and VCP under the formative socialist political settlement may have reduced the scope of political organisers to mobilise around these issues.

In Tanzania much of the land transfer to new investors occurred through fragmented land grab by people with political connections at different levels of the Party. Land for mining activities appeared to be one of the less controversial areas. Tensions usually focussed on mining rights rather than land rights. This was partly because small-scale mining had often occurred at the same locations over a long period and, therefore, land issues with existing land owners had been 'resolved' prior to the entry of the larger mining companies. The central leadership within the CCM gave formal backing to protect the property rights of new investors but these were often not seen through in reality. Attempts to ring fence land for foreign and domestic investors through the Land Bank were not very successful. Attempts by the Tanzania Investment Centre to have an organised market based transfer of lands to new investors has been hampered by the fact that effective property rights over land by the state were not been established in the earlier period of socialist primitive accumulation. The transfer of ownership of the parastatal land back to private hands or to the TIC opened up scope for downward plundering of land rights by those with political power higher up the state. Yet with little effective monitoring of the productivity of land use or incentive to put the land to more economically efficient uses the main dynamic of land markets has been based on speculation and hoarding. Market processes alone cannot guarantee a productive land transition.

Despite high level political commitment to new land investors, central commitments were often overridden by local level power holders. The role of the District Commissioners and Regional Commissioners in these practices seems to vary greatly. While there are some cases where RCs and DCs have bypassed the village institutions to make deals with investors for land access, there are many other examples of RCs and DCs reversing local decisions over land transfers in order to maintain local political stability. As RCs and DCs are Presidential appointments it seems that there is considerable pressure on them not to allow the political situation to become too unstable. The needs of the central state to maintain Tanzania's reputation as politically stable is perhaps a motivating factor in these decisions, as donor aid and investors have been attracted to the country on these credentials. However, while CCM has well established hierarchical rules of authority within its institutions, actual control over society is more limited. This means that it is possible for people with economic and political power at the local level to block actions by the Party. Despite the centralising impact of the formative socialist political settlement, local level power holders could effectively veto central decisions over land under liberalisation. Central political control over the security services was weaker so local power holders could buy off security to sustain their hold on property against the wishes of the central state. Power was also more fragmented at the local level. Smaller, more fragmented coalitions would compete against each other over property rights. This led to a situation where the outcome of land transfers to new investors was less predictable.

The degree of contestation over land under liberalisation in Tanzania was lower than in many other African countries where land issues have sparked major civil war or intractable internecine conflict. The formal commitment of the CCM was both to provide land to new investors but also to protect the rights of existing smallholder farmers. The political legitimacy of the CCM depends significantly on its ability to claim that it represents their interests. The CCM has had an overriding interest in maintaining political stability, particularly given the importance of political stability for its success in ensuring high levels of aid, as discussed in Chapter Four. Numerous formal organisations were created through the land reform process to attempt to give voice to this group and ensure that the land transition could occur without high levels of injustice to traditional owners. In reality, however, these institutions have lacked sufficient power to override informal local political and economic power holders.

Further the legacy of egalitarian land ownership that resulted from the relatively limited rural transformation that occurred under the colonial period but also the extensive land reforms that took place during the socialist period may have led to more muted conflict over the land transition. While landlessness is a growing feature of the emerging capitalist economy in both countries, it is not one that has defined political struggle under liberalisation in the same way as many more unequal societies, such as in many states in India. Yet, in Vietnam particularly, there has been a massive displacement of people caused by this land transition. There is more evidence of political unrest in the south as a result of the more rapid pace of land expropriations and larger farms emerging. However, the political fall-out of this process may have been softened by the increase in off farm employment opportunities and jobs in industry.

The political legitimacy of the Party as the representative of the poor in Tanzania also constrained the extent to which it could openly support an unequalising land transition. The political fall out of a large scale land transition was not one that could be countenanced by the CCM. Thus Regional Commissioners and District Commissioners had an overriding interest in maintaining the peace. As in the case of public finance, this suggests that part of the apparent strength of the political authority of the CCM related to the more egalitarian society in which it was formed, where political opposition was more muted due to the less differentiated structure of society as a whole. These features meant that the process of land transition under liberalisation was much slower and more uncertain in Tanzania than in Vietnam.

In Vietnam, there were more examples of large scale organised land transfers from existing land holders to new economic activities, for example in the coffee growing high-lands and in semi-urban areas, for industrial zones. Some of these occurred through centrally directed initiatives and the ability of the state to push through these transfers suggests that the legitimacy of the VCP was more secure than the CCM, due to its role in the war. Land transfers on the basis of economic development had greater political legitimacy in Vietnam than in Tanzania, perhaps because in Vietnam, it was people who had political power within VCP that were often enriched in the process. Most land transfers were driven by provincial and district level coalitions of VCP institutions and SOEs, often working with foreign investors. Foreign investors wishing to access land had to go into partnership with SOEs and provincial or district VCP institutions, but this gave them considerable political security. A viable political settlement between foreign investors and the Party was negotiated – if foreign investors worked through the Party they would be given security.

Land transition was driven by the rapid commercialisation of lower levels of the VCP. Entrepreneurs with formal political positions within the VCP or within SOEs used state assets in semi-private ways. Broader coalitions had to be formed to access land involving institutions of the VCP and SOEs, often in partnership with foreign investors. If a land deal could be set up that provided enough payoff to the group, the deal could go ahead even if it was opposed by the central level within the Party. This meant that the centre could not direct the land transition very effectively and many land deals were mainly redistributive rather than productive. Many of the Industrial Zones were established but not all of them have been successful. As in the case in public finance, primitive accumulation in land was subject to greater discipline in Vietnam than in Tanzania. However, this was not the result of a centrally enforced process, but through competition generated by the density of political power vested within lower level institutions of the Party and state.

So far, SOEs have been somewhat immune from pressures to release land to more productive uses and have instead primarily hoarded land in order to speculate on rising asset markets. So while there has been a transition in land use towards new and higher productivity investors, there are also countervailing pressures within the system to use political power of the local party to establish property rights and engage in market based speculation. While foreign capital can engage in this land market despite its high costs, these costs have been a constraint on the emergence of a domestic capitalist class outside the political framework of the party.

Tanzania the state's role in managing the land transition has been much more ambiguous. Many of the large scale investments in land that appear on paper were not seen through in reality or became mired in conflict. At all levels of the state, the commitment of state-party institutions towards new investors in land varies from active support to active obstruction. In many cases it seems that the party institutions at the Village and District level have been involved in deals with new investors to transfer lands. In some cases this has been based on a land grab by those with official positions in the state at the local level and has been against the will of the local population.

The emergence of multiparty political competition in certain areas in Tanzania has further complicated the role of the state. In the case of the cement company described above, the impact of mobilization by the opposition party, CUF, was important in securing the land rights for existing inhabitants, against the commercial interests of the cement company. Yet, until recently multiparty politics was not a critical factor in most areas of Tanzania, given the on-going dominance of CCM, and the drivers of state decisions over land transfers relate primarily to the internal balance of power within CCM and between the state and society rather than between political parties.

More important perhaps is the fact that even when local state institutions have committed to new investors' property rights, they lack the infrastructural power to secure them. This has a more limited impact on investors who have their own security arrangements, such as the large mining companies, but a much more significant impact on the smaller scale investors in the agricultural sector who depend on state security services to maintain their effective property rights. This is also complicated by the fact that private commercial interests can more easily buy off local security institutions than in Vietnam.

The rise of multiparty competition in certain areas of Tanzania will change this dynamic, but not necessarily in a direction that supports a productive land transition, nor one that serves the interests of the weakest in society who have lost out most from its current direction, such as the pastoralists and women (Manji 2001) who are marginalised in mainstream political competition.

In both Tanzania and Vietnam, the introduction of market mechanisms has generated high levels of speculation over land and this may also have affected the political dynamics around land transition. The rising price of land in both formal and informal markets acquired by the politically powerful through primitive accumulation has served to buy off and co-opt local elites who might otherwise mobilise against land transfers. There were extensive profit-making opportunities for those who could engage in land transactions. While there was an increasingly market driven process of transferring land, this did not guarantee a smooth transfer of property rights from traditional uses to more productive economic activities. The distribution of political and economic power remained critical for explaining the outcome of land transactions and hence the associated path of economic transition.

Chapter 6

Industrial Policy

6.1 Introduction

The successes and failures of industrial policy in Tanzania and Vietnam played a critical part in economic transition under liberalisation. Formally, industrial policy is the official strategic effort to develop the industrial sector, however, industrial policy involves a number of different policy areas and institutions for promoting investment and technology acquisition. Examining industrial policy is therefore also important because it provides a window into a range of different areas of state intervention that are critical for economic development across all sectors. Developing technological capabilities across agriculture and services involves many of the same tools. Industrial expansion is important, however, for while there could be different routes to economic transition, industrialisation, and more specifically, manufacturing growth, provides a well established road to prosperity in developing countries (Moreira 2007). Kaldor (1967) argued that because of the embodied nature of technology, expanding manufacturing activities facilitates technological acquisition within the economy overall. Further, in the context of developing countries, industrial policy is important given that manufacturing growth produces more jobs than high value services or agriculture (Thirlwall 2002).

As outlined in Chapter Two, technology acquisition and learning how to use technology efficiently is one of the key processes of economic transition. Neo-classical economics does not give sufficient explanation for the complexities of acquiring technological skills in developing countries (Lall 1992). Neo-classical economics argues that countries should produce according to their endowment of capital and labour, which will determine the factor price ratios and hence the efficient level of capital/labour intensity at which they should produce. Technology acquisition will occur through better flows of international capital responding to market prices (Balassa 1977). However, for reasons outlined in Chapter Two, related to inherent risks and market failure, successful industrial policy has played an important role in driving technology acquisition in developing countries.

Tanzania and Vietnam experienced a quickening of the pace of industrialisation under liberalisation. Following a period of negative industrial growth from the early 1980s until the mid 1990s in Tanzania, industrial growth picked up to an average of 7% a year from 1996 to 2005 and average manufacturing growth increased to 15.3% between 1996 to 2003 (Treichel 2005). The pattern of industrial growth in Tanzania involved a rapid expansion of mining activities but also manufacturing growth from the end of the 1990s in a number of low value added sectors including food and beverages, garments and textiles. Vietnam, on the other hand, experienced a much more fundamental shift towards becoming an industrialised economy under liberalisation. In the 1990s, industry grew at 10.41% a year. Industrial growth was initially driven by increases in output from the oil and gas sector. Vietnam's dependence on oil and gas did not, however, lead to a 'dutch disease' with an overvalued exchange rate that would discourage manufacturing export growth 2004 (Barbier 2007). Despite high inflows of foreign exchange from oil and gas, as well as FDI and ODA, Vietnam's manufactured exports expanded very rapidly as described in Chapter 1 (page 27) suggesting that Vietnam's economy was able to use these inflows to expand supply and maintain a low cost structure in manufacturing (Ohno 2004). In the early 1990s, virtually no Vietnamese industries had attained international competitiveness (Perkins and Vu Undated) but as the 1990s progressed there was a very rapid growth in manufactured goods for export. Despite their expanding industrial sectors, both countries struggled to move into higher value added manufacturing over the period of liberalisation.

Reforms to industrial policy under liberalisation dismantled much of the formal framework of state support to industry that had been constructed during the socialist period. The growth of industry under liberalisation appeared, at least superficially, to confirm the conventional view that reducing state intervention in the market would reduce distortions and corruption. This would allow a return to a path of industrial growth determined by fundamental cost structures where comparative advantage would be found in low value added manufacturing based on low wages and natural resource extraction. However, on the basis of a comparison between these two countries, this simple market liberalisation account is not satisfactory on a number of levels. First, Vietnam remained more interventionist than Tanzania yet its industry grew faster and experienced greater diversification. Second, as outlined in the previous two chapters, throughout the period of liberalisation, rents and interventions in public finance and land played an important role in providing hidden subsidies to emerging industries. Third, industrial development under liberalisation was built on the industrial capabilities that were constructed through state intervention during the socialist period. Fourth, while many of the industrial policy rents of the socialist period were abandoned under liberalisation, both countries used forms of industrial policy to attract FDI into industry.

Chapter Two set out the reasons why contemporary developing countries cannot rely solely on the market to drive rapid productivity growth in industry. Industrial policy is necessary under conditions of 'relative backwardness', where inherent risks mean that the market will not be able to adequately fund the periods of learning required to make industry competitive with the advanced economies (Gershenkron 1962). Successful industrialisation involves a process of 'learning-by-doing' where skills are acquired primarily from learning to use technology that is embodied in capital equipment (Khan and Blankenburg 2009). Openness to foreign investment without state led industrial policy may bring in new capital and technology for industrial processes; however, these will be based primarily on existing technological capacity and will lead to slow productivity growth in industry. For industrialisation to occur with rapid productivity growth, the state needs to create specific and targeted incentives and compulsions to drive a learning process (Khan 2009).

However, the experience of industrial policy in Tanzania and Vietnam during the socialist period was of ineffective and poorly managed industrial policy rents. Industrial policy did not drive a dynamic learning process and industries in neither country attained international competitiveness. This was also the experience of many other developing countries that attempted state led industrial policy of varying types in the 1960s and 1970s. The few cases in East Asia of very successful industrial policy formed the basis of the 'developmental states' analysis discussed in Chapter Two p 65 - 70 (and include notably Wade, 1990, Amsden, 1989 Aoki et al 1997, Evans 1995). These were states that were identified as having a high degree of central control over industrial policy rents. This did not necessarily mean that the systems were corruption free, or free of other forms of rent seeking. Instead, according to the theory, the key feature of success was that the central state could exert a credible threat that if rent recipients did not improve their performance, the rent would be removed.

The degree of centralised control and state capability in these countries contrasts with Tanzania and Vietnam, even given the greater formal centralisation of power within their political systems that resulted from the structures of their ruling Parties. Yet, while examples of very successful industrial policy are limited to just a handful of cases, there is a much wider group of developing countries whose industrial experiences, while much less impressive, were still linked to the success of aspects of their industrial policies. This was also the case for Tanzania and Vietnam. The reason for the actual diversity in developing country experience, in terms of the types of state and forms of industrial policy, relates not to formal state structure or capabilities as argued by the developmental state theorists, but to an underlying compatibility between some industrial policy instruments and the political settlement that allowed some learning and capability building to take place (Khan and Blankenburg 2009).

This chapter starts with an outline of industrial policy during the socialist period in Tanzania and in Vietnam followed by a discussion of their comparative experience. While industrial policy in both countries during the socialist period failed to construct internationally competitive industries, it was important in generating an industrial base in both countries from virtually nothing. The reasons for industrial policy failure relate to weaknesses within the political settlement that meant that the Party could not effectively discipline managers in state owned industry. The Chapter then outlines Tanzania's experience with privatisation and Vietnam's attempts at reforming the structure of state owned industry. Industrial policy under liberalisation in both countries is subsequently examined and comparative successes and failures are linked to features of their political settlements.

6.2 Socialist Industrial Policy

6.2.1 Tanzania

As described in Chapter Three, on independence Tanzania had a tiny and largely foreign owned industrial sector that was dominated by agro-processing and a number of low value-added manufacturing activities. Creating a large modern industrial sector was central to Nyerere's socialist vision for Tanzania. However, until 1967, industry continued to grow along the lines established during the colonial period. The main objective of industrial policy at that time was to create productive capacity within the sector, rather than to redress the racial imbalance in ownership; foreign investment was central to this aim (Costello 1994). Industry grew rapidly during the 1960s, largely because of a number of rents that made manufacturing more profitable as part of a strategy of import substituting industrialisation. These included tariffs on manufactured imports that attracted foreign capital and some of the Asian domestic capitalists who had been involved in trade to establish manufacturing activities behind high tariff walls. In fact, tariffs were usually set based on discussions between investors and the Ministry of Commerce and Industry (Rweyemamu 1979).

This industrial policy was initially successful as expansion and diversification of the industrial sector took place; for example, Tanganyika's first five textile mills were established between 1961 and 1968 (Rweyemamu 1979). Another factor driving industrial growth at this time was the shift of Tanzanian Asian business people out of trade into industry, which was seen as more secure given the spread of the co-operative movement into trading activities (Coulson 1982). In the 1960s there was a rapid growth in Tanzanian Asian manufacturing, firms such as Sunguratex and Kilitex producing textiles were established as well as Kioo Limited for glass bottle manufacturing and ALAF (Aluminium Africa Ltd) for aluminim products (Fazal 2005). This initial expansion of Asian manufacturing activities reflected a shift in the distribution of economic power after the end of the colonial period that produced greater economic opportunities for domestic capital once colonial restrictions had been removed. This direction of economic transformation was constrained under the formative socialist political settlement.

The Arusha Declaration spelt out a more activist role for the state in the industrialisation process. This was to be achieved primarily through nationalisation of segments of existing industries and the creation new industrial parastatals. The Arusha Declaration did lead to a transfer of some economic control away, not only from foreign capital, but also from the predominantly Asian commercial class involved in trade and in the small existing industrial sector. Given the colonial racial structuring of the economy, almost all the firms that were nationalized in food and agriculture processing, were owned by Tanzanian-Asians (Mukandala 1988). Table 6.1 below provides a breakdown of fixed capital formation in the public sector and in the private sector. The extent to which nationalisation affected the ownership structure of industry was, in some ways, quite limited.

Many of the new parastatal investments were undertaken as joint ventures and in some cases the private sector continued to have important ownership stakes in nationalised firms. In other cases, the previous owners stayed on as managers under the new ownership structure (Silver 1984). This was the case for the National Milling Corporation, created in 1967 by the merger of 8 private sector milling factories. The owner of the largest private domestically owned milling factory, Jayantilal Keshavji Chande was appointed as General Manager (Coulson 1979) and he maintained close relations with the CCM throughout the Ujamaa and liberalisation period. An important feature of the formative socialist political settlement in Tanzania was that the desire to close off capitalist ownership was never as complete as in Vietnam. Also, despite nationalisation, close relations were maintained between segments of the private sector and the ruling Party that persisted through both the socialist and liberalised eras. The more limited extent to which the economic power of the business sector was re-organised under the formative socialist political settlement had important implications for the path of economic growth under liberalisation.

Table 6.1: Fixed Capital Formation by the Public and Private Sectors 1961 – 1998 in Tanzania

Year	Public Sector			Total Public Sector	Private Sector
	Central Government	Non-profit Bodies	Parastatals		
1961	41.7	-	3.7	45.4	54.6
1965	18.9	8.4	4.3	31.6	68.4
1970	22.4	7.0	34.5	63.8	36.2
1975	23.8	7.2	31.0	62.0	38.0
1980	23.7	0.5	15.2	39.5	60.5
1985	11.4	0.8	22.8	34.9	65.1
1989	3.9	0.3	55.1	60.2	39.8
1990	3.4	0.2	36.9	40.6	59.4
1995	4.0	12.8	0.5	17.2	82.8
1996	2.6	18.0	0.5	21.1	78.9
1997	3.7	15.6	0.5	19.9	80.1
1998	15.5	3.4	3.5	22.4	77.6

Source: (World Bank 2002)

While some industrial activities remained in private hands, the main focus of formal industrial policy was on the state owned industrial parastatals. During the 1970s, industrial parastatals produced half of all industrial output and controlled two thirds of the fixed assets (Bigsten and Danielson 2001). The types of industrial policy rents available to industrial parastatals included direct state subsidies, access finance directly from state owned commercial banks (Bigsten and Danielson 2001), foreign concessional financing by donors for specific projects, as well as rents related to import substitution such as the highly effective protection afforded by tariffs and exchange rate policy (Bigsten and Danielson 2001). As with many other import substitution strategies adopted by developing countries, manufacturing activities with the highest rates of effective protection in Tanzania were the consumer goods industries, particularly the less durable and luxury goods type (Rweyemamu 1979) and most industry was focussed on assembly type activities at the last stages of production (Coulson 1982). Tariffs were often established on the basis demands from investors rather than on the basis of a well-thought out industrialisation strategy (Rweyemamu 1979). Initially the National Development Corporation (NDC) was the main state institution involved in establishing and controlling parastatals on behalf of the state. It acted as a holding company across a number of sectors as well as the industrial sector (Mukandala 1988). The corporation's subsidiary and associate companies total investments were estimated at Tshs. 1,273 million by the early 1970s (Mukandala 1988). It had control of most government assets in manufacturing, tourism, food processing plants as well as in agriculture.

Industrial Policy was thus successful initially in so far as there was an expansion of industrial parastatals which led to growth of industrial output and to industrial diversification. Labour productivity also grew, up to 1973 mainly as a result of rapid capital investment (Szirmai and Lapperre 2001). By the end of the 1970s, the parastatal sector had grown to be one of the largest in Africa (Costello 1994). The creation of an industrial base from virtually nothing was an important achievement of the socialist period that had significant implications for industrial development under liberalisation.

Yet despite high levels of investment (as shown in Table A.3 p 335) and capital accumulation, the sector was beginning to show signs of poor performance from as early as 1972 (Chachage 1990). As the 1970s progressed, the contribution of industry to overall growth declined and became negative by the end of the decade. The major problem was that the high investment rates that were maintained in the 1970s were coupled with falling productivity. The main cause of this was the chronic under utilisation of capacity, falling to below 30% across manufacturing enterprises through the 1970s (Bigsten and Danielson 2001) and to less than 10% capacity utilization in many textile mills by the mid 1980s (Ladha 2000). Some cases were even more extreme, for example the Morogoro Shoe Company, built with donor finance to produce shoes mainly for export, never reached more than 4% of installed capacity (Temu and Due 1998). In many parastatals, under utilisation of capacity coexisted with continued investment in capacity expansion (Wangwe 1979). This kind of severe under capacity utilisation was a result of the failure of Tanzania to implement an effective industrial incentive regime through very high levels of effective protection for import substituting industries and restrictive trade policies as outlined above. Yet at a deeper level of causality, the failure of the regime related to the lack of compatibility of industrial policy with the underlying political settlement as described below.

As efficiency and profits fell, industry became increasingly dependent on state created rents to survive. By the end of the 1970s, 11% of total government expenditure was dedicated to direct subsidies to parastatals (Costello 1994). The size of the parastatal was a critical factor in determining the level of subsidy that could be negotiated with the central state. From the end of the 1970s, the state tried to reduce the growing cost of subsidisation and parastatal influence through a rationalization programme that involved splitting up existing parastatals into smaller units and attempts to cut down on the overall number of parastatals. These policies were largely subverted from within as managers made deals with supportive politicians and bureaucrats within line ministries to expand by establishing new subsidiary parastatals, starting new branches or new areas of activities (Mukandala 1988). Instead of reducing the overall number of parastatals a proliferation took place over this period. The sector grew to be the second largest parastatal sector in Africa with 450 parastatals (Bigsten and Danielson 2001).

Some of the reasons for this failure to drive up industrial productivity relate to the sheer scale of the industrialisation challenge facing Tanzania. As a new nation with limited industrial experience and economic resources, problems such as shortage of inputs, foreign exchange limitations (Bigsten and Danielson 2001) and poor infrastructure (Wangwe 1979) were huge constraints that Tanzania shared with other poor countries seeking to pursue ambitious industrialisation strategies. Beyond these reasons, however, was a political problem relating to the compatibility of industrial policy with the underlying political settlement.

The expansion of subsidies coupled with falling productivity suggests that the power of the central party institutions to manage the industrialisation process by disciplining rent recipients of the kind that was used in successful 'developmental states' was largely absent under the formative socialist political settlement. The central leadership within the Party could not effectively impose discipline on different parts of the state responsible for industrial policy. Crucially, the Party could not force managers to use rents efficiently. Managers were able to maintain their hold on state created rents even when their performance was poor. Managers of parastatals were very much part of the cohesive intermediate class group that ran TANU (Mukandala 1988). However, the Party was not able to internally discipline this group as they were able to make coalitions with supportive bureaucrats and ministers to maintain rents despite poor performance. The Party attempted to reduce the ability of parastatal managers to collude with other parts of the state, initially by removing many of the parastatals from under the NDC and placing them under the direct control of parent ministries (Coulson 1982). However, this did not address the underlying weakness of the central authority of the Party to impose its will on its different constituent parts. As described in Chapter Four, the stable and inclusive coalition within TANU gave the overall appearance of strength, but central control over the constituent parts was actually quite weak. As plants in the parastatal sector were directly a source of rents for ministers and key bureaucrats, and given that the political leadership was not necessarily able to impose discipline on managers, the outcome was collusion between politicians, bureaucrats and managers to share rents in a way that undermined the effective disciplining of managers.

The fragmentation of power within the Party was similar to the fragmentation of power found within many developing country states, captured by the clientelist political settlement as described in Chapter Two. A difference, however, with Tanzania was that under the formative socialist political settlement, formal institutions had been created within the Party to represent workers. As described in Chapter Three, an industrial work force in Tanzania was under-developed prior to the socialist period and remained relatively small throughout the socialist period. However, an important part of TANU's programme of socialist transformation was that it formally represented the workers and, therefore, established formal institutions to represent workers rights within TANU. While these institutions lacked true economic and political power, because of the small size and low productivity of the industrial sector, the formal institutions created to represent the interest of workers within TANU did influence the way in which the Party attempted to manage the industrial process.

From the early 1970s, industrial workers were encouraged to organise within the CCM political framework (Mukandala 1988). This was achieved by establishing CCM worker councils in all public corporations and in firms employing more than ten workers. The policy of Mwongozo initiated a period of worker activism that led to 31 strikes in a two year period (Mapolu 1979). This level of worker activism also became a threat to political stability and while workers were still encouraged to mobilize on the factory floor, the CCM put a stop to any co-ordinated union action that could lead to wider political strife. The CCM exercised strong central control over the umbrella trade union organization, the Union of Tanzanian Workers, through Presidential appointments to all key positions. In response to worker mobilisation, managers adopted a hands-off policy of managing workers. For example, Wangwe (1979) describes how one industrial parastatal opted for a strategy of low capacity utilisation in the face of labour troubles. Instead of pushing for higher productivity, managers adopted other profit making strategies involving forms of legal rent seeking over state subsidies and illegal activities such as racketeering. The consequence of this was that while the state found it difficult to enforce and monitor the effort of industrial managers in parastatals the managers in turn struggled with labour discipline.

Once the economic crisis had taken hold by the early 1980s, manufacturing output effectively collapsed. Parastatal managers, with support from politicians and bureaucrats, increasingly engaged in illegal activities to bolster their falling incomes and racketeering became common. Racketeering involved managers trading goods illegally at high prices based on their monopoly status. This form of corruption usually involved collusion between parastatal managers, CCM state officials and private business people who sold the goods on the black market (Tripp 1997). The formal industrial policy rents that created high prices for manufactured goods led to informal rent seeking through corruption and racketeering that involved parastatal employees and elements of the remaining private sector who were able to trade these goods. Political leaders were outspoken in their condemnation of these activities but were relatively powerless to stop them. Small coalitions involving government workers and business people could gain rents. This kind of primitive accumulation was not invested back into the economy. Restrictions on private sector economic activities and insecurity in private investments meant that a large part of the resources involved probably went overseas.

6.2.2 Vietnam

Following independence in the North, a rapid industrialisation process and the promotion of heavy industry was critical to the VCP. Industrialisation was to be achieved through a Soviet-inspired model of a centrally planned command economy. The Party established a list of commodities and inputs that were to be allocated under plans, based on the Soviet material balance system (Van-Arkadie and Mallon 2003). Prices were centrally determined as were physical inputs and the types of outputs that could be manufactured. Industries and manufacturing enterprises were nationalised and heavy restrictions were placed on the remaining private sphere of economic activity. The distribution of economic power was changed more fundamentally and the role of private capital was constrained further, under Vietnam's formative socialist political settlement than in Tanzania.

As outlined in Chapter Three, the war had a very significant impact on how industrial policy actually operated. Nationalised industries were much more decentralised in terms of management than in many other centrally planned economies. Local party structures had an increasing role in managing factories as the war progressed, rather than the central party. State owned enterprises that produced goods deemed to be a priority for the war, such as mechanical engineering, iron and steel, coal and electricity were given preferential access to inputs and were heavily subsidised by the state (Van-Arkadie and Mallon 2003). The heavy bombing of the North after 1965 meant that many factories operated well below capacity and had to be de-concentrated. This process decentralised actual control over industry to lower levels of the party and gave greater de facto independence to SOE managers. The war also meant that the list of commodities allocated under the plan was always much more limited than under Soviet central planning (Fforde and Vylder 1996) and, despite the rhetoric of self reliance, the industrial sector was heavily dependent on foreign aid-financed imports of capital goods and raw materials, and a large proportion of manufactured goods were imported (Beresford and Phong 2000).

Yet while the centrally planned industrial system never operated as intended, industry grew very rapidly during the period before re-unification. The centrally planned system actually worked quite well in terms of raising resources for the priority sectors of the war (Doanh 2002) and led to a rapid growth in heavy industry from a very low base. From 1960 to 1975 industrial investment grew at three times that of the agricultural sector. The share of industrial production in national income grew from 18.2% in 1960 to 24.2% in 1974, with most growth occurring prior to 1965. This was mainly the result of an increase in external assistance in the form of equipment, raw materials and fuel for industry, (Van-Arkadie and Mallon 2003).

In the South, the manufacturing base in 1954 was even thinner than in the north (Dacy 1986). After 1954, the approach to industrialisation in the South diverged from the northern priority of heavy industry and instead, focussed on the development of light industry (Doanh 2002). The influx of foreign forces during the 1960s stimulated the demand for food processing and other light industries such as garments, construction materials and wood products (Beresford 1988).

Vietnamese-Chinese played an important role in many of these activities. While there was some manufacturing growth in South Vietnam after 1970, the economy remained dependent on aid related imports and the southern industrial sector was much weaker than its northern counterpart. Following reunification, there was an initial attempt to strengthen the centrally planned economic system with more nationalisation in the south (Beresford 1988) and a crack down on private sector economic activity that drove many to flee, as described in Chapter 3. Despite the restrictions on private industry, some of the Vietnamese-Chinese industrial enterprises in HCMC were able to continue to operate by transforming themselves into co-operatives and thus evade the restrictions imposed by the Party (Lindahl and Thomsen 2002). Yet overall, the impact of the crack down was to significantly weaken the formal economic power of the private sector in Southern Vietnam. This was to have important implications for industrialisation under liberalisation.

The crisis for industry

The attempt to bring about industrialisation through central planning reached its height by the end of the 1970s. Overall, the industrial sector was still very small in comparison to other socialist centrally planned economies and only employed around 8% of the total labour force (Doanh 2002). By this time, however, the system was under considerable strain. An industrialisation policy based on centrally planned targets, which had worked well during the war period, seemed no longer able to drive industrial growth.

Growth rates of output in manufacturing declined steeply after the war with textiles, cement, coal, power and steel plummeting (Doanh 2002) and by the end of the decade the whole sector was stagnating. The war economy had created strong pressure to keep output in critical industries high. However, this impact was not equivalent to the type of discipline that would have been needed for successful technological capability acquisition that would allow equipment to be used in the most effective way. Rather, the war created pressures for subsidies to be sustained for critical industries. Nevertheless, in some sectors some implicit learning did take place simply because the prolonged war forced capability acquisition and the development of production in a few critical sectors.

External factors such as the decline in Soviet aid, which made the imported industrial inputs on which the system depended increasingly scarce, was an important reason for industrial slowdown but there were also internal reasons related to political constraints on the Party in managing the industrialisation process. As in Tanzania, the Party had difficulty in controlling and managing the managers of state owned industries. The central Party had no effective way of obliging SOEs to follow the centrally determined plans (Van-Arkadie and Mallon 2003). This was exacerbated by the fragmentation of ownership of SOEs with different 'parent' institutions at different levels of the Party having relative freedom to establish and manage SOEs as they chose.

Attempts were made to reduce this fragmentation with the establishment of Enterprise Unions in the 1970s which were groupings of SOEs under the management of planning departments in line ministries. However, these groupings became largely redundant (Cheshire and Penrose 2007) as SOE managers gained greater informal, and then later, formal, autonomy. Emphasis on production targets in this context led enterprises to focus on maximising their allocations of capital and inputs rather than on productivity and output. Even when the centre managed to impose budget constraints on SOEs, there was a high degree of cross subsidization between SOEs themselves and, horizontally, between different ‘parent’ owners within the state at particular levels (Cheshire Penrose and Nguyen 2006). Cross subsidization could have been an effective mechanism for financing learning if it had been accompanied by credible performance criteria for firms receiving temporary subsidies. As in Tanzania and other centrally planned systems, there was a lack of credible threats on individual enterprises to raise their technological capability through sustained effort in learning. No agency was able to undertake task of monitoring productivity or any other measure of capability acquisition by individual firms and no agency had a credible capacity to sanction firms that failed these tests.

As the system faced increasing economic constraints, SOEs began to engage in more activities outside the formal planning system, illegally selling goods or buying inputs from the black market in a similar pattern to the racketeering that occurred in Tanzania during the same period. SOEs were able to make huge profits from these activities, through their access to state subsidised inputs and goods (Fforde 2004). During the late 1980s small SOES proliferated at the district level which engaged in these rent seeking activities, particularly after the power to create new SOEs was decentralised in 1987 (Van-Arkadie and Mallon 2003). Overlapping and competing interests within the Party attempted to control these SOEs in order to make illegal profits and engage in pervasive asset stripping (Fforde 2004). This form of corruption drained the central state of resources while undermining attempts to improve industrial production.

6.2.3 Discussion

Both Tanzania and Vietnam started the socialist era with very small industrial bases. Removing economic control over industry from the private sector and creating a strong industrial base were the central pillars of the socialist industrial policy. The nationalisation of existing industrial enterprises and the creation of new industrial activities under state ownership were pursued by both countries. A larger proportion of industry remained in private hands in Tanzania than in Vietnam, though a small proportion of industries in the South that were owned by Chinese business people were able to continue to operate underneath the Party radar. There was more permanence in relations between the Party and certain sections of the business community in Tanzania than is often recognised. While foreign capital was rejected, some Asian business people retained their positions either formally through continued ownership of industry or informally by involvement in networks of illegal trading with party officials. Policies to promote indigenisation of ownership were critical to the Party to maintain its political support and it was impossible for it to formally support non-indigenous businesses.

In Tanzania and Vietnam state owned industry operated on the centrally planned model where prices, inputs and outputs were centrally determined and co-ordinated. Yet in both countries, this centrally planned model of industry was never fully implemented in the way that is was in richer socialist countries and, in fact, only operated for a relatively short period in the 1960s and 1970s before market reforms were instituted. The centrally planned industrial sector never came to full fruition because of the limited finance and administrative capacity available at the time, given the huge resources needed to bring about a rapid industrialisation from a very low base. Without a market mechanism of compulsion, the state needed to provide an effective system of monitoring and discipline to drive through productivity increases. Both countries faced similar problems to those experienced in other centrally planned industrial systems in terms of the ability of the system to effectively monitor and discipline industrial managers. Very high demands on the capacities of state agencies to monitor industrial productivity growth in a situation where markets were not providing information on changing levels of competitiveness proved to be difficult in all centrally planned economies. Without a market disciplining mechanism, the state system of compulsions on managers had to be compatible with the underlying political settlement. Under the formative socialist political settlement, this required a much stronger centralisation of power within the Party so that different components of the inclusive party structures could be effectively disciplined. The level of centralisation of power needed to achieve this was clearly absent in both countries.

Nevertheless, in Vietnam the socialist industrial process was much more successful than in Tanzania. The compulsion of fighting a prolonged war cannot be underestimated in this context. As a result, a much larger industrial base was constructed under the formative socialist political settlement. This created a greater pool of skilled workers and managers that had experience in the industrial process than in Tanzania. Also there was a much denser structure of industrial economic institutions across the country due to the decentralising impact of the war. This had important consequences for the nature of competition at lower levels of the Party state under liberalisation.

The underlying distribution of power within the Parties meant that the centre was unable to remove rents when they were used inefficiently. In both countries, managers were able to evade state compulsions to increase efficiency by colluding with other parts of the state. Legal rents that were supposed to generate rapid industrialisation and productivity growth formed the basis of corruption within the system mainly in the form of racketeering. There were differences in the way that racketeering operated in both countries reflecting the different distribution of political and economic power under the socialist political settlement. In Tanzania, racketeering involved co-operation between party officials and the remaining private sector. In Vietnam, it was dominated by party institutions, given the marginalised status of the remaining private sector.

While open accumulation outside the state was prohibited under the formative socialist systems in both countries, this form of racketeering did lead to some small scale primitive accumulation. In Tanzania this enriched a small group of Party officials and some members of the private sector but did not create significant resources for investment in the domestic economy under liberalisation. In contrast, in Vietnam this accumulation occurred through the Party structures and its economic institutions. This form of primitive accumulation helped to establish the commercial activities of the lower level Party institutions that came out into the open during the period of liberalisation.

6.3 Industrial Policy Reforms

6.3.1 Industrial Policy Reforms and Privatisation in Tanzania

In Tanzania, the political consensus on industrial policy slowly consolidated around the conclusion that state intervention and rents during the Ujamaa period had hampered successful industrialisation, because of high levels of corruption and market distortion. Along with many other developing countries, the answer that was adopted was to reduce state created rents and withdraw state ownership in the industrial sector (Campbell and Stein). The initial liberalisation in the 1980s of prices, distribution, trade and exchange rates had a huge negative impact on the industrial sector. Controls on the prices of manufactured goods were among the first group of price controls to be significantly reduced. Controls on domestic trade and marketing of all imported and domestic manufactured goods were also dismantled.

In practice, even by the end of the 1980s, unofficial markets and a very lax regime on imports meant that state control of the distribution and price of manufactured products had come to an end (Husain and Faruqee 1994). Control over imports and foreign exchange were also dismantled. In 1984, the Government of Tanzania introduced an own-funds scheme, where importers could acquire import licences without having to declare the source of funding, and ended the Commodity Import System that favoured imports to parastatals. Trade and exchange rate liberalisation continued with the introduction of IMF sponsored structural adjustment from 1986. By 1994, a market determined exchange rate had been adopted and many barriers to importing and exporting had been removed. These reforms reduced the effective rate of protection for manufactured goods and as a consequence, many of the poorly performing manufacturing parastatals found it increasingly difficult to sustain themselves.

The most important change to the state's involvement in industrial policy was the programme of privatisation. The privatisation programme in Tanzania was similar in most respects to other privatisation programmes of the era across Africa, implemented under the tutelage of the IFIs (White and Bhatia 1998). The essence of the programme was supposed to be a market based process of reallocating property rights, underpinned by the rule of law and transparent state engagement in overseeing the privatisation process. In reality, many aspects of the privatisation process occurred outside the formal arena, through forms of corruption and primitive accumulation involving actions such as selling assets below market price, non-transparent transactions, different parts of the state engaging in illegal sales of state assets, and the use of political power to influence market outcomes.

The first structural adjustment programme of 1986 tied the Government to a privatisation programme, yet this had little impact and was very slow to get off the ground. In the 1980s, attempts to give the private sector a greater role in running parastatals were strongly resisted by most CCM politicians. For example, the decision to allow private investors to take over a share within the breweries company, were rescinded under political pressure (Tripp 1997). In this early phase a handful of liquidations and sales took place (Kiondo) but a more rigorous approach towards privatising industrial parastatals only really came into effect from 1992 with the establishment of the Parastatal Sector Reform Commission (PSRC) and the Loans and Advances Realization Trust (LART). The PSRC and the LART were established by the Public Corporations Act of 1992. The role of the PSRC was to oversee the privatization process, while the LART was established to liquidate non-performing assets and to take over the debts of privatized companies that were mainly held by the National Bank of Commerce (NBC) (Bigsten and Danielson 2001). A number of different methods of privatisation were adopted by the state. The liquidation of parastatal firms that were officially or effectively bankrupt as a result of the removal of rents was the largest component of the privatisation of industrial parastatals. Up until 1997, closures, liquidations under LART and other liquidations accounted for over half of all privatisation processes (Temu and Due 2000). Other forms of divestiture included management buyouts, management contracts and leasing arrangements, although these played a very peripheral role compared to the outright and partial direct sale of parastatals and parastatal assets (Afrodad 2007).

Apart from a spate of early closures of parastatal manufacturing firms, overall, the privatisation process was initially quite slow and by 1995 divestiture had almost ground to halt. Many of the planned sales failed to materialise and many of the industrial assets that the state had planned to sell off remained without suitable buyers. In addition, the institutional fragmentation of the state led to different parts of the state attempting to sell off state assets without central state approval. Bureaucratic infighting took place between different parts of the state as to who had the right to sell off parastatals, primarily between the LART and the Parastatal Sector Reform Commission (Tripp 1997). The LART had been given administration over a number of companies that were heavily indebted to the National Bank of Commerce (NBC) and sold at least one company (Tanganyika Packers) by private treaty without any kind of tendering process (Gibbon 1999). Another case occurred in 1998 when the Tanzania Railways Corporation effectively privatized some of the railway network without approval or knowledge of the PRSC (Gibbon 1999).

The consequence of privatisation was to transfer ownership and economic power away from the state and into private hands, both at a domestic and international level. A problem in assessing the impact of the privatisation process is that the actual data on what was sold off, to whom and for how much is confused and not transparent (Gibbon 1999), (White and Bhatia 1998). The privatisation process did not involve a transparent transfer of property rights but involved significant informal processes that were poorly documented. It is known, however that at least 24 manufacturing firms were sold to international buyers. These included many of the large and more profitable industrial parastatals that were sold off to international investors as on-going concerns during the first phase of privatisation.

Table 6.2: Types of investors in privatized manufacturing firms

Sales of shares or assets	Total (as of June 1997)
To major multinationals	12
To other foreign firms	12
To indigenous buyers	25
To other local buyers	19
Unknown	15
Subtotal	83
Liquidations	53
Liquidations under LART	20
Closures	14
Subtotal	87
Leases	24
Performance management contracts	5
Sub-total	29
Total	199

Source: Temu and Due (1998)

Other smaller manufacturing parastatals, most of which were not operational, were sold off as asset sales to local purchasers (Waigama 2008). Much less is known about the local purchasers and the conditions of sale than the international purchasers. Just over half of the local purchasers were indigenous Tanzanians while the other half were predominantly Asian Tanzanians (Temu and Due 1998). In some cases, registered Tanzanian buyers were acting as fronts for pre-Ujamaa owners who had left the country following the nationalisations of 1967 (Waigama 2008). Some well known names from Tanzania's private sector have been recorded as having purchased industrial assets through the privatisation process, such as Rostam Aziz and Mohammed Enterprises, whose Chief Executive is Mohammed Dewji (Gibbon 1999). Under liberalisation both of these individuals gained formal positions of power within CCM. Some of the companies concerned had been trading throughout the socialist period but the privatisation process enabled them to expand their activities into new economic areas.

The group of domestic buyers of privatised state industries also included a number who had themselves been the previous owners prior to Ujamaa. For example, Aluminium Africa (ALAF) was sold back to its original Asian-Tanzanian owners the Chandaria Group (Gibbon 1999). The privatisation process fuelled a growth in a number of larger business groups that had been involved in trade, such as Mohammed Enterprises that bought up a number of manufacturing units to add to its activities in trade. As described above, the leaders of some of these largest business groups have very close links to the CCM. The re-sale of manufacturing firms to previous owners and the involvement of a small group of prominent business people tied to the CCM reflects the degree to which relations between the CCM and sections of the private sector were remarkably stable during both the socialist and liberalised era. However, under liberalisation the distribution of power shifted so that the Asian-Tanzanian private sector could more openly hold economic power.

The attempt to reduce state ownership and curtail legal and illegal rents in the industrial sector through liberalisation and privatisation led to a significant transfer of ownership to the private sector, the removal of price restrictions that had been the basis of racketeering opportunities and also the reduction of many formal mechanisms of state support to industry. The relaxation of restrictions on the private sector led to the re-emergence of a private manufacturing sector, although mainly focussed on very small scale operations such as flour mills and bakeries (Tripp 1997). Joint ventures also developed between the state and international investors such as with the General Tyre East Africa Company and the Portland Cement Company discussed in the previous chapter.

Despite the shift in ownership to the private sector, the privatisation process did not remove many of the informal relations that reduced the effectiveness of industrial policy during the socialist period. For example, the General Tyre East Africa Ltd had been established in 1971 and had been the largest industrial plant in East Africa (Mikaili 2011). In the mid 1990s, Continental AG bought a 24% stake in the company and promised to revive production. In 2005, the performance of the company was still very poor and profitability had not improved despite privatisation. The company was able to persuade the Government to agree to a subsidised loan through the National Social Savings Fund (NSSF) of USD 10 million to enable the company to purchase raw material and restart production (Ihucha 2011). This type of loan to a poorly performing company was very similar to the loans available through the nationalised banking system to weak parastatals. Six years later, production at the plant had not been revived and auditors found that the loan had been squandered by the management (Mikaili 2011).

The change to the ownership pattern within industry has not, therefore, insulated industrial subsidisation from corruption. Perhaps more importantly for Tanzania's industrial performance, neither does it seem to have strengthened the state's capacity to monitor and discipline rents, such as subsidised finance, available to industry. Rather, the process of privatization has been driven by an economic consensus that the market alone can drive technology acquisition and capability development from the outset. This ignores the significant market failures constraining capability development. The problem of devising a successful industrial policy system that could channel resources to companies to finance the learning period while also imposing discipline on the rent recipient were clearly not resolved by the privatisation process.

6.3.2 Industrial Policy Reform and Equitisation in Vietnam

In Vietnam, by the end of the central planning period, significant parts of industry were operating outside the formal system. The central state attempted to deal with the extensive 'fence-breaking' within the industrial sector by bringing many of the illegal commercial activities into the open. These commercial activities were formally institutionalised from the early 1980s with microeconomic reforms that allowed SOEs to operate on a three plan system. The first part was state assigned output manufactured with state assigned inputs, the second was above plan output sold to the state using inputs procured by the SOE itself, and the third part was unplanned output that could be sold on the free market (Doanh 2002). Prices were also partially liberalised in order to realign official prices for manufactured goods with market prices. These reforms had a particularly positive effect in the South during the 1980s while the North, which continued its focus on heavy industry, responded less to these market based incentives (Beresford 1988). By the beginning of the 1990s, SOEs were highly commercialised, but they were still under the control of the state in a number of critical areas, for example, in the appointment of management, labour recruitment and asset disposal (Fforde 2004). As described in Chapter Four, the recruitment of senior managers within SOEs was undertaken by local Party Committees, this provided critical leverage for the party institutions over the SOEs.

Despite these controls, rampant corruption continued to drain resources at the lowest level of the state. The state therefore engaged in a much more direct attempt to stop this form of primitive accumulation by allowing small non-performing SOEs to close down or be absorbed into larger SOEs (Cheshire, Penrose, and Nguyen 2006). The party had tried to achieve this as early as 1981 but had not been able to drive the policy through in the face of non-cooperation by lower level party institutions. The removal of blanket state subsidies and controlled prices meant that many of the smaller SOEs that had depended on racketeering essentially went bankrupt (Vu 2005) and, therefore, probably lost much of the backing that they had received from the state as mechanisms for profit making for party officials. In 1991, a new law was brought in that permitted SOEs to be closed down or taken over if they were deemed to be unsustainable. This led to a fall in the number of industrial SOEs from 2,599 to 2,062 by 1994 (Ngu 2002), thus removing SOEs from the lowest level of party control at the district (Fforde 2004). Other policies seeking to control forms of corruption and primitive accumulation within SOEs and to redefine the relationship between the state and SOEs had much less impact than this initial reform. For example, regulations introduced at the same time such as redefining the legal ownership of the state over assets of SOEs did nothing to stop many SOE managers in co-operation with local party officials, increasingly using state assets as private assets (Fforde 2004).

The next step in the attempt to restructure the relationship between the Party and SOEs was launched in 1992 with a programme of privatisation, called equitisation (co phan hoa). While this was similar in some ways to conventional privatisation programmes in that it aimed to reduce state subsidies and enforce greater market discipline, the intention was that the state should maintain a high degree of ownership over the majority of equitised firms, particularly in heavy industries. This was to be achieved by the state taking majority holdings of equity and by continued influence of party institutions in the recruitment process for key management positions. The state proceeded very slowly initially and in the first years of the programme, only five SOEs were equitised, but towards the end of the 1990s the process sped up (Vu 2005). This acceleration was related both to policy changes and to international pressure as Vietnam prepared itself to join the Asia Free Trade Area and the World Trade Organisation. From 1998 the scope of equitisation was increased to cover all non-strategic SOEs and there were various subsequent re-launches of the SOE policy each attempting to increase the speed of equitisation. Yet despite the party's formal commitment, overall the process of equitisation remained very slow and did not lead to a major change in the formal ownership of the industrial sector. In fact, the share of the state in the economy grew in the 1990s and over the longer period, up to the mid 2000s, remained almost constant despite equitisation, because of the growth of the remaining SOEs (Sjoholm 2006). This meant that the Vietnamese Government maintained direct control over most industrial output even after more than a decade of reform (Perkins 2001).

Table 6.3: Partial and Internal Equitizations (1998 – 2004) in Vietnam

	Until 1998	1999	2000	2001	2002	2003	2004	Total
Average chartered capital (VND bn)	6.21	5.21	5.79	7.09	6.95	11.32	16.13	10.69
State	28.9%	30.1%	26.4%	27.9%	30.5%	55.4%	49.9%	46.1%
Managers, workers	50.4%	43.9%	53.0%	49.2%	51.6%	35.4%	33.3%	37.8%
Outside domestic investors	20.7%	25.0%	18.1%	15.8%	16.7%	8.1%	16.8%	15.1%
Foreign investors	0.0%	0.0%	0.0%	0.4%	1.2%	0.1%	0.0%	0.1%

Source: CIEM (2005)

Part of the reason for the small scale and slow pace of reform was the attitude of managers and workers within SOEs. While funds were established by the state to pay off workers who lost their jobs as a result of equitisation, most workers remained opposed to the process. The attitude of managers was often the critical factor in delaying or expediting an equitisation of a SOE. In theory, equitisation should have been popular with managers as it would have provided formal ownership rights to managers who had frequently been operating under de facto ownership of the SOE assets anyway(Fforde 2004). Many of the equitisations involved internal purchase of the SOE (Vu 2005) yet, despite this, many managers opposed equitisation. This suggests that continued state ownership may have provided privileged access to resources that were seen to be critical for ongoing profitability for managers (Fforde 2004). This may be an important reason why there was a growth in the share of industrial SOEs in GDP across the 1990s as SOEs continued to have privileged access to bank credit, (discussed in Chapter Four), and to land (discussed in Chapter Five) and to tariff and quantitative protection such as valuable export quotas for European market access (Thomsen 2007). Thus, managers were able, with the collusion of party officials, to continue to engage in forms of corruption and primitive accumulation, while transforming state assets into semi-private assets, and were able to resist the central Party's push for equitisation that would have removed their privileged access to state resources.

Unlike Tanzania, Vietnam wanted to maintain a significant section of industry directly under state control. To strengthen the performance of the SOEs that remained under state ownership, the Party attempted to copy the industrial strategies of other East Asian countries and to create industrial groups similar to the South Korean Cheabol and the Japanese Keiretsu (Perkins and Vu Undated) that would be able to compete internationally by achieving economies of scale. Thus, shortly after the introduction of the policy of equitisation, the Party introduced another key aspect of its industrial policy with the establishment of General Companies (Tong Cong ty) and Groups (Tap Doan) from 1994. These groupings were initially built on the Enterprise Unions that had existed under the central planning system (Cheshire, Penrose, and Nguyen 2006). The GCs and Groups were under the direct control of various Ministries that were responsible for appointing their boards of directors, while the Prime Minister was responsible for selecting the general manager (Perkins 2001). The plan was that the newly created head offices of GCs would take over some of the functions of individual enterprises, which would retain their separate identity in other respects (Perkins 2001). These reforms to ownership structures were very comprehensive with 92% of state-owned capital placed under GC structures (Vu 2005). However, the actual impact in terms of centralising power over SOEs was quite small. The formal rules governing GCs and their component enterprises were rather vague and in many cases these structures had little impact on the SOEs under their control (Cheshire, Penrose, and Nguyen 2006).

Many SOEs maintained separate relations with the local party and were not dependent on GCs for mediation with the Party. The GCs started to lose control over their component entities as some firms lower down in the structure equitised or set up joint ventures with foreign firms (Perkins and Vu Undated). By 2006, the GC model was deemed to have failed and, in response, the Government tried to bring about further centralisation of power by establishing Conglomerates (Perkins and Vu Undated). These were even bigger groupings of firms within particular heavy goods industries. The motivation for creating these groups was partly to maintain greater influence over firms. For example, under the new trade rules the Government could not require firms to buy from particular producers but under the Conglomerate structure, the parent firm could require component enterprises to buy inputs from other firms within the structure. The problem with these attempts at centralisation was that the distribution of power between different levels of the Party meant that SOEs at lower levels of the state could resist requirements imposed upon them by the Parent SOE.

6.3.3 Discussion of Reforms

The attempts to remove and restructure state control in industry related in both countries to the perception that extensive rent seeking within the industrial sector had hampered the industrialisation process. In Tanzania, the withdrawal of the state from direct ownership of industry was much more profound than in Vietnam. Attempts to strengthen the central control over industrial parastatals had clearly failed by the early 1980s and the proliferation of parastatal entities and subsidisation in the face of weak capacity utilisation showed that the state had been unable to effectively manage industrial policy rents. The weakness of central control to enforce effective compulsions through industrial policy was the man reason for this. Despite the consolidate power within the Party during the socialist period, power within the state was still fragmented to the extent that people within the system could forge small coalitions to resist their rents being removed. This fragmentation continued to be apparent during the privatisation process itself where different parts of the state attempted to sell off assets.

Tanzania's industrial sector overall was in a more parlous state than Vietnam's and many industrial enterprises were hardly operating once privatisation was getting under way, leaving relatively weak opposition to the transfer of ownership to private hands. In contrast, in Vietnam, the power of SOEs within the state was much stronger and they were able to resist pressures to move outside the orbit of direct access to state privileges. This is partly a reflection of the different extent to which economic power had been reorganised under the formative socialist political settlement. In Tanzania this had been a much more superficial process and there was a much more significant re-emergence of the private sector, partly driven by the privatisation process. However, while there was a greater presence of Africans within the private sector compared to the colonial period, the distribution of economic power under liberalisation largely returned to the foreign and non-indigenous private sector. In Tanzania the transfer of industrial property rights to the private sector did not occur through transparent processes but was influenced by informal political processes. The privatisation process allowed foreign and domestic capital, groups that had had held economic power under colonialism to re-establish themselves. It also meant that many of the on-going relations between segments of domestic private sector that had maintained certain more covert relations with the Party under socialism were able to more openly re-establish their economic position within industry.

In Vietnam, the distribution of power internally to the Party meant that SOEs could resist both equitisation *and* centralization of control through General Corporations etc. Methods of disciplining through the market and through the state were less effective where SOEs could resist both processes by making alliances with provincial and local level Party institutions. The capabilities of the state to manage industrial policy under liberalisation, that involve complex processes of monitoring and disciplining rent recipients were not strengthened by the policy of removing the socialist industrial rent structures. The underlying distribution of political and economic power that constrained industrial policy under the formative socialist political settlement continued to hamper effective management of industrial rents under liberalisation.

6.4 Industrial Policy Under Liberalisation

6.4.1 Tanzania

The major strategy for inducing technology acquisition in industry was delegated to the promotion of FDI. The Sustainable Industries Development Policy 1996 to 2020 (SIDP) envisaged an industrialisation process led by the private sector through the continued privatisation of industrial parastatals and new private sector investments (United Republic of Tanzania 1996). A formal policy of promoting foreign direct investment was adopted and the 1990 Investment Act and 1997 Tanzania Investment Act liberalised regulations restricting foreign ownership across all sectors of the economy. The legislation also attempted to provide a number of ring fenced incentives to attract in foreign investment as described in Chapter Four. These included removal of ownership restrictions and performance requirements, a fiscal stability clause that provided a guarantee to investors that incentives would not be modified ex post, removal of restrictions on the repatriation of profits and the currency in which transfers could be made (United Republic of Tanzania 1997). These ring fenced incentives had a strong and positive impact on FDI flows into the industrial sector overall and into manufacturing. From a very low base, foreign direct inflows increased rapidly across the 1990s, reaching 5% of GDP by 1999, and inflows into manufacturing were high (Utz 2007). By 2001, the manufacturing sector had received the greatest share of stock of FDI at 33.5% of total stock (Kabelwa 2006).

The inflow of FDI was a major reason for the return to growth in manufacturing by the end of the 1990s and the manufacturing sector started to grow faster than overall GDP (Kahyarara 2011). Much of the growth in manufacturing output was driven by a handful of large manufacturing enterprises that had been taken over by foreign capital and were producing low value added goods for the domestic market such as beverages, tobacco, other chemicals and plastic. A number of these firms experienced a dramatic improvement in their performance, for example, Tanzania Breweries Ltd increased capacity utilisation from 10% in 1992 to over 90% in 2001 and the Tanzania Electrical Goods Manufacturing Company increased capacity utilisation from below 50% in 1995 to 100% by 2001 (Waigama 2008). From the end of the 1990s, other manufacturing sectors such as textiles and garments also began to grow again after the severe disinvestment of the early 1990s. Apart from the firms that were privatized, most of the new firms in the textile sector were process plants that imported bleached fabrics and printed them for the local market. A few of these firms were previously involved in trade related activities importing finished textile goods from India and were owned by Asian Tanzanians. They subsequently brought in the Indian technology to start production units or to upgrade the units that they had purchased through privatisation (Ladha 2000).

As well as opening up to foreign investment to bring in new technology, the main element of policy designed to increase manufacturing productivity involved providing a number of implicit and explicit subsidies for exporters. The most popular aspects were the retention of export proceeds in a foreign country, the bonded warehouse scheme, the customs duty drawback, duty certificates, and the profit tax exemption scheme (Chandra, Kacker, and Li 2007). As well as these domestic incentive schemes there were a number of international schemes that created potential rents for Tanzanian manufacturers. The most important of these were the US African Growth and Opportunity Act (AGOA) and the EU Everything but Arms (EBA), as well as market access initiatives from France, Japan and Canada (Kweka 2004). Tanzania qualified for the wearing apparel provision of AGOA in 2002 and it also had lesser developed country status. This meant that it could import textile inputs from non qualifying third countries. These incentives schemes only had a very limited impact on exports of manufactured goods, the reasons for this are discussed below.

Export Processing Zones

Probably the most important initiative of the state in providing incentives to manufacturing producers was the establishment of Export Processing Zones (EPZs). Legislation to permit the establishment of EPZs came relatively late to Tanzania as it was only in 2002 that the Export Processing Zones Act established the legal framework for EPZs. This was followed by the establishment of a competing programme for Special Economic Zones (SEZs) that was launched by the Ministry of Planning and Economic Empowerment in 2006, following the publication of the Government's Mini-Tiger Industrialisation Plan (United Republic of Tanzania 2004). The EPZ initiative was initially under the National Development Corporation while the SEZs were under the control of the Ministry for Trade and Industry. The difference between an EPZ and an SEZ was that EPZs firms had to invest in manufacturing and had to export over 70% of output. EPZ status could be granted to stand alone enterprises as well as firms locating in particular physical zones that had access to specifically provided infrastructure. SEZs, on the other hand, were created to support investment across all sectors and allowed producers to sell in domestic as well as foreign markets. The industrial policy idea behind EPZs was to attract investors into manufacturing and to impose some compulsion on improving productivity through requirements to sell in international markets.

Despite the passage of the SEZ Act, the programme was never properly made operational as no legislation was ever passed establishing an institutional structure for regulating and managing the programme (Farole 2011) After considerable delays in setting up the programme, the management of EPZs was given to a newly established parastatal, the Export Processing Zone Authority (EPZA), under the Ministry of Trade and Industry in 2006. Management of the EPZs through the EPZA was highly centralised. The management board consisted of seven ministers, the Attorney General, the Chairman of the Tanzania Private Sector Foundation, the Executive Secretary of the Tanzania National Business Council and the Secretary of the Trade Unions Congress of Tanzania.

Fig. 6.1: Incentives Offered to Manufacturers in EPZ/SEZs in Tanzania

- 10 year corporate tax holiday
- 10 year withholding tax holiday
- Duty and VAT exemptions on raw material,
- capital goods, administrative vehicles etc
- VAT exemptions on utilities and wharfage
- Exemptions on taxes and levies charged by local authorities
- One licence issued by the EPZA
- Visa support
- Unconditional transferability of profits, dividends and royalties
- On-site customs documentation

Source: (Tanzania Export Processing Zone Authority 2011)

In the first years of the EPZ programme construction on three EPZs started in the Dar es Salaam area. By April 2004 more than USD 60 million had been invested in EPZs. Around half of this had been to cover the infrastructure costs at three new parks in Dar es Salaam. However, uptake of plots within the EPZs was very low with only 35% of the space rented (URT; 2004). By 2010 five industrial parks had been gazetted (Meru 2010) and future EPZs and SEZs were earmarked for 14 regions. By far the most common way for the EPZ initiative to be rolled out, however, was by granting individual businesses EPZ status, without requiring them to be located within a specific Zone. Nineteen stand alone EPZ licences had been issued by 2010. The total number of firms operating inside the physical SEZs was actually very low. Rather than primarily targeting FDI as the early EPZs in Vietnam did, the Tanzanian EPZ programme primarily involved domestic companies. This may partly have been a result of failures to attract foreign investors as FDI inflows into SEZs only accounted for 18% of total FDI flows since the start of the programme (Farole 2011). Another reason, however, was that the industrial learning rents were primarily redistributive rents for local domestic businesses. The stand alone aspect of the programme attracted existing domestic producers to switch into the EPZ programme to attain the fiscal incentives without changing their existing pattern of production or export orientation.

Performance of Export Incentives

The reasons for the successes and failures of this aspect of industrial policy under liberalisation can be related to the constraints imposed by the political settlement. While most of the manufacturing sector remained oriented towards the domestic market, exports of manufactured goods stared to increase from the end of the 1990s and by 2005, exports of manufactured goods had tripled, albeit from a very low base (Treichel 2005). However, the incentive schemes to promote exports seem to have had quite a peripheral impact on export performance. The firms that were involved in exporting were generally the larger manufacturing firms that had some amount of foreign investment and a history of exporting (Harding, Kahyarara, and Rankin 2002).

The impact of rents generated by international export initiatives appear also to have had quite a weak impact on industrial performance overall. Tanzania only qualified for textile exports under AGOA in 2002 but the majority of goods exported through this programme overall were agricultural and forestry products rather than manufactured goods (Kweka 2004). Even in the years following Tanzania's qualification for textile exports, the total volume of exports under this programme remained extremely low, accounting for under 1% of the total volume of exports to the US. The entire quantity of exported textiles were produced by just a handful of factories (Kweka 2004). Overall, AGOA only achieved a moderate supply response and limited dollar earnings for the country in comparison to neighbouring countries such as Kenya, Uganda, Malawi and Ethiopia (World Bank 2005).

Other domestic incentives also appeared to be quite ineffective. Table 7.1 below lists the major export incentives and their use by companies. Overall less than 25% of firms used any of the incentives offered to them to export goods.

Table 6.4: Usefulness of existing export promotion programs

Type of Incentive	Percent of Firms that Use the Incentive
Manufacture-in-Bond Scheme	6.8
Customs Duty Drawback	16.4
Duty Suspension on imported inputs	5.3
Bonded warehouse or similar scheme	21.3
Profit tax exemption	13.7
Export Credit Guarantee	5.4
Export Development Fund	2.7
Retention of export proceeds in foreign country	24.7
Export Processing Zone	2.7
Export Adjustment Fund Scheme	0.0
Foreign Inputs Facility	2.7
Duty Certificates	15.0
Other	5.3

Source: World Bank 2005

In 2005, only 2.7% of manufacturing firms were located within an EPZ. The vast majority of manufacturing occurred outside these zones. One of the main reasons for this was that the EPZs themselves have operated very poorly for most of the 2000s. Subsidised infrastructure, which, along with fiscal incentives, was supposed to be one of the major attractions for setting up within an EPZ, was severely deficient. In 2005, of the three EPZs established in Dar es Salaam, only one had sufficient infrastructure, while basic facilities such as electricity and roads were lacking in the other two (World Bank 2005). Unreliable power and water supplies, undependable infrastructure and expensive administration costs were all identified as major constraints on firms operating within EPZs (World Bank 2005). Another limitation was the lack of on-site customs offices and management offices. A World Bank survey of EPZs in Africa identified that the clearance times within Tanzanian EPZs were actually worse than for manufacturing firms outside EPZs (Farole 2011). While the clearance procedures for SEZ firms were established by law, many customs agents working at the port and airport were unaware of the system. Serious port delays significantly hampered the SEZ programme. The fact that duty-free access arrangements were implemented by many different government agencies, especially the customs authority (Farole 2011) was also a problem. Fragmentation of control over delivery of the programme, particularly difficulty in enforcing performance from infrastructure providers meant that subsidised industrial incentives were difficult to obtain for specific users located within the Zones.

Performance of Firms inside EPZs

The performance of the firms located within the EPZ was also disappointing. Apart from the infrastructural constraints listed above, manufacturing firms under the EPZ programme suffered from a combination of other problems. These include changes to international agreements on market access. The timing of the Tanzanian EPZ programme was poor as the MFA had just come to and end and the world market for low value added manufactured exports had become much more competitive with the rise of producers such as Bangladesh and Vietnam. The rents provided by export promotion programmes were, therefore, much less incentivising compared to earlier initiatives that had helped other poor countries to follow a labour intensive manufacturing path of growth. Labour supply problems also affected domestic producers and the lack of an adequate industrial work force was frequently listed as a reason for business failure. For example, in 2003 Star Apparel, owned by a Sri Lankan company Tri-Star, started production at an EPZ in Dar. It was one of the most successful companies exporting under AGOA from the EPZ. Yet in 2005, Star Apparels closed, reportedly due to an inability to abide by its contractual obligations partially relating to labour disputes that hampered production (Tancotton 2005).

Tanzania was also not able to establish itself as an obvious regional export platform for multinational companies wishing to access cheap labour or resources. Low wages and international export incentives did not work in Tanzania to the same extent as in other developing countries, such as Bangladesh, where there was a very rapid supply response to a similar set of incentives (Khan 2009). This was because Bangladesh provided credible and significant pressure on the recipients of these temporary rents to raise their productivity and achieve competitiveness quickly. Bangladesh did not achieve this system of incentives through a strongly centralised state. Instead, the temporary rents combined with aspects of the political settlement in Bangladesh, such as a large potential industrial labour force, previous primitive accumulation that had generated the potential for a rapid emergence of entrepreneurs, and a viable political relationship between these entrepreneurs and the state (Khan 2009). These contrast with Tanzania's relatively low levels of primitive accumulation under the formative socialist political settlement, the smaller potential industrial workforce (for reasons relating to the lower level of population and agrarian transformation), and the difficulty that Tanzania faced in constructing a viable political settlement with the mainly non-indigenous domestic capitalist class.

The difficulties with enforcing export targets were also partly due to problems of fragmentation within the polity similar to those which hampered industrial policy during socialism. Firms within EPZ appeared to be able to avoid the requirement to export. Some of the firms that had been granted EPZ status were actually primarily producing for the domestic market rather than for export. In 2006 a case was widely reported of fiscal incentives that had been granted to a textile firm on condition that it met requirements for exporting. NIDA was among the first textile and apparel making companies to operate under an EPZ licence (Mande 2007). As well as garments, it produced yarn and cloth for the overseas market. In addition to the fiscal incentives offered as part of the EPZ programme, the company managed to negotiate a special tax exemption from the Ministry of Finance for the importation of raw materials from its parent company in Pakistan. NIDA had asked the Ministry of Finance to grant it zero per cent import duty on extra-wide grey fabrics materials of a width wider than 80 inches, which it claimed was not available within Tanzania or the region (Chhatbar 2006).

The company claimed that the imports of raw material were essential for the operation of its textile mill that had been built for around USD 8 million. It claimed that it needed between 2 and 3.2 million metres of grey fabric per month to sustain its mills and produce two million bed sheets a month for the domestic market and for export (Tarimo 2004). Other industrialists strongly opposed the exemption on the grounds that NIDA would flood the domestic market and have an unfair advantage. They also claimed that the raw materials were available from within Tanzania (Chhatbar 2006). A committee was subsequently established to review the granting of the exemption made up from the Ministries of Industry, Trade and Marketing, and Finance, the Tanzania Revenue Authority and the CTI (Mande 2007). The final decision reached by Government was that the exemption could stand as long as Nida exported 50% of its output (Correspondent 2006). This was below the official level required for exporting as an EPZ. These examples of poor enforcement of the EPZ programme and fiscal incentives to industry suggest that a set of problems that existed under the socialist political settlement in terms of the ability of the state to effectively manage critical industrial rents have to hamper effective industrial policy under liberalisation. Formal and informal compulsions to raise productivity through these industrial policy incentives were not effective in Tanzania.

6.4.2 Vietnam

As described in Chapter One, Vietnam's remarkable industrial output expansion under liberalisation was largely a result of the very high inflows of foreign direct investment, originally into gas and oil and later into low value added labour intensive manufacturing. Regional trade and investment dynamics were critical to Vietnam's industrial expansion (Gauthier 1996). The high level of foreign investment into labour intensive manufacturing would seem to conform to the market liberalisation theory that by freeing market mechanisms, resources would flow to sectors with comparative advantages. However, explanations based simply on comparative advantage do not take account of the significant impact of the socialist period on the development of a relatively well organised labour force experienced in manufacturing activities. Further, under liberalisation there were significant subsidies to foreign investors in the manufacturing sector to make investment worthwhile where initial competitiveness was low. Vietnam was able to give a credible offer of subsidies to new investors from the region because of particular features of its political settlement under liberalisation, related to the political security that partnerships with SOEs could offer and the links between the Chinese-Vietnamese diaspora and regional investors.

During the 1990s, investment from other Asian countries, and particularly the Asian NICs into manufacturing took off dramatically. As Table 6.9 below indicates, the top five sources of FDI for Vietnam across the 1990s were all East Asian countries.

Table: 6.5: Top 5 Countries Committing Foreign Direct Investment to Vietnam, 1988 – 1999

Rank	Country	Committed FDI ($ mil)	Share in total (%)
1	Singapore	5,713.1	16.1
2.	Taiwan	4,415.9	12.4
3.	Hong Kong	3,570.9	10.0
4.	Japan	3,299.1	9.3
5.	South Korea	2,973.7	8.4

Source: Adapted from Mai (2004)

As described in Chapter One (p30), it is important not to underestimate the impact of Vietnam's geographical location within a high-growth, rapidly industrialising region as a major factor in its success in attracting FDI into manufacturing. These investment flows reflected Vietnams' rising role as an important export platform for expanding regional multinationals. Regional multinationals were looking for cheap and reliable labour to undertake simple manufacturing activities within the production process. Vietnam's close proximity and cultural similarities to its high growth neighbours made it a very attractive destination for regional FDI. The major manufacturing sectors that attracted FDI were textiles and garments as well as footwear, food products, beverages and some simple electronics activities. For example, Fujitsu set up a 100% foreign owned project in 1995 to produce printed circuit board assembly lines that were then exported to its factories for higher level assembly in other countries in the region (Mai 2004). The growth of regional FDI into textiles and garments was particularly important for the rise in manufactured exports, accounting for 41% of manufactured exports by the end of the 1990s (Hill 1998).

Control over FDI devolved to Provincial Party and SOEs

As in Tanzania, the most important formal rents created for foreign companies were provided through the Export Processing Zone and Industrial Zone initiatives. The Export Processing Zone Policy was launched in 1991 with the offer of duty-free access to all inputs and various tax concessions for industries locating within one zone. This was followed shortly afterwards, in 1994, by the policy for Industrial Zones which allowed production for both international and domestic markets within zones based on subsidised land, infrastructure and fiscal incentives. Initially formal control of FDI was highly centralised. During the initial stage of the implementation of the Law on Foreign Investment, all foreign-invested projects were managed by the State Committee for Cooperation and Investment (SCCI). From the end of the 1980s, some of the provincial level party committees had started to break the official regulations on FDI and take initiatives into their own hands to attract foreign investors. This was reflected in the fact that the South, and particularly HCMC, received much higher levels of FDI despite the formal centralised allocation of FDI (Malesky 2008). The distribution of FDI to different provinces is shown in Table 6.6 below:

Table 6.6. Regional and Provincial distribution of FDI projects, 1988–2006 (Number of projects, percentage of total and dollars)

Province	Number of Projects	Percentage of total	Registered capital (million dollars)	Percentage of total	Registered capital per capita (dollars)
Red River Delta Total	1781	21.5	20241	25.9	1.11
Hanoi	949	11.5	12561	16.1	3.90
Hai Phong	266	3.2	2648	3.4	1.47
Other	566	6.9	5031	6.4	0.38
North-East Total	358	4.3	2445	3.1	0.26
North-West Total	27	0.3	115	0.2	0.04
North Central Coast	125	1.5	1473	1.9	0.14
South Central Coast	349	4.2	5276	6.7	0.74
Central Highlands	113	1.4	1041	1.3	0.21
South East Total	5126	62.0	42377	54.1	3.07
Binh Duong	1315	15.9	6700	8.6	6.95
Dong Nai	870	10.5	10410	13.3	4.70
Ho Chi Minh City	2504	30.3	17896	22.9	2.93
Other	437	5.3	7332	9.4	1.62
Mekong River Delta	334	4.0	2315	3.0	0.13

Source: UNCTAD 2008

The formal regulations surrounding the establishment of EPZs and IZs appeared highly centralised with the requirement of formal approval of the Prime Minister and the involvement of senior officials in the SCCI in the identification of pilot plots (Malesky 2008). However, in reality the central Government initially offered very limited support for these initiatives (Grenier, Mackay, and Morrissey 1999). Across the 1990s, the formal rules that established the legal rents that could be offered to FDI were gradually decentralised to provincial level government and IZ and EPZ management boards at the provincial level (Anh, Thai, and Thang 2007). After 2001, the extent to which the provinces were circumventing central restrictions on rents to FDI increased and the phenomenon of 'fence-breaking' with regard to provinces offering extra-legal incentives for foreign investment became increasingly apparent. Such incentives involved fiscal incentives and incentives relating to land, as discussed in Chapters Four and Five.

Anh (2007) reported that in thirty-two provinces, rules on incentives to FDI were broken in very obvious ways, with the provincial People's Committee issuing decisions or documents that contravened state laws on foreign investment. Other provinces, however, engaged in 'fence breaking' in ways that were more difficult to observe, for example by simply ignoring the violations of lower levels of state agencies and firms (Anh, Thai, and Thang 2007). The popularity of these industrial policy initiatives with Provincial Party institutions was reflected in the fact that by December 2005 there were 130 IPZs and EPZs operating in Vietnam (Socialist Republic of Vietnam 2011). Unlike the Tanzanian EPZ programme that primarily attracted domestic investors, the Vietnamese programme was dominated by foreign owned companies. For example, up to 2000, 85% of firms licensed within EPZs were foreign owned (Doanh 2002).

FDI was encouraged by the VCP but the private sector was still treated with suspicion by the Party and access to resources and rents were still overwhelmingly targeted to SOEs. This situation forced FDI to seek out partnerships with SOEs and in the 1990s, 98% of foreign invested joint ventures occurred with SOEs (Doanh 2002). Partnership with SOEs gave FDI a degree of political security for their investments, reflecting the distribution of power within the state. It ensured that the provincial party institutions would support them due to the pattern of joint influence over appointments to management positions and projects that supported the commercial activities of Party Committees.

The types of incentives offered by the industrial policy programmes in Tanzania and Vietnam were in many ways quite similar, but they were associated with different compulsions. The dominance of SOEs over the domestic market meant that FDI that entered Vietnam was under greater compulsion to export. Even foreign companies that established themselves in Vietnam with the intention of selling in domestic markets found that their access to these markets were restricted by the many SOEs that had protected domestic market access (Yeoh and Ngee 2007). Thus, the incentives offered to FDI through cheap land and tax breaks were associated with greater compulsion to achieve international competitiveness in order to be able to export, rather than to sell in domestic markets. This ensured that the enterprises concerned would have to achieve international competitiveness. Investors also knew that in that context the incentives they were receiving to sustain their exports would be temporary. The compulsions for productivity growth and improvements in competitiveness would arguably have been far less if the FDI was primarily coming to access a protected domestic market.

The ability of Vietnam to attract FDI under liberalisation also related to the pivotal role played by segments of the remaining Vietnamese-Chinese commercial classes in southern Vietnam. While a significant proportion of this group fled Vietnam following the fall of the Southern Republic, some of the group that had remained in Vietnam had been able to continue their economic activities under the radar of the restrictions on private economic activity, as described in Chapter Three. For example, some of the Vietnamese-Chinese in HCMC that had been engaged in small scale manufacturing enterprises formally changed the status of their businesses to co-operatives after reunification had taken place. These co-operatives were permitted by the Party and, therefore, they could continue producing (Mallon and Irvin 2001). They were in a position to quickly re-establish themselves in private commerce after the relaxation of restrictions on the private sector (Dolinski 2006). Over the period of private sector liberalisation that culminated in the Enterprise Law of 2000, Chinese-Vietnamese manufacturing firms re-emerged in the official economy.

Yet the private domestic manufacturing sector remained very constrained across the period of liberalisation. For example, in the mid 2000s, 80% of the private sector was defined as micro enterprises employing less than 50 people (Hakkala and Kokko 2006). The domestic private sector remained constrained across the liberalisation period as industrial policy rents in the form of access to credit and land went predominantly to SOEs. Many restrictions were imposed on the private sector deriving both from the central level and from provincial party committees and people's councils. Obtaining licences was very difficult and there was considerable administrative discretion by bureaucrats, which worked against private sector businesses. Attitudes of the Party towards the private sector were in general much more suspicious than towards foreign capital (Mallon 2004). The political weakness of the domestic private sector was a legacy of the formative socialist political settlement.

As described in Chapter Three, since the colonial period, Vietnamese-Chinese had organised themselves into economic groups based on congregations related to language. While many of the Vietnamese-Chinese in the South were marginalised from political power one group of Vietnamese-Chinese, the Teochew congregation had played a prominent role in supporting the resistance in Southern Vietnam (Lindahl and Thomsen 2002). People from this group were given the role of running the Chinese Business Department of the HCMC after the war (Lindahl and Thomsen 2002). They were able to play a role in facilitating relations between the Party and the remaining Vietnamese-Chinese in HCMC, such as those from the Guangdong speech group who had dominated the garment and textile sector before 1975 in Southern Vietnam (Khanh 1993).

Informal networks had been established even before Doi Moi between the remaining Vietnamese-Chinese commercial classes and regional producers. This meant that business networks already existed informally when liberalisation was put in place. For example, while Singapore was strongly in favour of the trade blockade, the total volume of trade between Singapore and Vietnam rose by 20% per annum from 1980 to 1985. This growth in regional trade occurred outside the official bilateral trade agreements characteristic of centrally planned regimes. Instead these trading relations were based on the activities of local state entities and unofficial trade relations that survived the official clampdown on private sector activities (Beresford and Phong 2000). Under liberalisation many in this group re-established small firms in garments, textiles and plastics. They received high inflows of investments from the overseas Chinese with the East Asian region, based on '*guanxi*', the informal network relations between Chinese business people (Lindahl and Thomsen 2002). Informal economic links with the Chinese diaspora across the region facilitated FDI from Taiwan and Singapore (Perkins 2001).

However, the politically marginalised position of the Vietnamese-Chinese meant that relations with SOEs were critical for access to state subsidies. Thus, while there were a few private sector companies that subcontracted directly with foreign firms, nearly all private sector manufacturing was subcontracting via SOEs (Lindahl and Thomsen 2002). The process of commercialisation that had been going on within the state-owned sector and VCP institutions meant that individuals within this sector had developed entrepreneurial skills and had accumulated resources that could be invested in developing partnerships with foreign companies. As described in the previous two chapters, the horizontal competition between different VCP institutions and SOEs led to competition between coalitions to develop partnerships with foreign firms. However, the overall political framework of the VCP meant that this competition did not descend into outright anarchy that might have deterred foreign investors from making deals with SOEs.

Limitations of Decentralised Power

The decentralized distribution of power facilitated partnerships between provincial level government and foreign investors that led to high inflows of FDI into certain provinces under liberalisation. Yet, this distribution of power also limited the capacity of the central state to manage rents effectively. This had negative consequences in certain areas of industrial policy under liberalisation. One of the critical limitations has been on the ability of the poorer provinces to attract in FDI through informal and implicit subsidies similar to those offered by the fast growing provinces. Over the period of liberalisation many of the poorer provinces attempted to create an incentive structure through subsidies in fiscal policy and land to attract FDI that contravened centrally imposed regulations. These illegal incentives caused significant loss in fiscal revenue for the central state (Anh, Thai, and Thang 2007). The central Government attempted to regain control over this process by issuing a Decree in 2005 ordering an immediate suspension of the illegal and informal incentives and demanding that all provincial People's Committees provide a report on all violations that had taken place within their provinces. These requirements were not, however, followed through rigorously with many of the provinces ignoring the Decree completely (Anh, Thai, and Thang 2007).

More importantly, the incentives offered by the poorer provinces to encourage FDI to locate within their IZs were not very effective (Anh, Thai, and Thang 2007). This was reflected in the very uneven rate of occupancy between IZs in different regions (Doanh 2002). Industrial FDI remained very concentrated within the handful of fast growing regions and some of the poorer regions received virtually no FDI (Perkins and Vu Undated). The types of investment needed to make the poorer regions more attractive to FDI were probably greater than could be delivered by a provincial level political settlement. As described in Chapter Four, some large scale investment projects have been targeted towards the poorer provinces that had political influence due to the independence struggle. However, as the economic power of the provinces becomes increasingly unequal it is questionable whether this dynamic will remain sufficient to generate adequate central inflows to overcome the costs facing new industries in poorer provinces.

Another limitation of the decentralised features of the political settlement has been the limited extent to which a dynamic industrial learning process has been created through openness to FDI. For industrial policy to be successful a more coherent set of 'contracts' between FDI and foreign technology providers would have had to be enforced. Even in industries with lower technological demands, there has been very little technology spill over from FDI (Leproux and Brooks 2004). For example, the garment industry remained based on assembly activities across the liberalisation period and most of the clothes exported from Vietnam are produced on cut-make-and-trim (CMT) contracts, where the buyer provides the fabric, accessories and designs. In some cases even the cutting is done overseas, leaving simpler and even lower value-added assembly work to be done in Vietnam (Thomsen 2007).

Industrial policy initiatives to promote technology transfer within higher value added industrial processes such as automobile and motorbike production were also very ineffective (Ohno 2004). When the state attempted to enforce localisation targets on the automobile sector, the manufacturers were able to successfully lobby the Government to avoid enforcement (Staff 2003). The ability of producers to evade even the most direct forms of regulation on technology acquisition such as localisation targets suggests that these firms had enough political power to resist the central state. This may partly reflect the fact that much of the FDI in industry was in partnership with SOEs. The SOEs were able to use their political power through links to local party institutions to avoid industrial policy disciplining. This suggests that if an industrial policy rent was generating sufficient returns to satisfy a significant coalition within the VCP, the coalition could effectively resist attempts to impose performance requirements. In these cases, the industrial policy rents may have become purely redistributive and their intended impact on technological acquisition was lost.

6.4.3 Discussion

Under liberalisation, both countries extensively reformed their industrial policies. Both countries adopted an approach to industrialisation based on attracting FDI. Vietnam retained a more activist industrial policy than Tanzania. The policies to attract FDI into manufacturing and industry were successful in both countries. However, this was not simply a result of low wages or market based comparative advantage. Extensive interventions to create an industrial base under socialism were important for explaining the pattern of investment. Industrial policy in the form of subsidies in land and fiscal policy also played a role in attracting firms into sectors with low initial competitiveness. In both countries, the political framework of the Party helped to create an overall social order that was attractive to international investors. However, neither had the kind of centralised management of industrial policy rents that characterised the 'developmental states'.

In Tanzania, FDI flowed into sectors that had been established under the socialist period. However, most FDI in manufacturing was in businesses that were targeting the low value added domestic market. Industrial policy initiatives to increase competitiveness by forcing firms to sell in international markets were not very successful. The flagship EPZ programme did not receive the required support from the state and rents were subverted by firms that were able to avoid export criteria. Industrial policy was hindered by the problem of constructing a viable political settlement between the largely non-indigenous domestic capitalist class and the state. It was difficult for the state to openly provide resources to domestic capitalists. The political commitment needed to ensure the successful delivery of subsidised infrastructure to the private sector was not sufficient. Part of the political legitimacy of the Party constructed under socialism was its commitment to equality. It is still very difficult for Tanzania to promote a capitalist class. Open forms of subsidy to business and the private sector are not politically acceptable to most people. This has hindered the political commitment to initiatives such as EPZ that require central coordination to provide large scale infrastructure capable of lowering the cost of production within these zones enough to make them commercially attractive.

However, informal relations between those with economic power and the political system were strong. This is clear from the number of 'stand-alone' EPZ licences granted without the enforcement of export criteria. Industrial policy failures were partly generated by the same problems of fragmented power within the state that hampered successful industrial policy in the socialist period. Temporary rents created by international trade agreements were not sufficient to overcome the constraints caused by the political settlement. Further, Tanzania's more limited rural transformation and lower population density is a deeper cause of the relatively slow emergence of an industrial workforce compared to many countries in Asia.

In Vietnam, previous industrial experience under socialism had created a larger industrial base and a well organised urbanised industrial work force. Vietnam's regional position facilitated investment from more industrialised countries in the region that were looking for cheap labour and secure export platforms that would fit within their production networks. As well as the political stability of the system, other aspects of the political settlement facilitated this inflow. Investors from the Chinese diaspora were brought into Vietnam through the remaining domestic Chinese-Vietnamese business community. This group lacked the political legitimacy to be able to access state rents in land and finance necessary for production. Instead, foreign investors had to go into partnership with coalitions of SOEs and local VCP institutions. Previous commercialisation of VCP institutions and SOEs meant that entrepreneurial experience already existed within the state. The compulsions on local VCP institutions and SOEs to use primitive accumulation for productive activities, that were discussed in Chapter Four, was the basis of this experience.

Many foreign firms entered Vietnam with the intention of producing for international markets. Further, the density of SOEs and their greater economic control over the domestic market meant that foreign firms had a more difficult time selling domestically. These features meant that the subsidies offered to foreign investors through Industrial Zone initiatives were linked to a credible set of compulsions that encouraged these firms to achieve internationals standards of competitiveness. Thus, industrial policy was successful in terms of generating learning in basic manufacturing activities not because of the centralised control of the state but because of the particular distribution of political and economic power within the provincial and district levels of the state.

This distribution of power, however, made it more difficult to enforce other aspects of industrial policy, such as localisation targets on FDI. Moreover, the competitive pressures between provinces to attract FDI did not overcome the larger problem of inequality between the provinces in terms of cost differences generated by lack of large scale infrastructure. Some of these provincial level inequalities are being addressed through centralised redistribution, as described in Chapter Four. However, as the capitalist transition process continues to generate inequalities and as the legacy of the war on the distribution of political power fades, it may become increasingly difficult for a political settlement based on decentralised power to address these problems.

Chapter 7

Conclusion

'… I am a long term optimist. I believe that mankind does struggle upwards, in however halting a manner, and however many set-backs we experience as we progress ...' (Nyerere, 1973)

How to bring about a productive economic transition in developing countries that frees people from the chains of poverty and oppression remains one of the most important questions of our times. Some of the poorest countries in the world attempted to achieve this through a socialist path of economic transformation in the second half of the twentieth century. As the century drew to a close, these attempts were largely abandoned in the face of geopolitical and ideological changes, as well as constraints that emerged at the national level in the construction of viable socialist political settlements. In their place, there was a return to capitalist paths of economic transition. Failures in economic development were blamed squarely on state intervention in the market under socialism. However, in reality the factors involved were more complex than this interpretation suggests. The political economy of the legacy of the socialist period for subsequent economic performance under liberalisation has been under researched. What is clear is that the economic outcomes of the return to a capitalist dynamic of transformation have been very diverse. Some ex-socialist developing countries experienced rapid growth and industrialisation, while others fell further behind.

In recent years, debate within mainstream economics has moved away from simple arguments about the superiority of the market over the state towards a more complex set of arguments about the role of institutions in economic growth. A particular set of 'good governance' institutions were identified as being critical for growth in developing countries. However, the evidence used to support the good governance agenda is actually quite weak. The dominance of this approach within policy debate demands an urgent critical engagement with the theoretical arguments and the evidence from specific countries on the relationship between governance and economic transformation. The thesis seeks to contribute to this debate. This chapter summarises the approach of the research and its main findings. In conclusion, the chapter draws out the broader implications of the research and poses some unanswered questions.

An obvious question is why choose Tanzania and Vietnam as the basis for exploring differences in the process of economic transition? There are, of course, very many differences between these two countries in terms of history, geography, culture and regional context. However, in crucial respects, they also share certain important features that provide the basis for insightful comparison. Chapter One established a case for comparing Tanzania and Vietnam in terms of, first, their common features in the socialist period, second, their economic performance under liberalisation and third, common features of their system of governance under liberalisation.

Tanzania and Vietnam were two countries that led the way in attempting to implement socialism in the context of poor agrarian societies. The socialist parties that came to power through the independence struggle established one-party states. The ruling parties were institutionalised throughout society on the model of the Leninist Party-State. They both attempted to centralise political authority to bring about economic and political transformation towards socialism. Both countries sought to bring about an economic transition towards socialism through economic policies based on central planning. By the end of the 1970s, both countries were facing severe economic decline and they both adopted economic and political reform programmes from the mid 1980s.

They were also success stories of economic growth under liberalisation within their regions. Both experienced higher GDP per capita growth with improved growth rates across agriculture, industry and services. Vietnam, however, outperformed Tanzania and achieved a much more profound structural transformation towards becoming an industrialised society. As outlined in Chapter One, Vietnam's experience of rapid economic transition in the 1990s marked it out from most other developing countries. Nevertheless, Vietnam's experience of productivity growth was slower than other rapid developers in Asia such as South Korea, Both countries are also similar in that they retained the dominance of the pre-reform political party throughout the period of liberalisation. Yet despite the legacy of the centralised institutions of the Party, within both Parties very high levels of corruption and patron-client relations existed that became increasingly apparent over the period of liberalisation. How do their commonalities and differences in terms of the impact of the socialist period and their governance institutions under liberalisation help to explain their comparative economic transition?

Different analytical approaches to explaining the impact of institutions on economic performance in developing countries were evaluated in Chapter Two. New Institutional Economics argues that economic transition is driven by a process of bargaining between individuals for compensated and mutually acceptable changes in structures of property rights. The structure of transaction costs influences the extent to which individuals can achieve mutually satisfactory bargains. Low transaction cost institutions are identified as being those associated with the liberal market economy model. This approach provides the theoretical basis for the good governance agenda and has received backing from evidence generated through econometric studies using a range of governance indicators.

There are a number of theoretical and empirical problems with using this approach for the questions that this thesis seeks to address. On close inspection, there is considerable uncertainty over whether the governance indicators used in NIE inspired research are valid. Particularly, there are doubts about whether the indicators actually capture the institutions that they are supposed to reflect or whether they simply reflect subjective opinions influenced by general economic performance rather than objective institutional impacts. Further, econometric research has not yet satisfactorily answered the question of the direction of causality between the quality of institutions and economic growth. This is especially important given that developing countries that have had the most success in economic transformation did so through a range of institutions that were different from each other and from those recommended by the 'good governance' agenda.

A more fruitful element of the NIE analytical framework for this thesis are the models of collective action that originated with Mancur Olson. Models of collective action help to explore why organisations are effective at achieving their aims. Collective action groups in this approach are redistributive coalitions that are successful to the extent that they are able to resolve the problem of free riding among the group. Collective action groups can damage economic growth if their demands for redistribution are excessive. Small collective action group will tend to be more successful, but Olson argues that the more encompassing an organisation, the more it will promote broad economic growth rather than predation. Further, the more politically stable the ruling coalition, the longer its time horizons and the more its actions will tend to promote long term returns through economic growth rather than short term predation. While this analytical framework provides a number of relevant insights for exploring economic transition and the Party in Tanzania and Vietnam it cannot capture the informal nature of the distribution of power in these countries. The most important collective action groups making claims on the state often work both within and outside formal organisational structures. The success of collective action in demanding redistribution depends on the distribution of power between different groups in society that may, or may not, be reflected in the formal structure of institutions.

A range of Weberian inspired theories about the role of the state in economic development face similar limitations. These include models of the patrimonial state compared to the bureaucratic state. These are important in that many developing countries, including Tanzania and Vietnam, are dominated by patrimonial politics. Yet these models fail to address the underlying structural reasons for why politics works in this way in developing countries. Nor do they explain the compatibility between patrimonial politics and a range of different economic outcomes. Heterodox theories of the developmental state provide another valuable strand of analysis based on examining the role of the state in managing industrial policy in a group of the most successful industrialisers in East Asia. These states had sufficient control over economic development rents to ensure that rent recipients were subject to enforceable performance standards. Yet, these state-centric explanations for economic performance cannot account for the diversity of experience with industrial policy. Further, this framework does not address other critical features of the economic transition process, such as informal processes of political stabilisation and collapse and restructuring of economic rights.

Chapter Two outlined the Political Settlements framework, developed by Mushtaq Khan, and explained why this approach provided an appropriate basis for addressing the question posed by this thesis. Unlike the NIE and Weberian state-centric models, the Political Settlements framework explains why institutional analysis alone is insufficient to explain economic transition. In most developing countries economic and political power frequently lies outside formal institutions. In order to explain the variable role of institutions in economic development we, therefore, need to look beyond institutions, to identify the underlying distribution of power. A political settlement defines the combination of institutions and the underlying distribution of power in a society. Institutions in the Political Settlements approach are not neutral 'rules of the game' but have distributive outcomes. They establish a pattern of rights that determine the distribution of income and resource flows in a society. Historically constituted social groups will attempt to use power to hold onto or gain rights that confer income flows through redistribution and production.

The distribution of power depends on a range of socioeconomic factors. Economic resources are one factor in the power of any social group but the distribution of political power is not simply a function of the distribution of economic power. Political power can be gained through institutional positions but, more importantly in many cases, it can be gained through the ability to organise politically. Therefore, a picture of the distribution of power in any society is not just a description of its political institutions but needs to be constructed from a reading of social and economic history, looking at the past outcomes of social conflict and the organisation of production.

Khan (2010) identifies four types of political settlement based on the alignment between formal institutions and the distribution of power and the extent to which the formal institutions generate growth. These are pre-capitalist, capitalist, clientelist, and 'in-crisis' political settlements. Most developing countries have forms of the clientelist political settlement as a result of the fundamental socioeconomic change that is occurring. Developing countries are in a process of transition in the sense that traditional alignments between formal institutions and power are collapsing and new viable alignments have not yet taken hold. As power is not aligned behind formal institutions, it operates mainly through informal patron-client networks. The clientelist political settlement can be stable and can produce a range of different outcomes in terms of economic transition. Economic transition in developing countries occurs through an iterative process of contested change in institutions and in the socioeconomic distribution of power. In the context of contemporary developing countries, three of the most important drivers of economic transition are the process of political redistribution, primitive accumulation and technology acquisition. How these processes play out under different political settlements is central to understanding the pace and direction of economic transition.

Tanzania and Vietnam were prominent examples of a group of countries that attempted to follow a non-capitalist path of economic transition. The attempt to create socialist societies in the context of traditional agrarian socioeconomic structures, led by a Party that had gained power on the back of a mass struggle against colonialism and imperialism created a particular political economy in these countries. We attempt to capture this through the concept of the formative socialist political settlement. There are four core common features of this political settlement that had important implications for the subsequent path of economic transition under liberalisation.

First, the countries were ruled as one-party states by socialist parties that came to power with mass support through some form of revolutionary process. The specific nature of the struggle to power was critical to understanding the extent that they were subsequently able to consolidate power within their institutions.

Second, the ideological commitment to a socialist transition meant that capitalism was suppressed and domestic and international capital were restricted from formal positions of power. Instead, economic institutions in the form of collectives and state owned enterprises were created to give formal economic power, through the control of the Party, to workers and peasants. The extent to which this commitment to socialist ideology actually led to a change in the distribution of economic power away from the existing capitalist classes is an important factor in explaining the subsequent economic transition under liberalisation.

Third, despite the creation of formal institutions that were supposed to vest power in the hands of workers and peasants, the actual distribution of power was not held primarily by these groups. As in other developing countries, political power was largely held by intermediate class groups that led the Parties on behalf of the workers and peasants. The extent to which intermediate class groups were able to consolidate power within the party depended largely on their organisational capacities within the state, the extent of the suppression of political organisation outside the Party, and their ability to control the economic assets of the state, even though these were not highly productive. The extent to which the intermediate class groups were able to consolidate their political power within the party state and create a centralised party structure had important consequences for economic transition under liberalisation.

Fourth, despite the fact that the distribution of power was not aligned behind the formal institutions representing the poor, the extent to which formal institutions were created to give political voice to these groups had implications and unintended consequences for the subsequent path of economic growth under liberalisation.

Chapter Three set out the comparative evolution of the political settlement in both countries. Vietnam had a long history as a nation state with central and village level political authority systems constructed over centuries. Social hierarchies within agrarian society were more developed than in Tanzania. The state had a much more recent history in Tanzania and rural level authority structures were diffuse and diverse. In both countries, peasant agriculture remained dominant across the colonial period and there was very limited industrialisation. Under colonialism, governance institutions were grafted onto 'traditional' power structures. Tanzania's status as a protectorate made the British Government wary about implementing more transformative economic policies. Colonial capital dominated the economy but smaller scale economic activities were carried out by non-indigenous commercial groups in both countries. Chinese-Vietnamese business people in Vietnam and Indian business people in Tanzania were granted certain economic rights by the Colonial authorities that encouraged the expansion of these groups in commerce and production. The colonial administrative and educational system forged the emergence of intermediate class groups, even though these groups were much more circumscribed than in countries with more urbanised populations or longer colonial histories and larger colonial governments.

The nature of the independence struggle was critical to the distribution of power in Tanzania and Vietnam. In both countries the parties that led the mass independence struggle were forged by members of the intermediate classes. In Tanzania the independence struggle took a largely constitutional route although political organisation, mass action in the form of strikes and tax non-compliance initiatives, were important. In Vietnam, the long drawn out war that was fought initially against the French and then against the US, created a very different legacy of political and organisational power. The war gave the VCP a decisive legitimacy in terms of its political authority over the nation and shored up its power over society. However, the way that the war was fought also led to a more decentralised dispersion of power within the VCP. The war left a more hierarchical and differentiated society overall but political power was contained within the structures of the VCP.

During the socialist period both countries attempted to bring about a socialist transition by centralising power within the institutional structures of the ruling Party. Economic transformation was pursued by establishing collective ownership structures in agriculture and state owned industries. Constraints were placed on domestic and international capital. These developments went much further in Vietnam than in Tanzania. In Tanzania, commercial activities continued to a much greater extent than in Vietnam, where land reform and constraints on private sector economic activities removed considerable economic power of groups outside the party structure. In both countries, the process of state-led socialist primitive accumulation was quite limited so peasant economic structures in rural society remained dominant.

The attempt to centralise power within the Party was successful to the extent that political mobilisation outside the institutions of the Party was very limited in both countries. However, the failure to bring about a productive economic transition within the collectively owned economic institutions weakened the centralised power of the Party and the formal power of the workers and peasants that the Party formally represented. Thus, both countries maintained features of the distribution of power that was similar to other developing countries in terms of the fact that significant power remained in the hands of intermediate class groups with a significant role for patron-client networks within the Party structures. The attempt to forge an alternative path for economic transition through socialism ultimately failed in both cases. However, the formative socialist political settlement had important legacies for the political settlement under liberalisation.

The findings of the research

To explore the comparative economic transition under liberalisation of the two countries the thesis investigated how political stabilisation, primitive accumulation and technology acquisition had been achieved by looking at three critical areas of state activities. These were public finances, land management and industrial policy. In these three areas an influential strand in the reform agenda was the 'good governance' approach to reduce state intervention and legal rents that were established during the socialist period as well as illegal rent seeking and corruption. In reality, informality, corruption and illegality shaped these processes. Features of the evolving political settlement and their implications for economic transition are drawn out from this analysis.

Public Finance

Chapter Four presented the findings on public finances. The successes and failures of the attempts to reform public finances provide useful insights into the political settlement in both countries under liberalisation. Public Finances are an important way that states make formal redistributions but they also play a role in the informal pattern of redistributive demands on the state through off-budget transfers and forms of corruption. How these demands are met influences the political stability of the state and also impacts on other aspects of economic transition such as primitive accumulation and the capacity of the state to manage technology acquisition rents.

In Tanzania, public finance reforms were very successful in certain areas. Petty and bureaucratic forms of corruption within public finances were constrained, and improved budgeting procedures brought in greater transparency. Ring fenced fiscal incentives to attract FDI were introduced and the Tanzania Investment Centre was established to try to reduce the perception of political manipulation of exemptions. These changes had important implications for economic transition as they resulted in higher aid and FDI flows that supported economic growth. However, other forms of corruption in public finance continued unabated. Cases of grand corruption involving huge sums of money and senior politicians came to light during the course of liberalisation. The types of deals that resulted from this form of corruption appeared to be particularly negative for Tanzania's economic transformation.

In Vietnam, the VCP also implemented 'good governance' reforms to public finances. This involved decentralisation and formalising transfers between different levels within the Party. Public finance reforms significantly reduced the formal level of subsidies to powerful SOEs. Vietnamese public finances were characterised by very rapid increases in capital expenditure, funded by foreign aid and rising state revenues. Much of this increased capital expenditure occurred 'off budget' through financial institutions that played a semi-fiscal role in public finance. Many of these capital investments were mired in corruption allegations. Corruption in state capital investment projects was particularly associated with provincial and district levels of the VCP working in partnership with SOEs. In many cases, corruption was linked to productive investments however there were also many investment projects that seemed to be driven primarily by redistributive demands and there were high levels of inefficiency in public expenditures.

In both countries, the centralisation of political power within the party institutions as a legacy of the formative socialist political settlement helped to create political stability by restricting forms of fragmented clientelist political competition outside the Party framework. Political stability was one of the reasons that both countries were able to attract high levels of aid and foreign investment to support their public finances under liberalisation. In Tanzania, the centralisation of power within the Party aided the proximity of the legislative and executive arms of the state. This facilitated targeted reforms to reduce corruption where the payoff to CCM was highest in terms of greater inflows of aid and investment.

The central institutions of the Party were unable to enforce greater discipline and stop cases of grand corruption that were blatantly damaging for Tanzania's growth prospects. This suggests that while the state had a degree of centralised power, this was based on a fluid equilibrium between factions at the centre rather than a strong centralised leadership that could impose decisions upon senior Party officials. The apparent strength of the CCM was, therefore, partly a result of the weaker distribution of political power within society overall. These features of Tanzania's political economy result from aspects of its formative socialist political settlement such as the more limited independence struggle, the predominance of egalitarian peasant agricultural structures and, further back in history, to the more recent genesis of political organisation within Tanzania. The result was that the Party could achieve political stability at relatively low cost but could not override small collective action groups in the form of internal factions when they coalesced to protect rent flows. Yet these same characteristics also limited the extent to which internal factions could mobilise outside the Party and threaten the overall stability of CCM's political control.

The cases of grand corruption within public finance also provide an insight into the relationship between the CCM and sections of the business community under liberalisation. Under the formative socialist political settlement, formal relations with the domestic private sector were politically untenable. Informal relations were, however, constructed however between political power holders and those who held economic power. While there were expropriations and nationalisations during the socialist period, the economic power of this group remained much more intact than in Vietnam or in other more industrialised socialist countries.

Under liberalisation, the formal power of business leaders has increased and there are now CCM politicians who are also successful business people. Yet overt political relations between those in business and those who hold official positions within the Party are still politically complicated as the legitimacy of the party that was constructed during the socialist period on the basis of the idea that the Party was the representative of the poor, against the rich. The fact that many of these business people come from the Asian Tanzanian community further complicates the political legitimacy of this group. The public finance corruption cases suggest, however, that the informal links between sections of the Asian business community and the Party that survived through the period remained strong under liberalisation. The Party cannot easily openly support policies that would further enrich this group. Nevertheless, the close relationship that exists may have discouraged risk taking by this group by allowing them access to income flows through political rent seeking rather than through economic activities such as industry.

In Vietnam, centralised control over aid and oil revenues helped the central VCP institutions meet the redistributive demands of provincial level leaders. The distribution of power between the provinces was largely constructed in the course of fighting the war although this balance has shifted over the course of liberalisation as wealth differentials between provinces have increased. Centralised control over these resources facilitated redistribution without impinging excessively on the revenues of the provinces that had greater economic growth. As the legacy of the war wanes, will the political settlement be strong enough to address these inequalities through centralised redistribution without causing greater political conflict? The answer is probably no.

The political settlement produced very different outcomes in the two countries in terms of the impact of primitive accumulation within public finances on economic transition. In neither country was primitive accumulation a process directed by the central state. It was largely a decentralised process. Differences in the underlying distribution of power within society can help explain why decentralised corruption and primitive accumulation had such differing outcomes. In Vietnam at provincial and district level there was a greater density of organisations such as banks and financial institutions that played a role in allocating resources through corruption and primitive accumulation processes. There had been a rapid commercialisation of Party institutions at the lower levels that started at the end of the socialist period that engaged with these financial institutions to attract resources. However, the small factional networks behind these commercial activities within the VCP were subject to greater discipline in using these resources. These compulsions were not provided by the oversight by the central state but through horizontal competition between power holders.

Provincial and district party institutions did not have a completely free hand in terms of their ability to engage in forms of primitive accumulation over public financial investment. Such activities had to be, at least formally, justified in terms of their contribution to economic development. The complexity and density of organizations within and outside the party in Viet Nam made it impossible for an individual or small network to operate on its own. This also meant, however, that the centre was constrained in its ability to impose its rules on lower levels. If a significant coalition within the VCP could find some type of collective action that provided sufficient rents to satisfy the coalition, it could go ahead even if the resulting investment project was scarcely developmental or highly inefficient. This resulted in high levels of capital investment but also in high levels of inefficiency. In Tanzania, a thinner legacy of political and economic institutions from the socialist period meant that there was much less discipline imposed upon those who engaged in primitive accumulation and corruption at the local level. The fragmentation of power also meant that smaller coalitions could engage in corruption without having to generate the resources to pay off a larger number of people within the Party.

Land

Chapter Five presented the findings on reforms to land management in Tanzania and Vietnam under liberalisation. Similar approaches to land under the formative socialist political settlement in the two countries had created a highly egalitarian land distribution in rural areas and private land accumulation had been suppressed. State led primitive accumulation had also been quite limited. The reforms under liberalisation sought to reduce corruption and introduce transparent market based mechanisms, while retaining state control of the process of managing land transition in the interests of national economic development. However, in both countries strong elements of corruption and illegal primitive accumulation by individuals and institutions influenced the outcome of land transactions.

In Vietnam land transition was rapid and accommodated extensive transformation of agricultural land into land for industry and commerce. In Tanzania land transfers to accommodate new economic activities, such as mining, tourism and commercial agriculture, occurred. In both countries there were rising tensions surrounding land over the period of liberalisation, yet these tensions did not spill out into more serious cases of conflict of a kind that might have risked undermining the central authority of the state. The centralisation of political power within the CCM and VCP under the formative socialist political settlement may have reduced the scope of political organisers to mobilise around these issues.

While the central state sought to retain control and direct the land transition, through land planning and compulsory purchase systems, in reality much of the transition occurred through a decentralised, uncoordinated process. The drivers of this decentralised process were, however, very different in the two countries and this had implications for economic transition.

In Tanzania much of the land transfer to new investors occurred through fragmented land grab by people with political connections at different levels of the Party. Land for mining activities appeared to be one of the less controversial areas. Tensions usually focussed on mining rights rather than land rights. This was partly because small-scale mining had often occurred at the same locations over a long period and, therefore, land issues with existing land owners had been 'resolved' prior to the entry of the larger mining companies. The central leadership within the CCM gave formal backing to protect the property rights of new investors but these were often not seen through in reality. Attempts to ring fence land for foreign and domestic investors through the Land Bank were not very successful. This was partly a reflection of the limited success of state-led primitive accumulation during the socialist period, as property rights taken by the state during this period to establish parastatals continued to be contested by traditional owners.

Despite high level political commitment to new land investors, central commitments were often overridden by local level power holders. While CCM has well established hierarchical rules of authority within its institutions, actual control over society is more limited. This means that it is possible for people with economic and political power at the local level to block actions by the Party. Despite the centralising impact of the formative socialist political settlement, local level power holders could effectively veto central decisions over land under liberalisation. Central political control over the security services was weaker so local power holders could buy off security to sustain their hold on property against the wishes of the central state. Power was also more fragmented at the local level. Smaller, more fragmented coalitions would compete against each other over property rights. This led to a situation where the outcome of land transfers to new investors was less predictable.

The political legitimacy of the Party as the representative of the poor also constrained the extent to which it could openly support an unequalising land transition. The political fall out of a large scale land transition was not one that could be countenanced by the CCM. Thus Regional Commissioners and District Commissioners had an overriding interest in maintaining the peace. As in the case of public finance, this suggests that part of the apparent strength of the political authority of the CCM related to the more egalitarian society in which it was formed, where political opposition was more muted due to the less differentiated structure of society as a whole. These features meant that the process of land transition under liberalisation was much slower and more uncertain in Tanzania than in Vietnam.

In Vietnam, there were more examples of large scale organised land transfers from existing land holders to new economic activities, for example in the coffee growing highlands and in semi-urban areas, for industrial zones. Some of these occurred through centrally directed initiatives and the ability of the state to push through these transfers suggests that the legitimacy of the VCP was more secure than the CCM, due to its role in the war. Land transfers on the basis of economic development had greater political legitimacy in Vietnam than in Tanzania, perhaps because in Vietnam, it was people who had political power within VCP that were often enriched in the process. Most land transfers were driven by provincial and district level coalitions of VCP institutions and SOEs, often working with foreign investors. Foreign investors wishing to access land had to go into partnership with SOEs and provincial or district VCP institutions, but this gave them considerable political security. A viable political settlement between foreign investors and the Party was negotiated – if foreign investors worked through the Party they would be given security.

Land transition was driven by the rapid commercialisation of lower levels of the VCP. Entrepreneurs with formal political positions within the VCP or within SOEs used state assets in semi-private ways. Broader coalitions had to be formed to access land involving institutions of the VCP and SOEs, often in partnership with foreign investors. If a land deal could be set up that provided enough payoff to the group, the deal could go ahead even if it was opposed by the central level within the Party. This meant that the centre could not direct the land transition very effectively and many land deals were mainly redistributive rather than productive. Many of the Industrial Zones were established but not all of them have been successful. As in the case in public finance, primitive accumulation in land was subject to greater discipline in Vietnam than in Tanzania. However, this was not the result of a centrally enforced process, but through competition generated by the density of political power vested within lower level institutions of the Party and state.

Industrial Policy

Chapter Six presented findings on industrial policy. Tanzania and Vietnam both adopted ambitious industrial policy strategies that relied mainly on building up a state-owned industrial sector. Vietnam engaged in a much more profound restructuring of existing economic power and removed industrial activities from the private sector. Tanzania, on the other hand, left some areas of industry in private hands. State owned industry was decentralised in Vietnam, as a legacy of fighting the war. The impact of the war on industrialisation was very significant in that it led to compulsions to maintain high levels of support from the state and to expand into new industrial areas such as heavy industry that hardly existed before.

While industry expanded during the socialist period, neither country achieved international industrial competitiveness in any area of industrial production. The compulsions for engaging in learning and driving productivity growth were highly ineffective in both countries. Industrial policy rents descended into redistributive rents rather than learning rents. Without a role for market discipline, pressure to increase productivity and put effort into learning had to come from within the state system itself. As with other centrally planned industrial systems, the agencies monitoring and enforcing productivity growth were ineffective. Effective centralised monitoring is a very ambitious task for any country, let alone countries such as Tanzania and Vietnam that had very limited financial resources and industrial experience. Fundamentally, however, there was a lack of compatibility between the structure of industrial incentives and the compulsions that could be applied within the formative socialist political settlement.

Industrial managers were able to evade demands to improve performance because of the degree to which actual control was fragmented within the state structure. Thus, in Tanzania it was possible for collusion to occur between managers and key officials within ministries to gain subsidised credit or direct transfers from the state with little compulsion to use these resources efficiently because there was no credible threat that the centre could withdraw the subsidy. Aspects of industrial policy, such as trade restrictions, that were designed to provide infant industry rents formed the basis of racketeering activities without generating sufficient learning effort within the system. In Vietnam, control of SOEs was decentralised to different levels of the Party but, here too, the centre had no way of ensuring that SOEs followed centrally determined plans or used resources efficiently. By the end of the socialist period, both countries were subsidising industry heavily but industrial productivity and output had fallen dramatically. Nevertheless, the establishment of an industrial base was an important achievement of the period for the longer term and had implications for the path of economic transition under liberalisation.

Important differences developed between the two countries in terms of the approach to industrial policy under liberalisation. Tanzania followed a more orthodox structural adjustment reform programme and abandoned much more of its socialist industrial policy than Vietnam. Industry started to grow again from the mid 1990s, based on foreign direct investment and private sector investment. The main strategy for improving industrial performance involved extensive privatisation of industrial parastatals. While a much more significant group of African capitalists had developed than at any point in Tanzania's history, the privatisation process predominantly led to a return of economic power to the groups that had held economic power under colonialism, foreign and Asian Tanzanian capital. Essentially, the policy of privatisation ignored the market failure problems constraining Tanzanian industrial development and did not resolve the enduring problem of devising a successful mechanism to channel resources to companies to finance the learning period while also imposing discipline on rent recipients.

Vietnam adopted a different approach to its state owned industries. They modelled their strategies on other countries in the region that had maintained a much more interventionist approach to industrial policy. The degree of centralised control in Vietnam was sufficient to push through a policy of closing down the smallest SOEs while maintaining control of larger enterprises. However, the distribution of power within the Party meant that many of the larger SOEs could resist both equitisation *and* the centralization of control that was intended by the creation of General Corporations and Conglomerates.

In both countries, FDI flows played a critical role in boosting industrial performance under liberalisation. Their success in attracting FDI resulted partly from the sufficiently effective architecture of overall political stability provided by the Parties. Aspects of the social order created under the formative socialist political settlement that generated this stability, such as the institutionalisation of political competition within the Party structures, endured into the era of liberalisation. Tanzania's public finance reforms, which ring fenced tax incentives for FDI, were important in terms of giving a signal to foreign investors about the security of their investments. More targeted industrial policy initiatives, however, failed to be effective. The flagship EPZ programme did not receive the required political backing to ensure that different parts of the state would deliver the required subsidised infrastructure. Rents to industry provided through the programme, which were meant to ensure a minimum export level that would incentivise attaining levels of international competitiveness, failed. These became largely redistributive as a result, once again, of the lack of effective compulsions by the state that had hampered productivity growth under socialism.

An important difference, however, was that under liberalisation these rents were directed to the private sector. The lack of compatibility between the structure of industrial policy and the underlying political settlement resulted partly from the difficulty of negotiating a viable settlement between largely non-indigenous capitalist groups and the Party. This is in contrast to Malaysia, for example, where the ruling UMO party was able to negotiate a more successful distribution of rents and incomes between the non-indigenous Chinese capitalists and the indigenous Malay. Under liberalisation, CCM has been able to expand its inclusive political coalition to include Tanzanian Asians from the business sector as the relations that were created informally between political and economic power under socialism became more overt. However, it is still politically difficult for the CCM to openly support a disequilibriating process of capitalist development that would lead to the enrichment of any group, but particularly a group whose wider political legitimacy is weak. This reflects the fact that the power of the Party is constructed on a stable but weak political equilibrium between different social groups that has its deeper roots in the relatively limited socioeconomic transformation in the colonial and socialist periods.

High flows of FDI into manufacturing in Vietnam helped to shape the path of economic transition under liberalisation. These investment flows reflected Vietnams' rising role as an important export platform for regional multinationals. These multinationals were looking for cheap and reliable labour to undertake simple manufacturing activities within the production process. However, the decision to locate in Vietnam cannot simply be explained through market liberalisation. Previous investments under socialism in the creation of an industrial base and a work force with industrial experience were important. Informal links that had built up between the Chinese diaspora in Asia and the remnants of the Chinese commercial classes also initially played a role in bringing in regional investment. However, the private manufacturing sector remained marginal throughout liberalisation. Domestic private sector enterprises were still too politically weak to gain access to needed resources or quotas to enable them to compete against the on-going dominance of SOEs.

This meant that for FDI to enter Vietnam, it had to go into partnership with SOEs and Provincial and District level political institutions. Coalitions of SOEs and Party institutions competed with each other to attract FDI by offering subsidised access to land and finance through industrial policy initiatives such as the creation of Industrial Zones. Unlike in Tanzania, where these Zones were run by the state, the most successful Zones in Vietnam were actually run by foreign investors themselves. The success that some provinces and districts had in terms of generating resources from these zones encouraged other Provinces to attempt to do the same. However, considerable disparity developed between the level of FDI inflows to different provinces, which reflected to fundamental cost differences that provincial level industrial policy rents could not overcome.

The political settlement allowed credible incentives to be offered to FDI at the provincial level and below. The dominance and dense structure of SOEs within the domestic market also meant that foreign invested enterprises were not able simply to sell within domestic markets but were obliged to target international markets. This provided a form of compulsion to achieve learning within manufacturing activities that were built on the base that had been constructed during the socialist period. However, industrial policy initiatives to drive up value added within industry were much less effective. The ability of producers to evade even the most direct forms of regulation on technology acquisition such as localisation targets suggest that these firms had sufficient political power to resist the central state. This may partly reflect the fact that much of the FDI in industry was in partnership with SOEs. The SOEs were able to use their political power through links to local party institutions to avoid disciplines imposed through industrial policy.

These facets of the evolving political settlement may have made it more difficult for Vietnam to generate a rapid process of technological learning from FDI under liberalisation. The outcome of this was that while Vietnam's manufacturing sector expanded rapidly, climbing up the technology ladder into new higher productivity manufacturing activities was slow. The dynamism provided by Vietnam's political settlement comes from a degree of local level political and economic competition that resulted from the distribution and density of local level political and economic power. This competition was contained within the overarching framework provided by the Party whose centralised power was constructed under the formative socialist political settlement. Vietnam was successful in terms of its ability to attract FDI that was then required to achieve international competitiveness in certain niche sectors. However, an effective system of compulsion to drive more rapid technology acquisition across the economy through industrial policy was not attained.

The Political Economy of Economic Transition in Tanzania and Vietnam

Economic transitions in developing countries have been classified by political economists as occurring 'from above' through the concerted efforts of a minority in charge of the central state, or 'from below' through the uncoordinated activities of actors at lower levels of the state or society. The process of economic transition in Tanzania and Vietnam does not fit neatly into either of these two categories. The legacy of socialism meant that the state in Tanzania and Vietnam was able to centralise decision making to a much greater extent than in developing countries that had not centralised power to the same extent through mass movements and institutionalisation of the one party state. In both countries, the limited development of intermediate classes prior to the socialist period and the absorption of these groups within the party structure was one of the critical reasons for the appearance of centralised political power. In contrast to Olson's argument that large redistributive coalitions would hinder economic performance, Tanzania and Vietnam were able to engage in political redistribution to maintain the stability of the political order through their relatively inclusive party institutions.

Yet this centralised legacy was not as great as in other states where power had been even more centralised through specific historical experiences and distributions of power, such as in South Korea. Thus, while political redistribution was successful during the transition, the critical transition processes related to technology acquisition were less successful. Neither state was able to successfully engage in the type of centralized rent management evident in the NICs that experienced the most rapid productivity growth and structural change. Both countries largely failed to manage rents that could generate the type of productivity growth experienced in the front runners of economic development.

While Tanzania and Vietnam had certain similar features in terms of the institutionalisation of the party, the distribution of power within the party and within wider society led to different economic outcomes with regards to primitive accumulation. In both countries, informal processes related to primitive accumulation occurred outside the control of the central political institutions. These played a critical role in determining the path of the key transition processes in Tanzania and Vietnam. In the absence of strong central monitoring, in Vietnam there was much more effective power at the local level which led to more intensive monitoring of the competitive processes related to primitive accumulation. Theorists have pointed to the advantages of decentralised decision making processes for economic performance, for example, the fragmented clientelist system described by Donner and Ramsay for Thailand discussed in Chapter 4, shows that in some cases a decentralised distribution of political and economic power is compatible with rapid economic growth. More generally, the advantages of decentralised compared to centralised political systems are explored through a principle-agent model by Joseph Stiglitz in Wither Socialism (1997). He argues that decentralised models of decision making produce better economic results, not because they approximate to the neo-classical model of the competitive market economy encapsulated in the Arrow-Debreu market model. Instead, decentralised decision making may produce higher economic growth because it is better able to process information, spreads risk, make commitments more credible and generate greater levels of experimentation. Beyond these theoretical advantages of decentralised or centralised systems, however, studying the political economy of transition in Tanzania and Vietnam shows that the distribution of power in society is a critical influence on the actual effectiveness of different decision making processes rather than the formal structure of political institutions.

Mainstream economics has mainly approached the political economy of socialism by highlighting the failures of state intervention. However, by rolling back the state, liberalisation has failed to address the critical constraints on economic transition. Examining the political economy of the socialist period is a central part of understanding these constraints. Conventional economic approaches to development underplay the importance of politics. While viable socialism was not constructed in Tanzania or Vietnam, the efforts to create socialism continue to reverberate through more recent economic history. Socialism in Tanzania and Vietnam had an enduring institutional impact, but more importantly, a profound socioeconomic legacy that is often overlooked. The political economy of transition in Tanzania and Vietnam demonstrates that political movements have the power to reshape socioeconomic structures and influence paths of economic transition in intended and unintended ways and with important consequences for future attempts to build just and prosperous societies.

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Appendix One: Tables and Data for Tanzania and Vietnam

Table A.1: Vietnam Exports of Goods and Services as a % of GDP

1986	**1987**	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**
6.62	6	3.95	23.85	36.04	30.92	34.75	28.7	34.01	32.81
1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
40.87	43.1	44.85	49.97	55.03	55.61	56.8	59.29	65.74	69.36

Source: World Development Indicators 2011

Table A .2: Savings as a % of GDP

	Tanzania	Vietnam
1990	1.28	3.33
1991	2.69	9.99
1992	0.32	13.55
1993	-4.60	15.49
1994	1.67	16.03
1995	2.36	18.05
1996	4.63	17.13
1997	5.43	20.16
1998	7.48	21.75
1999	7.21	24.77
2000	10.05	27.15
2001	13.17	28.89
2002	16.88	28.04
2003	16.09	27.08
2004	15.24	27.91
2005	14.00	31.39
2006	11.05	31.67
2007	12.65	28.19
2008	10.31	24.51
2009	17.88	27.78
2010	16.85	27.79

Source: World Bank 2011. World Development Indicators. Edition April 2011. EDSD International. University of Manchester. DOI http://dx.doi.org/108287/wb/wdi/2011-04

Table A.3 : Investment as a % of GDP in Tanzania 1968 to 1986

Year	Investment as a % of GDP
1968	18.4
1969	16.3
1970	22.9
1971	26.8
1972	23.6
1973	22.6
1974	21.6
1975	20.8
1976	29
1977	29.4
1978	33.8
1979	33.6
1980	33.1
1981	28.6
1982	26
1983	19.3
1984	20.2
1985	18.7

Source: Bigsten and Danielsen 2001