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# MASTERARBEIT

Economic Transformation in Vietnam

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Which Norms Are Used by State and Non-state Actors for the  
Realisation of Individual Needs and Wants?

Verfasst von

Mag. phil. Benjamin Steuer, Bakk. phil.

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Mag. Dr. Alfred Gerstl, MIR

In memoriam of my father, Wolfgang Steuer (1943-2015)

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## **List of abbreviations**

EA – East Asia

HIC – High Income Country

IE – Institutional Economics

ICP – Indochinese Communist Party

IFG – Informal Farmer Group

LIC – Low Income Country

NE – Neoclassical Economics

NSC – New Style Cooperative

NIE – New Institutional Economics

OIE – Old Institutional Economics

PRC – People’s Republic of China

SME – Small and Medium Enterprises

SOE – State Owned Enterprise

SRV – Socialist Republic of Vietnam

SU – Soviet Union

TCE – Transaction Cost Economics

TVE – Township and Village Enterprise

CPV – Communist Party of Vietnam

WVS – World Values Survey



# 1 Introduction

From the perspective of institutional economics, the transformation of an economic entity is a highly fascinating process as it exemplifies the change in those rules that decide over production and exchange of goods and services within it. Therefore, when institutional economists refer to the transformational change in a country, they do not primarily focus on the outcomes, but moreover on the transformation of the economic context, namely the modification of the ‘rules of the game’, which decide over the economic processes of production and transaction of goods and services. As history has shown, such a profound change of the governing economic framework is anything but simple or predictable. Opposite to what some theories on the feasibility of a swift economic transition had suggested in the 1980s and 1990s – most notably in the form of the Washington Consensus – the changing of the economic-institutional scaffolding requires time. Attempts to switch institutional settings by a full dismantlement of locally pre-existent structures in favour of transferring and adapting foreign best institutional practices have led to dramatic socio-economic outcomes at least in the short and mid-term. The failure of such attempts has been amply demonstrated by the developments in Russia and the states of the former Soviet Union, which underwent the so-called *shock therapy*. In East Asia on the other side, most notably in China and Vietnam, transformations have also taken place, however these have been gradual in nature: Certain systemic features have been maintained, while others were step by step substituted for novel or foreign rule systems that were adapted to local requirements. Economic transformation in these countries can thus be compared to a large-scale trial and error process, a major experiment, in which a multitude of interdependent variables is simultaneously undergoing specific changes that are open ended.

Given the peculiar nature of institutional change or transformation and the various challenges included, the topic has understandably attracted a lot of academic attention over time. Not only developments in South America or the former Soviet Union have been extensively analysed by researchers, in recent decades the developments in East and South East Asia are coming more and more into focus: The relative success in gradual transformation that has been exemplified in China and Vietnam as well as the regions’ economic weight may explain the surge in interest. In this respect it is worth asking: what has been in the focus of these analyses? When taking a look at the approaches used by mainstream economic research on transformational systems, it becomes evident that analyses are mainly concerned with macro-economic data sets and methods of mathematical

formalisation. The general foci of institutional economics mostly address the effectiveness of old vis-à-vis new rule systems in the respective countries so as to assess performance and outcome of the transformational process. What all methodological approaches seem to share is the idea to identify those components, which most appropriately for the individual approach help to explain and pin-point the dynamics of the change and its outcomes. In fact, they attempt to find the most significant factors that determine the course of transformation. Following this line of thought we should therefore consider the actors in a changing economic entity, who are personally and directly involved in the process of transformation. As these socio-economic actors are the actual drivers and decision makers behind all economic activities, it is worth asking, whether their behaviour in regard to doing business have changed in the course of reforms. When looking specifically at the case of Vietnam, there has been astonishingly little research in this area<sup>1</sup>, which in this in turn spurred the motivation to write the present thesis.

So when taking up this task of investigating behavioural changes of actors in a transforming system, we need to ask first how their economic practices and activities can be put into a research frame that allows for comparisons over time. Therefore it will be necessary to identify behavioural features that allow for an institutional categorisation. In the opinion of the author, behaviour in itself can be understood as being composed of various institutional components: The very basic elements, if measured by conceptual complexity, would be values, instincts, habits or norms, whereas more complex structures would be conventions and individually, or commonly shared rules (Hodgson, 2008). As it is attempted in this work, actor behaviour will be analysed against the context of a changing environment. Therefore it is necessary to isolate some characteristic institutional components of actor behaviour so as to generate a certain degree of tangibility and comparability. Ensuing from these considerations, the category of norms, i.e. ways of how to achieve the most important believes and ideas (i.e. values) in one's life (Groenewegen et al., 2010, 26), has been chosen. A further specification has been made by choosing the norms 'cooperation', 'compromise' and 'competition' as they represent commonly practiced, but clearly distinguishable patterns that are used by economic actors to realise individual needs and wants. Thus title and primary research question of this thesis ask for the norms that state and non-state actors adopt to pursue their economic needs and wants.

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<sup>1</sup> Notable exceptions are the works of Adam Fforde and Ben Tria Kerkvliet, which will be discussed in the later chapter of the present thesis.

These norms or, as we can see them, behaviour patterns were not randomly chosen, but were selected in consideration of the Vietnamese transformation process. Firstly, these norms follow a tripartite segmentation along a scale, which starts at a collective behavioural characteristic for doing business (cooperation), over a consensual stance of non-interference (compromise) to the end of the spectrum, where individualism prevails (competition). This choice originates in the idea to allude to the process of Vietnam's systemic transformation: Evidently the initial collective sense of the state's ideology in pre-reform times has slowly began to change during and after the reforms towards promulgating increasingly competitive ways of conducting business to Vietnamese people. More specifically, cooperation has been *the* designated form of economic management by the state's ideology in the time prior to the *doi moi* policy reforms (compare: Constitutions of the Democratic Republic of Vietnam, 1946 and 1959), whereas the gradual introduction of market-based coordination of economic activities has definitely featured a stronger institutional buttressing of competitive norms by the state (Constitutions of the Democratic Republic of Vietnam 1992, 2001 and 2013; The Enterprise Law, 2005; Law on Competition, 2004; Steer and Sen, 2010). However the change in usage promulgation of certain norms by the state for the conduction of economic activity is not the only observable change. At the practical level of actually doing business there is ample evidence that state and non-state actors' practices had changed over the course of reforms: The connection of a changing ideology with the change in actors' preferences for the norms of cooperation, compromise and competition has been clearly exemplified not only in Vietnam, but also in the People's Republic of China (PRC): In China, agricultural collectives (an indicator for prevailing cooperative norms instructed by the state via top-down enforcement) were disbanded in the course of reforms and this entailed an ever increasing competitive environment for agriculture (Naughton, 2010, 77ff). Similarly, Chinese rural business entities, named Township and Village Enterprises (TVEs), went through several modifications with the initiation of reforms: Starting in pre-reform times with an idealised norm set that aimed at cooperatively sharing the factors of production as well as profits, the TVEs adopted an increasingly competitive nature in the course of reforms before becoming privatised or disbanded in the latter half of the 1990s (Naughton, 2010, 243-258). In Vietnam, the de-collectivisation of agriculture followed a very similar pattern (Fforde, 2008 and 2009) and similarly the business environment went through changes that were aiming to further *competitiveness* at the expense of *cooperative* norms (McMillan and Woodruff, 1998 and 1999). Neglecting for an instance the many details of these features in the Chinese and Vietnamese transformation processes as they took place in different sectors, one should note

the general pattern of a changing preference within the state's institutional ideology away from the *cooperative* and towards the more *competitive* norms: This is in essence a significant feature entailed by economic transformation from a planned to an increasingly market based coordination of production and the exchange of goods and services. But what about the intermediary norm, which is herein described as 'compromise'? For the state as ideological authority, compromise represents the option of laissez-faire within certain boundaries or an implicit acceptance of partial non-compliance with the officially pre-set norms. Compromise, in this case, stands as an informal and non-finite agreement between state and non-state actors, by which the former accepts the latter to slightly deviate from the official stance, as long as it does not run counter to or challenge the state's value ideology. The norm of compromise indeed fit very well into the development narrative of the Socialist Republic of Vietnam (SRV): Being on a path of economic transformation from plan to market the SRV does officially refer to itself as a 'socialist-oriented market economy' (Constitution, 2013, Art. 51/1). Adhering to such a concept already indicates the willingness for a compromise between two, originally antagonist economic systems.

In the following chapters of this thesis it will be attempted to outline the practice of these norms, the changes that occurred over time and whether there is a dominance of one norm over the others. The driving idea behind the following query is to find an answer to how a country under transformation and the subsequent establishment of new formal rule systems not only affects the involved economic actors in regard to their business activities, but also how these actors via their economic norm practices shape the rule system of the country.

## 2 Methodology

### 2.1 Rationale of the Methodology

As indicated in the introduction above, the primary research question is formulated as ‘which norms are used by state and non-state actors for the realisation of individual needs and wants?’<sup>2</sup>. In order to provide an answer to this query, it is necessary to apply a proper analytical method, and for the purpose of this thesis such a method needs to comprise features that capture economic change as well as practices of economic norms. Therefore we must first and foremost ask: what does ‘economic transformation’ mean and which role do norms play in the context of economic change?

As outlined earlier, ‘transformation’<sup>3</sup> may be described as the change of a system’s scaffolding, i.e. the structure of institutions and rules. Confronting an evolutionary institutionalist with this statement, his response could very easily be: ‘Don’t systems constantly undergo change? Doesn’t this explanation conflate the magnitude of the concept as it reduces ‘transformation’ and ‘change’ to the same level?’ In fact, change can be seen as a constantly persisting dynamic that propels economic structures along their evolutionary path. But transformation – if we want to follow the interpretation of Schumpeter (2011 [1934]), Kornai (2007 [1992]), Hodgson (1998b), Groenewegen and colleagues (2010) among others – addresses a bigger dimension of change, within which the codified institutional context has been modified to a path-breaking extent: In the case of transformation, the direction of change itself has been redirected away from its initial path, which in turn induces the character of the formal institutional scaffolding per-se to transform.

Now, the question at hand is: How can we decompose such a major changing dynamic as transformation in order to conduct a proper analysis of its fundamental drivers? Generally, there are two ways imaginable: (1) By first looking at the big things that change, and therefrom deduce the dynamic of the smaller, subordinate changes; or (2) by starting with the

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<sup>2</sup> A deeper discussion of the primary and secondary research questions as well as the related hypotheses is given in chapter 2.3. The reason for putting the research question behind the methodological elaborations is founded in the idea of making the reader familiar with the research concepts first and thereupon introduce him to the research question, which has been derived from the introductory elaborations.

<sup>3</sup> The term *transformation* is used in this thesis to denote a process of change of the economic-institutional structures of a country. *Transition* on the other hand is herein understood as a change of a structure from one state to another. This distinction can be justified by tracing back the etymological sources of both concepts, where we find that in Latin *transformare* means a change in shape; *transeo* on the other hand means to cross over from one point to another (Stowasser, 1991). The differentiation of both concepts promoted in this thesis is that transition more clearly depicts the beginning and the end of a period of structural change, whereas transformation indicates the state of an on-going process. To describe Vietnam’s economic institutional nature as transformational appears to be more conforming to reality given the fact that institutional changes since *doi moi* have not yet arrived at a steady-state (e.g. Four constitutions have been issued since the 1980s, the most recent only in 2013).

smaller changes and therefrom infer an explanation of the bigger changes in the system. The present thesis will combine both approaches, but put more emphasis on the second approach. We will thus focus our analysis on the changes at the lower, non-formalised and non-codified institutional level: That is to put less emphasis on the change of laws and other formal rules, but at the change of culturally evolved, institutional subcomponents such as values, habits or norms<sup>4</sup>. These constitute the informal institutional realm.

Looking at the patterns of practice of institutional subcomponents and the changes in these patterns, as they are reflected in the behaviour of socio-economic actors<sup>5</sup>, we may find an answer to how the transformation of the formal institutional system affected and was affected by the informal institutional system (i.e. the habitual patterns and rule-systems of socio-economic actors). This perspective tries to examine the process of transformation – along a line of causality – by starting from the ‘bottom’ to the ‘top’ and then again trace the responses from the ‘top’ back to the ‘bottom’. The feedback loop between the two institutional realms constitutes an indispensable relationship between both for the evolution of the entire economic system. However, when it comes to gauging the significance of each side’s impact, this thesis presumes that a bigger role is played by the informal institutional realm. The reasons behind this assumption can be explained by the greater number of non-state actors developing and practicing informal rules as opposed to state actors, who design and enforce formal rules (besides practicing and adhering to informal rules). Therefore the present thesis will in its analysis give more emphasis to the informal institutional realm, while simultaneously taking the formal responses and initiatives of state-actors into account so as to properly grasp the interactive dynamic between formal and informal institutions that propel the process of transformation in Vietnam.

In regard to the analytical capturing of formal and informal institutional activities, the institutional category of norms has been chosen. The reasons for this choice, its significance as well as the functioning of norms will be discussed in the following chapter and therefore we shall presently confine ourselves to the central concept that norms – apart from values, which constitute the primary institutional components – are basic forms of institutions that can per se constitute a behavioural mode, such as ‘cooperation’ or ‘competition’. Values, as discussed in more detail below, are believed to represent the most important things in one’s life (Groenewegen et al., 2010, 369). Therefore, when we look at norms, we thus look at patterns of

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<sup>4</sup> See the following chapter on the distinction between institutional hierarchies of higher and lower ranks.

<sup>5</sup> The term *actor* is employed in this thesis as a general term for ‘any decision-maker in an economic activity (production, distribution, consumption) that can be an individual, a group of individuals, an organisation, a firm or a government’ (Groenewegen et al., 2010, 369).

behavioural regularity that are employed to realise individual values and these norms can be shared or transferred among a group (ibidem). Thus when we want to analyse transformation and begin by looking at it from an actor-centred perspective, which assumes that these actors have economic goals that they pursue, it is useful to put norms into the focus of our analysis.

## 2.2 Defining the Research Frame and Devising a Model

As outlined above, an evolutionary institutionalist's approach to economic transformation does not only mean to analyse the change of the formal institutional scaffolding via the issuing and enforcement of laws and regulations (the top-down effect), but to equally take into account the informal, non-codified response to this change (the bottom-up effect). This interdependent institutional dynamic can be analysed in many ways, however in this thesis the focus will be set on the dynamic's effects on (informal) behavioural patterns and the respective changes that, once they are amplified by imitation among other actor groups, can subsequently influence the overall practiced patterns of cultural, social and economic activity within society. Such an evolution of behavioural patterns, which are informal in nature, in turn provide a feedback to state-actors (e.g. lawmakers, the judiciary) on how well or how bad the formal institutional structure enables actors in society to pursue their (in this thesis: economic) goals. Thus when looking at the *economic* behaviour of state and non-state individuals and groups in a transformational economy, one cannot exclude other impact factors such as *culture, society and policy*, which themselves constantly and interdependently evolve in the course of history and thus continuously mould and re-mould the ways how people act and think. Thus the vertical bottom-up vis-à-vis top-down dynamic of the economic realm becomes amplified by the interwoven horizontal dynamics of the cultural, societal and political realms.

As for the actor-institution-relationship, institutional economic theory identifies several main components of institutions<sup>6</sup> that operate at the psychological, and in part subconscious, level as well as at the level of learned and trained habits and customs: According to Williamson (2000) and North (1990) these institutional categories can be defined in an hierarchical order from the very basic to the most complex as *values, norms, conventions* and *laws/ specific rules*<sup>7</sup> (Groenewegen et al., 2010, 26). Values, as the very

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<sup>6</sup> Institutions „are systems of hierarchical, social rules that structure behaviour and social interaction' (Groenewegen et al., 2010, 372)

<sup>7</sup> There is quite some disagreement within the institutional literature on what can be considered as an institution and what as 'featuring institutional characteristics' (see Hodgson, 2006b). As for the case of this thesis, value-sets and norms are seen as institutions, since these fulfil two defining prerequisites of institutions, namely that they exist within and can form (a) 'hierarchical systems of rules that structure behaviour and social interaction of individuals' (Groenewegen et al., 2010, 372),

basic category, ‘represent beliefs about what are considered to be the most important things in life’. Important values in some parts of the world are individual freedom, security, justice or prosperity (Groenewegen et al., 2010, 26). In this sense, values serve as a guideline inherent in actors on what is worth doing and what to attain. Norms, at the next higher stage along the institutional structure’s hierarchy, are ‘generally held opinions about how to achieve the values’, thus defining agreed ways within a group on how people should behave, ‘so that the values of society are realised or at least not violated’. Examples of norms are solidarity (to achieve the value ‘justice’) or competition (to achieve ‘prosperity’) (Groenewegen et al., 2010, 26). Beyond the level of values and norms the conceptualisation of institutional components enters the more complex realm of informal and formal rules (e.g. convention, laws, specific regulation and so forth)<sup>8</sup>. Such institutional structures are composed of a multitude of sub-components (i.e. values and norms) and they are subject to the complex nature of simultaneously occurring changes. As an example, we may take the ways and standards by which individually operating waste pickers put a price on collected recyclables as the becoming of an informal institution or a ‘private rule of behaviour’<sup>9</sup>: According to mainstream micro-economics, this *procedure* is merely a result of juxtaposing the costs for securing one’s supplies vis-à-vis the minimum gains offered by the demand for these materials. From an evolutionary-institutional view however, the determination of a price itself is seen as the moulding and practicing of institutions: It depends on the interaction with other individuals (supply and demand) over a period of time (generating processes of learning, trial-and-error as well as information flows and feedbacks), which in turn equips the waste picker with know-how and insight allowing him to cultivate proper routines, norms, habits and rules, which he will employ to determine an appropriate price for his collected materials. Over time, that is the longer he or she occupies herself with this kind of business, the more he or she will adapt to and learn about this work (e.g. on materials, improved collection techniques, ideal vending and transaction strategies and so on), which in turn will lead to an evolution of her or his private rules or informal institutions<sup>10</sup>. The most significant point to take away is that this learning process is subtle, difficult to trace and constantly continuing, thus making private rules or non-codified institutions very dynamic and difficult to grasp as a stable, steady-state and finished outcome. Monitoring such changes within one of the more complex institutional categories is very difficult and thus for this thesis we will focus on the concept of norms,

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and as rules-like structures they represent (b)’socially transmitted... customary normative injunctions or dispositions that in circumstances X do Y’ (Hodgson, 2006b, 3).

<sup>8</sup> For a more detailed discussion on institutional and evolutionary theories that buttress these conceptual elaborations, the reader is referred to chapter 0.

<sup>9</sup> Informal institutions have been equated as private rules of behaviour by Groenewegen et al. (2010, 25).

<sup>10</sup> I have elaborated on the topic in more detail in Salhofer et al., 2013.



which can be more easily framed, pre-defined in terms of their properties and traced along the practiced activities of actors, when they realise their economic needs and wants.

So how do actors *pursue* and *achieve* or *realise* economic ‘needs’ and ‘wants’? The phrasing of the question is chosen on purpose so as to indicate that ‘needs and wants’, i.e. economic goals, are in this context not assumed as ubiquitously available, simply welcoming the consumer so as to ‘satisfy’ him. Instead ‘needs and wants’ are herein seen as goals that require actors to struggle and invest efforts for their achievement. Very often economic inquiries at this point ask for the *ways* by which something or a specific goal is achieved. For the above given reasons, we will use the concept of *norms* for these *ways* by which economic goals are pursued and realised. Since there is a huge variety of possible norms that could be used to realise economic goals or ‘needs and wants’, we will confine the research frame of this paper to three distinct, mutually exclusive modes that are used for the realisation of actors’ economic aims: *Cooperation*, *compromise* and *competition*. How these are treated and distinguished will be discussed in the following paragraphs.

Table 1 below depicts the methodological causality structure applied in this paper to answer the research question. Herein the columns exhibit the three different norm-types that were defined as the ways used by actors to achieve their economic needs and wants. The table rows show the characteristics and features of each of the three norms as they are perceived by state<sup>11</sup> and non-state, i.e. societal actors. The idea behind this is to shed light on the institutional dynamics, namely the formal, top-down efforts of state actors as well as the informal, bottom-up activities of non-state actors to realise their respective goals. Although the thesis will give more weight to the latter, it is important to devise an analytical frame for state and non-state actor groups, since they both have a mutually interactive influence on the shape of the institutional scaffolding<sup>12</sup>. In regard to the setting of interaction environments, it is important to note that in this analytical framework the adoption and practice of three norms always must involve at least two or more actor (-group)s, who stand in relation to each other. This relationship, which is mostly either between state and non-state actors or between non-state actors to each other, is in this framework predefined as *opposing*<sup>13</sup>, in the sense that actor(-group)s are not *in principle* bound to each other by the attainment of the same, specific

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<sup>11</sup> In this thesis the term *state* will be synonymously used for *government*. State actors are thus depicted as operating mainly in the interest of and along the rules set forth by the state. Private actors on the other hand are not affiliated with the state in the sense that they do not automatically share the same interests with the state on a specific topic.

<sup>12</sup> This perspective relates to the discussion on formal and informal institutions, which has been mentioned in the introduction and will be more extensively treated in the theoretical chapter of this thesis.

<sup>13</sup> For the case of this analysis on economic actors, the attribute of ‘opposing’ will be used to describe the distinctive, relationship-evolving nature between two or more non-state and state actors (e.g. farmers vis-à-vis local cadres) or two or more non-state actors (e.g. contesting enterprises).

(economical, ideological, or other) goals. And, although some goals and respective paths for attainment may overlap, actor (-group) s do not merge as long as they do not begin to bond and converge on the same socio-economic values and believes. This means that for any given case, actors could either oppose and thus fiercely compete with each other for the attainment of their goals, or compromise and even cooperate, as long as it helps them to pursue and thereupon achieve their actor-relevant goals.

So is it ultimately a given that actors in the course of their struggle to pursue needs and wants do necessarily encounter other, opposing actors? For this thesis we will make this reductionist step and assume that in any given setting, in which actor groups encounter each other, their pursuance of needs and wants puts them in a state of initial opposition. This conceptualisation does not neglect the diversity of society and different objectives of the actors within it, but it presumes that all its actors with their differing backgrounds do pursue economic goals that in some cases can be commonly attained and are not rival and non-exclusive, but in other cases are rival and exclusive, thus inducing competition between the actor groups. For this thesis, we aim to identify how and to which degree the three norms are applied by actors, who, on their path of achieving their respective economic goals, encounter each other and are thus forced to decide, which of the three behavioural norms are most appropriate to achieve and realise their needs and wants in specific environments of interaction.

Table 1 Different norms for the realisation of economic needs and wants within an institutional framework<sup>14</sup>

	<b>Cooperation</b>	<b>Compromise</b>	<b>Competition</b>
<b>Actor's behaviour</b> Realisation and pursue of economic needs and wants	Two or more (opposing) actors work together to reach their economic goals	Two or more opposing actors explicitly or inexplicitly agree not to obstruct each other to reach their economic goals	Two or more opposing actors out-do/ contest with each other to reach their economic goals
<b>Characteristics of economic goals</b> Exclusiveness and rivalry <sup>15</sup>	Non-exclusive and non-rival	Non-exclusive and rival or exclusive and non-rival	Exclusive and rival
<b>Nature of formal institutional setting</b> Which norms are preferred (+) or disfavoured (-)	Pre-reform era: (+)	<i>Pre-reform era: (?)</i>	Pre-reform era: (-)
	Reform and transformation era: (+)	<i>Reform and Transformation era: (?)</i>	Reform and transformation era: (+)

The category in the first table row (Table 1) delineates the modes of behaviour for each norm that actors (state and non-state alike) choose to reach their goals. The characteristics of these goals are outlined in the second row, whereas an assessment of the preferences of the state (in the sense of a central and formal institutional authority) for a specific norm at different periods is given in the third row. In order to answer the research question, these three categories and the characteristics that they assign to each norm will help to explain why one or several of the three norms are actually practiced by or instituted upon actors in different contexts (see chapters 0 - 0) on the analysis of norm practices in agriculture and business).

The first table row on the behaviour of opposing actors has been designed to provide a clear-cut connotation to the three norm types themselves. Narrowing down the research frame to three types of norms stems from the idea of subsuming the variety of norms for the realisation of needs and wants within three overarching norm-bundles. This in turn allows for the delineation of two entirely opposite, extreme norms and one median norm that represents

<sup>14</sup> All tables and figures were designed by the author, If not otherwise noted.

<sup>15</sup> The above concept has been readapted and borrowed from the NIE's Property Rights Theory as it treats public and private goods in regard to their finite (rival) and infinite (non-rival) availability for consumption and whether first-comers can exclude or not exclude late-comers from consuming or using the good. For a detailed discussion of the topic, the reader is referred to Groenewegen et al., 2010, 93-101.

a middle way between the two antagonistic norms. These two – *cooperation* and *competition* – are defined as inducing actors to either work together (*cooperation*) or against each other (*competition*) while being in the progress of pursuing their needs and wants. The behaviour pattern that the ‘balanced’ norm of *compromise* induces, may slightly deviate from what is generally understood by the concept: In this thesis, *compromise* is used to designate an intermediary behavioural path of reaching an economic objective via mutual non-interference or partially conceding to the opposite side. In other words, this intermediary norm combines value elements found in *cooperation* as well as in *competition*. Therefore *compromise* represents a behaviour pattern, wherein either an implicit – due to the mutual adaption of behavioural habits – or explicit/ outspoken form of interaction between contesting actors is adopted so as not to interfere with each other, or find a common behavioural ground suitable for the attainment of their respective economic goals.

*Economic goals* as they are characterised in regard to the norm types in the second table row can be long-term or short-term in nature. The *characteristics of economic goals can, but do not necessarily have to have an influence on the actors’ choice for or against a specific norm*, which they adopt to achieve the goal itself. The premise for this concept of reciprocity between the characteristics of economic goals and chosen behaviour to work is that two or more contesting actors indeed try to attain one and the same goal, or that multiple goals strived for by contesting actors share a common, interdependent ground. The actors’ decision for or against a certain behavioural norm *can* depend on whether the economic goal is finite in nature (rival) and whether the securing of its benefits requires the exclusion of other competitors, which for example could be a reason for actors to adopt the norm of *competition*. In other cases an economic goal might generate sufficient benefits for all players (non-rival) and does not allow for the exclusion of others (non-exclusive), which could be a reason for the involved actors to adopt a *cooperative* norm, if it helps them to achieve what they want more easily. If actors are *compromising* and neither cooperating nor competing to achieve a goal, then a decisive reason might be that the involved (two or more) parties see that the specific goal is best achieved by not obstructing each other (therefore: non-exclusive nature of the economic goal), even if that means a possible decrement of expected benefits (indicating the characteristic of rivalry). Similarly, goals might be non-rival and exclusive, and still induce actors to choose a compromise: That could be the case for needs and wants that can be achieved and enjoyed for a limited amount of time, but not simultaneously by more than one party or actor. That actors choose to compromise instead of cooperation or competition might also be due to the perceived high opportunity costs that accrue as a result of the efforts

required for proper coordination between the parties (in the case of cooperation) or for outpacing the other side (competition). Therefore, the *characteristics of goals* as analytical tool can only be used for those cases, in which we can discern the properties of specific goals (degrees of exclusiveness and rivalry) *as well as* the corresponding behaviour patterns of actors to realise these needs and wants. The major premise for successfully deducing behaviour patterns from goals and in turn deducing one of the three norms from the so formed behaviour patterns is that the goals or its attributes must be to some extent discernible. This possibility won't apply for every case within the analysis chapters, but possibly for some.

The *nature of the formal institutional setting* addresses the preference of the government (here used a proxy for the entirety of the state actors<sup>16</sup>) for a certain norm that is embedded in and provides characteristics to formal institutions. Considering the process of a country undergoing transformation, we can deduct two significant aspects for this investigation: First, the transformation from plan to market, which broadly speaking implies a change in institutional preferences, but not necessarily an entire shift of government's preferences on how economic actors should conduct economic activities. Second, the change of formal (or top-down enforced) institutions means that while old institutions are exchanged for new ones and ideological shifts change the fundament of 'rules of the game', institutional voids are consequently opened up that provide a leeway for institutional innovation. As it requires a certain period of time before the formalisation of new rules is completed, institutional innovation will initially take place at the informal level in the form of informal norm practices actors, who are in the course of pursuing their economic interests... Consequently these informal-institutional substitutes, in this thesis subsumed in the three behavioural norms, are created out of the drive of informal actors to achieve their goals. The emergence of such informal institutional structures stems from the lack of an appropriately effective<sup>17</sup> formal rule structure, which would enable actors to achieve their goals by adhering to the formal rules. Furthermore, a shift of formal or state preferences for a certain norm set also induces actors to behave differently, i.e. to go into a direction of realising their needs and wants, which they perceive as increasing their utility without taking a too big risk when doing so. The point to note is the enabling formal institutional latitude that, by creating a void,

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<sup>16</sup> We will not differentiate between state actors that are *either* entrepreneurial *or* public servants in nature, especially since there are cases in which both functions are concentrated within one actor (group), see for example Rand and Tarp (2010), who discuss cases of officials that have stakes in formal companies, often taking the place of leading decision makers, i.e. entrepreneurs.

<sup>17</sup> The effectiveness of institutions has been discussed in Groenewegen et al. (2010, 29): 'for institutions to be effective, two conditions must hold...A sufficient percentage share of individuals must subscribe to the institution to become accepted; ... [and, *the author*] there must be credible (enforceable) sanctions to prevent the rest of the population from acting against the norm.'

increases the leeway for the emergence of informal rules and norms within a wider, tacitly permitted socio-economic realm. Now in regard to this thesis, the preference of formal institutions for certain behavioural norms (row 3) is indicated in the above table as being subject to the progress of transformation itself. As can be discerned from the third table row, there are different appraisals for the same norms depending on the phase of transformation. Although the assessment on the state's preference has been kept very general and is maybe not in all circumstances valid for the position of *every* single state actor, the herein presumed allocation of preferences is done in an attempt to display the change of the state's overall economic ideology ('How should goods and services be produced and traded?') before and after the beginning of transformation<sup>18</sup>.

So what function does the table fulfil? The general idea behind it is to make supportive use of those characteristics that are set out in the three rows for the identification of cooperative, compromise and competitive norms by looking for exactly these characteristics or features. Where do we find these features? Norms enforced via the top-down method by the state are generally put forward in legislative texts, e.g. the constitution or regulations, in newspaper articles of the state media or in research papers on the lower level administrations such as townships and villages, where these features emerge when cadres implement certain rule sets to govern actor groups. Norms adopted by non-state actors are slightly more difficult to trace, but they can be found in rural residents' response to formal rules, in business practices observed by researchers and in value surveys on general public habits and preferences. Therefore the identification of norms adopted by actors in a transforming socio-economic context requires to look at the behaviour of actors (table row 1), the characteristics of the goals they strive for (table row 2) and whether actors align with and/ or respond to the norm preferences defined by the government in the shape of formal rules and regulations (table row 3).

Apart from distinguishing the three norms by looking at behaviour patterns of actors or characteristics of aspired goals, we can resort to an additional step that facilitates the identification of the herein focussed norms: By including the respective synonyms of *cooperation*, *compromise* and *competition* into the frame of analysis, it is possible to fully cover the intensional range of each norm, which in turn helps to categorise the norm nature of

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<sup>18</sup> According to the general view, the beginning of economic transformation has been officially determined with the *doi moi* Reform in 1986. However, prior research has in many instances shown that reform movements were already underway at a much earlier stage (see Forde, 2008; Kerkvliet, 2001). Therefore the notions 'pre-reform era' and 'reform and transformation era' allude to phases with distinctive ideological value sets designated by the state, wherein the former features a preference for planned-economic norms and the latter to those norms that are comparatively more related to a mixed market economy.

formal institutional concepts that are enforced top-down by the state (chapter 0) and documented cases of interacting state and non-state actors within various economic sector contexts (chapters 0 and 0). The main idea is to look for reoccurring or dominant and clearly emphasised phrasings in legislative texts that exhibit a specific synonymy with the three norms or feature the three norms themselves. Therefore three online dictionaries<sup>19</sup> were used to find the most common synonyms for cooperation, competition and compromise (See

Table 2). Via this method we can expect to more easily delineate the norms from each other when conducting the analysis of the evolution of the formal institutional superstructure and the cases regarding actor interactions (chapters 0, 0 and 0).

Table 2 Synonyms used to improve the identification sensitivity for the key norms

<b>Cooperation</b>	<b>Compromise</b>	<b>Competition</b>
Accord/ Accordance	Acceptance	Bout
Alliance	Agreement	Challenge
Assistance	Arrangement	Clash
Association	Bargain	Conflict
Backing	Concession	Contest
Coalition	Condescending	Counteraction
Collaboration	Contract	Fight
Help	Deal	Opposition
Joint action/ joint venture	Give-and-take	Rivalry
Partnership	Half Measure	
Support	Middle ground	
Team work	Settlement	
Teaming	Tolerate	
Union	Trade-Off	
(Working, living,...) together	Understanding	

Source: the author based on online dictionaries<sup>20</sup>

## 2.3 Application of the Methodology to Vietnam: Research Question and Hypotheses

After having defined three distinct norms (cooperation – compromise – competition) non-state actors adopt to pursue and realise their economic needs and wants, the main research question asks for the extent to which these three norms were and are still prevalent among state and

<sup>19</sup> [www.oxforddictionaries.com](http://www.oxforddictionaries.com), [www.thesaurus.com](http://www.thesaurus.com), [www.dictionary.cambridge.com](http://www.dictionary.cambridge.com)

<sup>20</sup> See footnote 19

non-state or private actors in Vietnam. As mentioned above, the research question has been formulated as follows:

**‘Which norms are used by state and non-state actors for the realisation of individual needs and wants?’**

Providing an adequate answer to this question needs to look at Vietnam’s recent history for traces of these norms in Vietnam’s socio-economic environment. Therefore the time frame of analysis for this thesis will be set from the late colonial period up until the present. After a broad historical overview of Vietnam’s socio-economic evolution and the phase of *doi moi*, subsequent chapters will provide a more detailed analysis of which norms the state attempted to implement via legislative innovations since *doi moi*, which norms are practiced in the fields of business and agriculture by state but mostly non-state actors before and after *doi moi*, as well as which of the three norms and under which circumstances they are used in the daily lives by individuals to achieve their economic goals in present times.

This primary research question logically entails the question of frequency in norm practices. Therefore the first secondary research question asks:

**‘Is one of these three norms exceptionally often adopted by private socio-economic actors in Vietnam when they pursue the attainment of individual economic goals?’**

As the query of the thesis is mainly revolving around norm practices and related behaviour patterns exercised by actors, which for the most part belong to Vietnam’s civil society, it is necessary to close the gap to the formal institutional side that is enforced by the state. Therefore the additional secondary question is:

**‘Do norms that are set up and practiced by non-state actors have an influence on the formalisation and institutionalisation of norms conducted by the state, and vice versa?’**

This step can be seen as an attempt to capture the dynamic existing between the formal and the informal institutional realms. The concept behind this question is that any norm that is formally/ informally practiced delivers a message to the opposite side of the institutional realm. Thereby it assumedly enables, provokes or curtails the adoption and practice of one or more of the three norms by actors that operate under the influence of the opposite institutional



angle<sup>21</sup>. By juxtaposing these two dynamics emanating from state (top-down) and non-state (bottom-up) actors, this thesis will furthermore attempt to discern whether there is a feedback mechanism between top-down and bottom-up dynamics (see **Fehler! Verweisquelle konnte nicht gefunden werden.**).

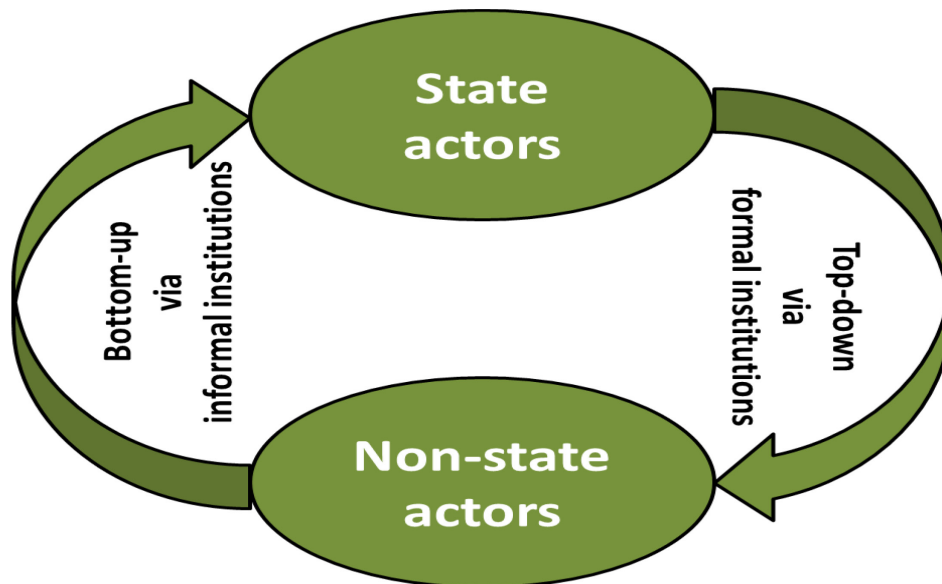


Figure 1 Interaction between formal and informal rule systems and respective actors<sup>22</sup> (source: the author)

In respect to the major hypotheses of this thesis, the following assumptions are set forth:

- (1) In the course of Vietnam's reforms, formal institutions do increasingly exhibit a shift away from cooperative towards more competitive norms. That means, legal texts as well as regulations and rules do increasingly carry a stance that promotes competition and this stance is reflected in competition related norms and synonyms.
- (2) Simultaneously, we can assume that the cooperative concepts are not fully abandoned, but continue to play an important characteristic in formal rules.
- (3) Non-state actors do adopt competitive, compromise-related and cooperative norms when they pursue their needs and wants. We can assume that this choice remains relatively

<sup>21</sup> It shall be noted that in this conceptualisation actors and institutions are not conflated into one entity. In fact, state and non-state actors may equally adopt formal and informal institutions. However, their activities in specific circumstances may be differentiated in regard to whether they follow formal or informal institutional characteristics.

<sup>22</sup> For the sake of completeness it shall be noted the top-down dynamics exercised by state-actors do not solely confine to formal rules, but could within a limited spatial dimension also take the form of informal measures, e.g. demand for bribes or exercise of legally not justified pressures

unaffected by the process of transformation and is thus subject to the specificity of the economic goals they strive to achieve.

(4) Independent of the formal institutional reform process initiated in Vietnam shortly before *doi moi* it will be furthermore assumed that there is no clear shift from less cooperation to more competition on the side of non-state actors' norm-practices over time. In other words, the increase of competitive norms practiced by non-state actors is not directly correlated to a decreasing practice of cooperative norms at the side of non-state actors over time.

## **2.4 Structure of the Thesis**

### **(1) Literature review: State of the Art**

The section on the state of the art literature will concisely review previous research related to the focal points of this paper: Firstly, it will address those pieces of research, which deal with the institutional transformation in the context of East Asia and which have provided the groundwork for the present thesis. Secondly, it will give an overview on those papers on Vietnam that address institutional aspects of practiced norms and habits at the informal side vis-à-vis the enforced rules and regulations by the formal institutional system. The purpose for highlighting this research is to highlight the consideration of academia for the institutional dynamics in Vietnam's transformation process.

### **(2) Theoretical underpinnings: Reflecting on values, norms and institutions**

In this chapter we will go into detail and look at the theoretical concepts that led to the research methodology applied in the present chapter. The idea behind it is to point to the significance that has been attributed to the concept of norms and values by parts of the heterodox economic theory, as well as to the mechanisms that play a significant role for the moulding, maintenance and re-design of norms. Apart from the analysis of heterodox institutional economic theory, we will take a look at the theoretical-institutional debates on economic transformation: The discussions in this segment will show that norms and values play a significant role in the course of institutional change since these contextually embedded institutional factors cannot be easily replaced by institutional transplants or blueprints. Herein perspectives on governance as well as on the planned economic heritage for transformational economies in EA will be emphasised before closing the chapter by discussing the roles of cooperative norms and trust related values in a post-planned economic setting.

### **(3) A short review of Vietnam's recent history**

In the first chapter on Vietnam specific contents, we will in a concise manner wrap up the evolutionary positioning of state and non-state actors in the course of the 20<sup>th</sup> century. Therein, the formation of the communist party and its politico-economic motivation and ideals will be contrasted with the cultural-economic concerns of the peasantry, who represents the non-state actor group, who is embedded the most in traditional institutions and thus serves in this chapter as a proxy for Vietnamese non-state actors in general. This short wrap-up will establish the context of the complex relationship between the state and non-state actors as well as therefrom resulting economic norm practices.

#### (4) Top-down measures by the state: Formal institutions in the economic realm

This part will serve the purpose of methodologically treating the formal institutional realm: Vietnam's recent constitutions and economic laws will be investigated in respect to the economic norms forwarded by the state via a top-down approach to non-state actors. The segment will show how the norm preferences of the state have changed over time (post-*doi moi*) and give an outlook on the most recent economic legislation in respect to the formally promoted norm-set. The outcome of the analysis in this segment will help us to identify, in which direction the norm preferences conveyed in formal regulations have shifted over time. Furthermore, this chapter will also fulfil the requirement of including primary literature into the overall analysis of practiced economic norms in Vietnam.

#### (5) The dynamics in agriculture and business: State vs. non-state actors

By means of analysing cases presented in the secondary literature, i.e. research on Vietnam's economic, legislative and socio-political institutional dynamics in business and agriculture, this part helps to identify patterns of norms that have and still occur in Vietnam's business and agriculture sectors. Therein we will foremost look at the behaviour patterns of non-state actor (group-) s and at the respective feed-back responses of state actors, in order to understand which norms both sides – with an emphasis of the former – adopt to pursue and achieve their needs and wants. Luckily, the preceding secondary literature has discussed different behaviour patterns and dynamics within different socio-economic realms: Some studies focus on specific actor groups and their interactions, e.g. entrepreneurs in urban areas, others deal with case studies that are set within a precisely delineated spatial and temporal frame. Apart from identifying specific norm behaviour patterns, we will further attempt to identify pursued economic goals and their respective rival and exclusive nature. If this identification is successful, it should be possible to cross check, whether the specifics of

certain goals do match the chosen norm-behaviour patterns by the actors as presented in the matrix (Table 1).

#### (6) Norms adopted and practiced at the individual level

In this final chapter we will combine two quantitative measurements of the three norms in Vietnam's society. Firstly, we will reevaluate the surveys on Vietnam conducted by the World Values Survey (WVS). The advantage of this survey project for the present thesis lies in the observation of value change over time documented by the WVS in the course of several survey waves (see: <http://www.worldvaluessurvey.org/WVSContents.jsp>). Although there has been some criticism of the WVS, e.g. concerning the intrinsic assumptions on the questionnaires reception by the interviewees despite the cultural differences of specific, linguistically and culturally bound concepts (Hurtienne and Kaufmann, 2011, 21ff), the present thesis will yet make use of the WVS waves due to the fact that the method used in this chapter does not require an understanding of complex, culturally coined concepts by the interviewees, but asks for basic norm preferences regarding their engagement in economic activities. Vietnam has been covered by two of the last three survey waves (1999-2004 and 2005-2009), where we may find that the information collected by the surveys plays a supportive role for this thesis: It helps to get an overview over a big sample of respondents, regarding to which degree certain norms and values are supported and practiced in Vietnam. Therefore several survey subsets are selected for this chapter so as to pinpoint the perception of Vietnamese individuals in regard to the norms of cooperation, compromise and competition.

In the second part of this chapter, we will analyse individual preferences of Vietnamese citizens in regard to the three norms. Therefore a questionnaire survey has been conducted among Vietnamese, who currently live and work in Vietnam. The questionnaire has been designed by the author (see Annex 11.4) with the aim to discern how the three norms are perceived and practiced in the individuals' private and professional environment. The questionnaire survey has been conducted from April 14<sup>th</sup> to May 16<sup>th</sup> 2014 at three online discussion fora, of which the servers are situated in Vietnam. Within nearly one month, 55 questionnaires were filled out by the users, who consisted of employees in private business entities as well as state-owned agencies and enterprises, and students. No pre-sampling in regard to occupation or specific business sectors of the interviewees has been conducted. In regard to the design of the questionnaire, two things should be noted: Firstly, the design has taken account of the hazard of bias and misguidance of the respondents towards one or more of the three norms by mixing up the sequence and allowing reviews by several colleagues.

Secondly, with the help of Mr Tran Duc Chung it has been possible to design and translate the questions in an appropriate way so as to avoid any confusion or irritations of the respondents, which were expected to occur due to the different cultural backgrounds of the author and the interviewees. The main idea behind this chapter is to juxtapose the results from the questionnaires with those of the WVS results discussed in the first part and furthermore to get a grasp on the perception and preferences of norms as they are received and practiced by modern Vietnamese citizens.

### **3 Literature Review: State of the Art**

#### **3.1 Contributions by Neoclassical Economics on Vietnam's Transformation**

In the following paragraphs it will be attempted to outline the pieces of research, which were considered useful by the author for the scientific engagement with the transformation in Vietnam. This literature review is on purpose kept very concise as it shall solemnly depict research tendencies, which may serve as an orientation for the research of interested readers.

In the process of gathering materials for the present thesis it has been found that a majority of the previous research on the topic has been done in the tradition of Neoclassical Economics (NE). Therein, institutional aspects are only marginally dealt with, whereas priority is given to the analysis of relatively typical topics in mainstream macroeconomics, such as changes in GDP composition and performance (Chao, 1997; Yu, 2008), macroeconomic stability issues due to inflation (Loc, 2006; Vo and Nguyen, 2006) as well as the influx and impact of foreign direct investment (FDI) on the transformational economy (Vo and Nguyen, 2006; Hy, 2007; Vu et al., 2007; Pham, 2008; Dinh, 2009).

Another very prominent field exhibiting a strong NE approach relates to the industry segment, especially involving state owned enterprises (SOEs), ownership changes and privatisation as well as the emergence of the private enterprise segment (Friedman, 2004; Sjöholm, 2006; Loc, 2006; Nguyen et al., 2007; Manning, 2009; Le and Harvie, 2010; Vo, 2011). This segment is especially significant for the transformational economy of Vietnam as it induced changes for the output of the domestic industry sector and in turn influenced the import and export volumes of Vietnam (Kokko et al., 2007; Nguyen et al., 2007; Cling et al., 2009; ADB, 2010; Le and Harvie, 2010; Nguyen and Nguyen, 2011).

Finally, NE related approaches have also been used for the analysis of economic reforms and respective policies in the agricultural sector. Decollectivisation during the reforms and thereby entailed productivity changes are in the focus of NE based discussions, which provide an ample picture on production related data (Dapice, 2001; Balisacan et al., 2003; Marsh and MacAulay, 2003 and 2006; Hoang et al., 2011).

The purpose of discussing NE related literature in this thesis is to highlight the usefulness for the institutional economic analysis: In fact, the documentation of major changes in the form of data analysis of the macro-economic, industry and agriculture levels

helps to pinpoint those areas, in which institutional impacts on the economy can be expected.. Especially when it comes to significant in- or decreases in productivity, enterprise growth or volumes of allocated resources, findings by NE analyses may guide the research of institutional changes.

### **3.2 Literature on Transformation in East Asia**

From an institutional point of view, some early foundations for transformation economics can be found in Schumpeter (2011 [1934]), who in his conceptualisation of the *Kreislaufwirtschaft* depicted the a dynamic of change of up- and downturns in the economy, thereby alluding to states of economic innovation vis-à-vis more static phases in which business as usual is dominating. As for the case of East Asia (EA), there is some research on the field of political economy that deals with the question how the change from planned economic to the more market based coordination of the economy modified the state of relevant nations (McMillan and Naughton, 1996; Kornai, 2000 and 2008; McMillan and Woodruff, 2000; Roland, 2008). In regard to institutional transformation theory there is a vivid discussion between proponents of the *shock therapy* and *gradualists*. In the context of reforms, the former suggest that economic effectiveness can only be achieved only through an immediate and entire substitution of ‘obsolete’ institutions by the import of ‘best-practice’ systems institutions (Sachs and Woo, 1999). The gradualist approach however emphasises that institutional change in transformational countries needs to be gradual and should follow a path of step-by-step correcting and fostering structures that work within the historically grown institutional framework (McMillan and Naughton, 1992; Godoy and Stiglitz, 2006). In respect to the institutional role models in EA for Vietnam, which in the most cases focusses on China, some interesting aspects are mentioned in Qian (2000), McMillan and Naughton (1992 and 1996), Naughton (1996), Sjöholm (2006).

### **3.3 Research on Institutional Change in Vietnam Focussing on Norms**

Although comparatively little has been written on the economic-institutional function of norms in the context of Vietnam’s transformation, some papers especially in the late 1990s and the first decade of the 2000s have begun to highlight this field.

The first noteworthy batch of research is dedicated to the analysis of the interaction between formal and informal institutions, the so called ‘top-down and bottom-up’ dynamic. In that respect, the field of business and industry is very well covered by Freeman (1996) and

Fforde (2009). The same conceptual approach applied to the changes in agriculture is presented by Kerkvliet (1995 and 2001), Kerkvliet and Selden (1998), Fforde (2008 and 2009).

Another analytical treatment of norms by previous research revolves around the institutional evolution in Vietnam in the course of the recent history. For an overview of norm practices during the colonial period see Freeman (1996), Rose (1998) and Womack (1987). For later periods up until the *doi moi* period see Brocheux (1983), Hy (1985) and Tran et al. (2008).

The development of legislation and formal rules after *doi moi* plays a significant role for the emergence of informal rules and norms among state and non-state actors. In this regard McCarty (2001), Day (2004), and Vo and Nguyen (2006) provide some very compelling insights on the sequence of post *doi moi* constitutions. A more general analysis on the changing formal framework after *doi moi* is given in Rose (1998), Gillespie (2002 and 2008), and Vo and Nguyen (2006).

General institutional changes with implications on norm practices in agriculture since unification over *doi moi* up until the present is depicted by Brocheux (1983), Kerkvliet (1995 and 2001), Kerkvliet and Selden (1998) and Fforde (2008 and 2009). As for norm changes and practices in industry, the privatisation of SOEs and the new types of private enterprises that emerged in the course of *doi moi* received quite some emphasis: On SOEs see Fforde (2004 and 2005), Sjöholm (2006), and Vo and Nguyen (2006). As for the emergence of private enterprise types see Freeman (1996), McMillan and Woodruff (1998, 1999 and 2000), Malesky and Taussig (2009) and Le and Harvie (2010).



## **4 Theoretical Underpinnings: Reflecting on Values, Norms and Higher Institutional Structures**

### **4.1 Introduction**

If we want to identify patterns of economic norms among actors that in turn guide their socio-economic activities of production and exchange, theory is of the utmost significance as it provides us with the concepts to categorise and analyse the otherwise wild variety of socio-economic phenomena. What will be introduced in this chapter are the theoretical foundations, upon which the methodological model, introduced in chapter 2, and thus the entire analytical model of the present thesis is founded: It is primarily the school of Institutional Economics (IE), which served as theoretical point of departure. The choice in favour of this heterodox economic theory means to abandon the neoclassical economic premises and axioms that foremost focus on the production and exchange of goods and services by fully rational actors, who operate in an exogenously given and thus static socio-economic context. In the opinion of the author, the mathematical formalism of Neoclassical Economics that treats actors and firms more in the sense of a production function embedded in the mechanistic equilibrium system between demand and supply of goods and services does not sufficiently grasp the reality of contextual change, which takes place in the transformation of a socio-economic system. IE on the other hand sees the economy as a matter of constantly changing institutions or rule systems, which mould and are moulded by the behaviour and practices of economic actors. IE do therefore not look only at *what* is produced and traded, but moreover at the questions of how and why economic activities are performed – it thus looks at the context and the actors within this context. At this point a general distinction needs to be drawn between the Old Institutional Economics (OIE) and the New Institutional Economics (NIE): The OIE does in the first place consider the institutional dynamics and the change of the institutional scaffolding over time, e.g. how do firms change over time. The NIE on the other hand is more focussed on improving the efficiency of institutional governance structures within an exogenously given framework, e.g. how can a firm's performance become more efficient. Before discussing both theories and respective theoretical derivations in the following paragraphs, we will however first deal with the concept of institutions, their subcomponents and hierarchies with specific regard to the topic of norms, which after all are in the centre of inquiry in this thesis. In the conclusion of this chapter transitional economic theories will be analysed against the theoretical background of institutional change and evolution as set forth by IE.

## 4.2 Defining Institutions

What is the rationale behind dealing with the roles of institutions, when we actually want to investigate the level of norm patterns in this thesis? Firstly, it is necessary to do so simply because norms together with values constitute the significant basic institutional entities, which institutional economists see as decisive for the shaping of societies (Veblen, 1898, North, 1994a, Hodgson, 2007a, Groenewegen et al. 2010). Secondly, norms and values – either as institutional entities on their own (norms) or constituting the smallest components of complex institutions (values) – operate as the most fundamental functional compounds inside of institutions, thus affecting institutional effectiveness and, in cases of economic reform, the range and path of institutional change. Theories on institutional structures and respective transformation can thus highlight the role of values and norms as they determine the process of change at the most detailed level.

Beginning with a comparatively modern definition of the term given by Groenewegen and colleagues (2010, 25), institutions are seen as ‘systems of hierarchical man-made rules that structure behaviour and social interaction. They consist of established, durable and stable rules’. In regard to the function of institutions, Hodgson (2008a) states that ‘...rules in this context are understood as socially transmitted and customary normative injunctions or immanently normative dispositions that in circumstances X do Y.’ In respect to the role of actors, we might rephrase that statement to ‘rules are normative dispositions or injunctions, that in circumstances X *induce actors to do Y*.’

When looking at the origins of institutional economics, that is the Old Institutional Economics (OIE), Walton Hale Hamilton (1881–1958), who has coined the term institutional economics describes institutions as something connected to individual habits. For Hamilton institutions are ‘a way of thought or action of some prevalence and permanence, which is embedded in the habits of a group or the customs of a people’ (Hodgson, 1998b, 179). This is very similar to the assessment of another ‘founding father’ of the OIE, Thorstein Bunde Veblen (1857-1929), who identified institutions as ‘settled habits of thought common to the generality of men’ (Hodgson, 1998b, 179). According to a modern interpretation by Hodgson (1998a, 14), habits both reinforce and in turn are reinforced by institutions. If we substitute ‘habits’ with ‘norms’, wherein the latter can be seen as a subcategory of the former (Groenewegen et al., 2010), then the role of norms for institutions become pretty obvious: Rule systems (institutions) are very much built on their basic level of institutional entities – be

that norms or habits – and the effective operation of newly installed institutions very much depends on the degree to which they are aligned with other preceding norm structures.

Within institutionalism, the New Institutional Economics (NIE), has gained much prominence in recent years, especially due to its most famous exponents and Nobel Price laureates Elinor Ostrom, Douglass Cecil North and Oliver Eaton Williamson, and introduces a different view on institutions: Quite in contrast to the OIE, a very prominent view within the NIE is to put more emphasis on the role formal or codified institutions, whereas informal institutions appear to be treated as something ‘non-legal’ or ‘not-rule-related’ (Hodgson, 2006b, 11). Within the NIE, institutions are primarily seen as rules belonging to the formal realm: Political institutions as rules to define the hierarchy of the polity, economic institutions to define property rights or regulate the coordination of goods and services and so forth. On the other hand, informal institutions such as conventions and norms are described by one of the most renowned exponents of the NIE as ‘informal constraints’ (North, 1994): North goes on to proclaim that these ‘constraints’ are at best ambivalent in regard to their capacity for wealth and income maximisation and in the case of self-imposed codes of conduct ‘sacrifice wealth and income for other values’ (North, 1994a, 2). He thereby indirectly positions informal institutions - although he rejects the predicate ‘institution’ to be attributed to informal rule systems (Hodgson, 2006b, 11) – as ‘having an importance in constraining choices’ (North, 1994a, 2), which appear to be only remediable by formal institutions that ‘lower the cost to individuals of such behaviour’, since formalisation means the embodiment of norms and values in codified standards or codes of conduct (North, 1994a, 3). This line of argumentation seems to stem from a perfectionistic approach towards designing *efficient* institutions, to which the NIE is dedicated (Groenewegen et al., 2010, 150f) and to which also North – who never the less regards informal rule structures as very significant – subscribes to: For North, the economic potential of informal constraints can only be fully realised once they become formalised codes of conduct. A consensus on the definition of institutions that appears to bridge the gap between ‘old’ and ‘new’ institutionalists has been brought forward by Hodgson (1998a, 179), who summarises the smallest common denominators of institutional characteristics: Institutions provide interacting actors with crucial information feedbacks, have a number of characteristic and common conceptions and routines, feature relatively durable, self-reinforcing and persistent qualities and incorporate values and processes of normative evaluation. With the herein proposed concept of norms in mind<sup>23</sup>, we

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<sup>23</sup> According to Groenewegen et al. (2010, 26): ‘Norms are generally-held opinions about how to achieve the values. They define agreed ways in which people should behave...so that the values of society are realised, or at least not violated.’

can see that the common characteristics of institutions are strongly related to the level of norms, such as ‘ways of interaction’, ‘routines’ and ‘processes’ and to a lesser degree to the level of values.

### **4.3 Formal and Informal institutions**

Having defined the concept of institutions we will take a further step to illustrate the two major forms of institutions: Formal and informal institutions. The distinction by itself already alludes to the complexity of societal structures and interaction, wherein some aspects of everyday life are explicitly structured and determined by the design and enforcement of codified rules such as laws (formal institutions), whereas other aspects of life are primarily governed by norms, value-concepts or conventions (informal institutions), which are equally or in some cases even more significant for the maintenance of societal structures. The interaction of and mutually dependent dynamic of change between informal and formal institutions has been discussed extensively (Williamson, 1991, 2007; North, 1994a, 2005; Hodgson, 1998a, 2006b, 2007a, 2007b), but there still is no general consensus or a general theory on how or to which extent both forms of institutions shape each other. For this thesis, basic informal institutions – in the form of norms and values as parts of rule systems – play the important role, but simultaneously they shape and give shape to formal rule settings.

According to Groenewegen et al. (2010, 25) formal institutions are described as public rules of behaviour, designed by a public authority with legislative power, enforced by a public authority with executive power and a judiciary power with the right of penalisation. Typical examples for formal institutions are laws or administrative regulations. Informal institutions on the other hand were defined by Groenewegen and colleagues (*ibidem*) as private rules of behaviour that have been developed gradually and spontaneously and do furthermore not need any legal enforcement, because these informal rules are sanctioned by private parties themselves (self-regulating) or because it is in the self-interest of actors to adhere to these rules (self-enforcing). Without taking too much away of what will be discussed in the following paragraphs on the NIE and OIE, the distinct feature of informal institutions is that they are seen as being much deeper embedded in societies than formal rules, which leads North to state that ‘...informal constraints, unlike formal rules cannot be changed overnight. They evolve slowly’ (North, 1994a, 8). For North, the herein decisive factor behind institutional persistence and the success of aligning formal institutions with informally embedded institutional structures is founded in the perception of ‘fairness’ (*ibidem*). North’s

pondering on formal-informal institutional interaction does is in its very essence address the value-layer of institutions (in his case it is the value of ‘fairness’). This in turn underscores the significance of dealing with these basic entities when investigating institutional developments. Furthermore strengthening the approach adopted in this thesis, namely setting the focus on informal institutional constructs is supported by Zhuang and colleagues who cite empirical evidence suggesting that cross-country differences in economic performance under similar formal institutional arrangements can be explained by respective differences in informal institutional settings (Zhuang et al., 2010, 4f).

#### **4.4 Functions of Informal Institutions: The Roles of Values and Norms**

Before going deeper into the analysis of theories on institutional change, which is highly significant for the case of transformational Vietnam, we need first to concern ourselves with the significance of values and norms: These two categories constitute the most basic institutional entities and exhibit a more intimate relationship, as will be theoretically discussed in this chapter and analytically shown in the final four chapters of this thesis.

We have already touched upon the definition of values and norms previously in the methodological chapter, where it has been explained that values as believes of personal ideals (e.g. justice, prosperity) and norms as agreed ways on how certain values can be achieved (e.g. competition, demonstrations). If we accept the view that value-sets and norms constitute the very basic layers of the institutional hierarchy and that institutions have enabling capacities as problem solving mechanisms, it is then clearly intelligible that pre-existing values and norms within a society determine the preferences of actor groups: These values and norms embody the ideological sets of actors, which determine how they *wish* their institutional settings to be designed and therefore how they prefer to resolve certain problems within their respective societal environment. The overarching idea of this thesis is to perceive the essential function of an institution as a solution mechanism that copes with a specific problem encountered in everyday life. If we thereupon see socioeconomic environments as a historical product of an alternation of problems with their respective solutions, then the resulting structure that supports these environments is manifested in the form of formal and informal institutions. These institutions do not necessarily prevent certain problems from (re)occurring, but they provide a tool-set of further evolvable solutions to deal with such reoccurring problems. A typical problem is the management of public traffic, which bears

certain dangers due to the diversity of individual behaviour patterns. Only via the introduction of rules, i.e. solutions such as driving on the right side of the road in continental Europe, traffic can be made less ‘problematic’.

Commons, one of the earlier institutionalists saw institutions as conflict solving mechanisms and the conflicts themselves as a result of people differing over the ranking of values (Groenewegen et al., 2010, 26f). Thus values seen as institutional components can help to find solutions for problems and simultaneously be the origins of problems. Therefore values play a decisive role for economic structures as Groenewegen and colleagues have shown in their categorisation of three major economic models: (1) The Anglo-Saxon Model exhibiting a high degree of competitiveness, decentralised or individualised decision-making and the trust in prices as most efficient coordinator of economic activities. The government itself is mainly functioning as providing and enforcing safeguards and rules. (2) The Continental European Model is described as being rather dominated by collectivistic values. Therefore decision-making takes the interests of the collective of stakeholders into account. These collectivistic values are translated into laws that recognize the interests of the collective and allow individuals to act in cooperation so as to optimize the performance of the larger socio-economic entity. (3) Finally the Asian model is described as similar to the European–Continental Model with collectivistic values and group orientation being central and the government being assigned with a central coordinating role, sometimes being the major decision maker by formulating long term objectives in a national plan, in which the desired development of the structure of the economy is outlined. Markets and private actors play a central role at the micro level with their activities being embedded in the state vision for the future (Groenewegen et al., 2010, 82ff). The depiction given by Groenewegen and colleagues does at best show a generalised picture, which for reasons of differentiability does overstate certain aspects and understate others. The point to make is that value sets existing within socio-economic realms have a shape-giving impact on exactly these systems, i.e. the types of institutions, which are adopted and implemented. Since value-sets are parts of or by themselves constitute entire informal and formal institutions, a major question is to which extent value sets can be substituted or exchanged and how fast they can be fostered.

Starting from the assertion that institutions – especially informal institutions – are conflict solving mechanisms or mechanisms designed to solve problems (North, 1994a, 3), how do these operate within society? We may take the value of trust as an example to look at the workings of institutions: Groenewegen and colleagues (2010) claimed that collectivistic

ideals play a significant role for socio-economic systems in Asia. Maintaining the functionality of collectivistic structures does in turn require a sufficient degree of trust within the group so as to build a collective, group-internal partnership of interests. In a further step this means that trust values have to be continuously fostered and extended, the larger the collectivistic structure grows, which finally means that 'trust' has to permeate the entire societal structure from civil society's every member to the top of the country's leadership. Interestingly a recent research based on 60,000 interviews in 50 countries has shown that trust among people is generally higher in high income countries (HICs) in the western hemisphere than in other parts of the world. There, especially in Asia general trust levels appear to be much lower than previously expected, such as in South Korea, Thailand and the PR China, where people reduce their focus of trustees on family and friends (OE1, 2011). Focussing on the realm of informal politics in Vietnam, Douglas Pike (2000, 269f) depicts an even more 'trust-less' picture, when describing citizens' perception of their government as 'marked by a deep distrust'. For Pike, these low trust levels stem from the deeply embedded traditionalism, which he describes to be shaping especially the rural parts of Vietnam's society up until today. According to this narrative, top-down enforced value sets that changed with every new elite to come in power were never that easily adopted by society as were those bottom-up values. These bottom-up dynamics that are emitted from single households, the basic unit of organisation, mostly focussed on fostering safety-, health-, educative- and economically related collective structures within the village or smaller urban neighbourhoods. Starting from this common value ground, specific associations had emerged that aimed at providing related services to realise the needs and wants of the community (Pike, 2000, 270f). The therefrom created bottom-up cooperative norms are based on common interests or needs and wants of the actors. But more fundamentally we can see these norms as a result of and simultaneously a contributor to trust levels within communities in Vietnam. On the other hand there are also norms that reduce trust levels within the society-state-relationship, such as corruption. This norm, which is built upon the drive for personal wealth – a common value in many, if not all economies – harms those formal institutions that were established to provide trust and thus encourages non-beneficiaries to rely on informal institutions (Hodgson and Jiang, 2007, 1057): Such are mostly practices that are not codified, but self-enforcing or self-regulating within a small group of actors.

Looking at the above and other examples, it becomes increasingly visible that norms practiced by actors do in fact depend on the prevalent values embedded within the respective socio-economic environment. One major question is whether specific values such as trust can

be ad hoc implemented in or introduced to a socio-economic environment, say for example via top-down methods? In his thesis on *Trust, Social Capital and Organizational Effectiveness* Fu Qianhong cites Coleman (1990), who suggests that trust may initially emerges only in 'informal, small, closed and homogenous communities which are able to enforce normative sanctions'. Fu goes on by elaborating that '...shared norms might not only be a source of trust, but can facilitate, speed-up the trust building process' (Fu, 2004, 13, 17). This again buttresses the observation by Pike (2000), Hodgson and Jiang (2007) and Zhuang et al. (2010): Practicing some norms can strengthen related value-sets, whereas practicing other norms does have a negative effect on the maintenance of non-corresponding or contradicting value-sets.

How do the above findings translate into economic realities or how are the roles of norms and values reflected in the workings of socioeconomic systems? At the value layer, Williamson and Mathers (2009, 4, 28) identify the three values of *trust, respect and individual self-determination* as stimulating socioeconomic interaction, since they further entrepreneurial behaviour. Furthermore, the authors underscore the positive economic effect of *respect* and *trust* as informal institutions, when formal safeguards are absent. Thus, the demise or removal of values can negatively affect socio-economic systems up to the point of disorder (North, 2005, 106). The Cultural Revolution in the PRC as well as the regime change initiated by the Red Khmer are such kind of examples that had shown the high economic and moreover the devastating social costs of radical norm and value changes in East-Asian history.

A purely economic cost-related argument for the value of trust, has been investigated by Zhuang and colleagues (2010, 5, 15) and Williamson and Mathers (2009, 4): Increasing levels of trust have been identified as being directly correlated to the lowering of operation costs: If individuals are more trusting towards each other, transaction costs and monitoring costs are decreased, property rights are more secure and high trust levels are said to have positive effects for the expansion of trading networks. If however negative economic developments such as inequality and corruption pervade a society, the beneficial effects generated by trust, as well as the function of trust in itself might be suspended. Social cohesion and cooperative norms would be diminished and can thus no more play a substituting role for formal institutional structures.

In regard to respective countries in East Asia such as South Korea, Vietnam, Taiwan and the PRC, Confucian values were said to have played a significant role: Zhuang and colleagues quote research findings that stress the importance of (Confucian) education for



moral development of the individual, which in turn encouraged the state to rely more on government methods of moral virtue (informal institutions) than on the use of coercive laws (Zhuang et al., 2010, 46f). Whether this holds true for the present does require re-evaluation, however in Vietnam, Confucian value- and norm-prescriptions regarding societal hierarchy and interaction have still left its mark within the administrative, legal and business environment (Chau, 1997, 306; Rose, 1998, 95ff, Gillespie, 1994, 18f) and thus do to a certain degree determine the operative features of economic institutional mechanisms.

## **4.5 How Institutions Are Brought to Work: Views on Design and Evolution**

After having defined the concept of institutions, the difference between formal and informal institutional structures as well as the effects of the most basic institutional entities, namely norms and values, we shall now look at the different branches of institutional economic theory and their perspectives on how institutions develop and what is required to maintain the effect of institutions on socio-economic structures.

A very general introduction on institutional effectiveness has been excellently presented by Groenewegen et al. (2010, 29): ‘For institutions to be effective, two conditions must hold...A sufficient percentage share of individuals must subscribe to the institution to become accepted... [*and*, the author] there must be credible (enforceable) sanctions to prevent the rest of the population from acting against the norm.’ Furthermore, the authors see three requirements that must be satisfied so that rules (and therefore institutions) become accepted: They must be *general*, *certain* and *open*. ‘General’ means that institutions are non-discriminatory, that is that they must apply equally to all people and in all circumstances. ‘Certain’ means that the rule must be transparent and reliable. It implies that meaning and consequences of violation must be understood by the actors. ‘Open’ indicates the need for flexibility to permit actors to proceed in response to new circumstances (Groenewegen et al., 2010). Starting from this very general framing of institutional effectiveness any researcher willing to adopt institutional economics for his or her analyses, will be confronted with the choice between the two prominent branches of institutional theory - the New and the Old Institutional Economics. Douglass C. North, who promotes a view prone to the NIE<sup>24</sup>, does for example argue that for effective institutions the single most important determinant is their enforcement, which in turn guarantees efficient market transactions. He goes on by saying

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<sup>24</sup> In fact, the position of Douglass North has been described by Hodgson as a stance in-between the OIE and the NIE (Hodgson, 2014, 3).

that ‘all one needs is an effective, impartial system of laws and courts for the enforcement of formal rules, correct societal sanctions to enforce norms of behaviour and strong normative standards of behaviour of honesty and integrity to undergird self-imposed codes of conduct’ (North, 1994a, 3). What should be noted from this and many other quotations stated by NIE related scholars is the strong normative undertone, namely *how* institutions *should* be designed so as to ensure the working of economic systems. As this concept of normativity is in its very essence related to values and norms, we will take a deeper look at how the NIE and the OIE differ in terms of treating institutional matters, especially in regard to the topic of norms.

A general summary on both schools has been given by Groenewegen and colleagues (2010, 77), who distinguish both approaches in regard to the following categories: In respect to the research question, the NIE aims to explore the explanatory variables behind the efficiency of institutional structures, whereas the OIE looks at the reasons behind the dynamics of institutional change and that includes taking informal institutions into account. For the NIE, actors are equipped with bounded rationality and behave opportunistically according to a normed behaviour that minimises transaction costs. The OIE sees actors as continuously learning individuals, who follow the principle of *procedural rationality* when making decisions. In the tradition of OIE, actors share mental maps and normed habits with their closest peers and their economic activities are thus seen as a product of individual motivation and societal embeddedness. Significantly, the OIE treats actors as players, who ‘naturally’ develop vested interests, which in turn has a strong impact on how economic coordination is conducted. In regard to socioeconomic environments, the NIE sees many embedding institutional features – stemming from e.g. culture, technology – as exogenously given and reduces its analysis to a limited number of explanatory or endogenously modifiable variables. The primary role of the government is to ‘get the formal institutions right’ so that the market can realise its full potential as the most efficient allocation mechanism. The OIE, on the other hand, tends to frame all structures as being constituted in an interactive process, entailing a wide range of interdependent explanatory variables. The role of the government is pro-active in regard to the formulation of socioeconomic objectives, and markets themselves are not seen as neutral mechanisms, but as a reflection of societal power structures.

Overall the general trend within the school of the NIE is to search for and prescribe ideal institutions in terms of the *most efficient* structures. This in turn leads to a prescription of what socioeconomic systems should strive to achieve and entails a strong notion of best-

practice values and norms achieved via top-down processes of implementation. Herein, governance forms are a major topic, as they should provide clear and transparent laws that lead to an efficient form of competition – i.e. low transaction costs – among the actors on the market (Groenewegen et al., 2010, 150f). Ideal, or in the case of the NIE, ‘good’ governance thus is seen as one of the major components to further economic growth, which vice versa advances the development of good governance. Empirical evidence by research on the degree to which good governance and the rule of law foster economic growth however indicates that there are major contextual dependencies that impede a simple transplantation of best-practice institutions from one country to another (Zhuang et al., 2010, 45f). The guaranteed provision of property rights via the rule of law is one of these best practices, which, according to the NIE, guarantees more safety over personal gains and the fruits of labour to each economic actor, it allows for keeping the returns of one’s investment, and provides a reliable framework for the establishment of contacts and help to resolve disputes (Djankov et al., 2003, 596). For the pronounced development economist Dani Rodrik, the provision of well-defined property rights constitutes one of the most important ingredients for the standard of successful economic reforms (Rodrik, 2007, 155).

Another component often emphasised by the NIE for institutional efficiency is the rule of law, which broadly alludes to the practice of a government that does not arbitrary execute its power, but in accord with the standards that were defined in the country’s respective constitution and laws (Gabler Wirtschaftslexikon, 2014). Among many others Campos (1999, 5, 21) as well as Zhuang and colleagues (2010, 4-6) cite this component as the most important institutional dimension of governance, praising its significant effects on per capita income growth. And especially as soon as income levels among the population start to significantly increase, the rule of law becomes a crucial component for maintaining good and economic sustainable governance. In his analysis on private and commercial rights, Gillespie (1994, 3-5, 14, 19) remains highly sceptical of the concept’s application in transformational economies, such as Vietnam. He thereby touches upon a bigger critical issue associated with this branch of institutional economics: As it is the case with many institutional recommendations of the NIE – property rights, independent judiciaries, or the rule of law and so forth – its major weaknesses is to be found in the concept of transplanting institutions from the point of origin to other socioeconomic environments: The issue taken is not a spatial one, but that specific rule sets are ‘grown’ locally with inherent premises based on locally prevalent value and norm sets. Since such institutional arrangements emerged within a specific environment and have primarily there unfolded their effectiveness, a transplantation of such best-practice rules to

other areas with the aim to increase rule effectiveness in the beneficiary country would require a simultaneous transfer of the much deeper founded values and norms upon which the later rule structures were founded. Without this transfer, transplanted best practice rules are bound to collide with (in most cases differing) local values and norms that generically emerged in the targeted socioeconomic environment.

The comparatively mechanical view of the NIE on institutional change, that is to virtually press a button and thereby transfer rule systems from one place to another, is directly contradicted by the elaborations of the OIE: Herein, we find a more organic or evolutionary approach, that regards the emergence of rule systems as founded upon local developments that are shaped by influences from the out- and the inside. One major reason for the difference in perspective stems from the fact that the OIE is less bound to premises of neo-classical economic theory. Thus it puts more emphasis on cultural factors and incorporating concepts of other disciplines such as sociology and psychology. The model of the hyper-rational, fully informed and utility maximising agent is abandoned and gives space to the curious, not less teleological and procedurally learning individual, who subsumes his experience in habits and norms that help her or him to overcome the (novel) problems of everyday life. Another explicit feature of the OIE is the extensive treatment of historical and comparative empirical material regarding institutions (Hodgson, 1998a, 173). As can be derived from what has been said above, the theories of the OIE operate within a non-ergodic world, which especially influences its conception of human beings: In contrast to the NIE, no fixed preferences of human individuals are taken as given, but are seen as the product and the producer of their respective socio-economic environment (Hodgson, 1998a, 176).

A further theoretical development that originated in the concept of the OIE has been the pronunciation of the evolutionary aspects of institutions and the thereby initiated change in behaviour among actors, as most prominently shown by Veblen (1898, 1899 and 1904) Hodgson (1998a, 1998b, 2006, 2006b, 2007b, 2010) Nelson and Winter (1982, 2002), Schumpeter (2011 [1934]) and to some extent Kornai (2007 [1992]) among others. In principle there is a long history of economic concepts combining evolutionary ideas with institutions: From Adam Smith (economic outcomes and social order evolving beyond predetermined design), Thorstein Veblen (introduction of evolutionary principles into social sciences), to Joseph Schumpeter and Friedrich Hayek right up to Nelson and Winter: These may all be seen as conceptualisations on how institutions evolve from different economic schools of thought (Hodgson, 2007b, 8). Their main common theme, however is the

perspective best stated by Veblen (1898, 2) namely that scientific evolutionary investigation is ‘a theory of a process, of an unfolding sequence’. Basic principles however difficult to grasp within any mathematical model are that the world and thus its technologies, organisations and economic structures are constantly changing. This process of change creates novelty and thus a certain variety in forms and behavioural norms, and this in turn entails difficulties for the prediction of exact future developments of socio-economic structures. These difficulties regarding prediction arise from the complex dynamic of interaction between numerous institutional forms and actors within the socio-economic realm. Therefore one acknowledgment of the evolutionary branch of institutional economics is that social arrangements are less often a product of design than of spontaneous interaction (Hodgson, 2010, 5f).

#### **4.6 Established Norms as ‘Problem Solving Devices’ in an Evolving Institutional Context**

From the above we may deduct that both the NIE and the OIE in their different variants accept the concept of change of socio-economic systems and for our inquiry the evolutionary perspective (which is in many respects affiliated with the OIE) seems to offer the best option to verify the mechanisms that prevailing norms within a changing context do possess. At this point we need to go a bit deeper into the determining factors that constitute the evolutionary dynamic of socio-economic systems, especially if we want to understand the role of the relative non-ergodic norm concepts cooperation, competition and compromise that stand in the focus of this thesis.

Norms seen as institutional compounds or institutions by themselves originate from the repetitive practice of habits. Already Commons (1934) has identified habits as a significant component of human cognitive abilities and these habits are acquired and emulated within institutional structures. Habits are required for any kind of societal interaction and moreover convey previously adopted skills. If such habits become thereupon accepted within a wider group or social community they grow into routines, norms and customs, which in essence are established forms of institutions. These in turn have an effect on new members of the group, since norms force them to adapt or strive for alternative institutions within the prevailing institutional framework. The core of the above analysis on Commons by Hodgson is that the evolution of socio-economic structures is a result of mutual constitution by which human activity creates and reforms institutions while institutions simultaneously mould and reshape human behaviour (Hodgson, 1998a, 180). The very fundamental feature of this

evolutionary dynamic or exchange process between humans and their institutional setting is the flow of information. Therefore language as medium to convey information plays a significant role, but equally the imitation and adoption of habits as a non-verbal way of exchanging information or learning is highly important (Hodgson, 1998a, 183). For the evolution of socio-economic systems to take place, the access to information is crucial: On the one hand, involved actors have to know what the 'dos and don'ts' prescribed by the institutional framework are, on the other hand they need to dare and explore modes of behaviour that they deem most suiting to their interests. In regard to authoritarian systems, to which we might count Vietnam considering the political monopoly of the CPV, one often discussed impediment to the evolution of bottom-up grown institutions is their tendency to control the free flow of information and prevent the rise of ideas that might affect the political order (Roland, 2008, 149). This well extends to the economic realm, where innovative business practices might very easily exceed the institutional boundaries pre-set by the system. In other words: what has been designed by the formal legislation in terms of the institutional setting might not always correspond to the needs and wants that citizens in a particular country strive for. At this point we might find that individual actors start to seek alternative, non-formal institutional settings that fulfil their needs, and this searching process is guided by new inflows of information they receive through inventing new or alternative ways to deal with their environment and its challenges, or from what they learn by imitating their fellow citizens; or in some cases even from information intentionally disseminated by the government to further a bottom-up development of institutions as mentioned by Lin (2009, 21).

In regard to how individuals obtain information, the major mechanism emphasised by the evolutionary school is the human feature of procedural rationality – that is actors base their behaviour and activities on what they have learned before. 'Rationality' is thus not an exogenously provided, static gift, but it is a developing feature of the actor's nature that constantly evolves based on the amount of experience he accumulates through solving problems and mastering challenges in the course of his life (Groenewegen et al., 2010; Hodgson, 2004; North, 2005). In the present thesis' language, this means to realise one's needs and wants (i.e. solve an immanent problem) by applying a trial and error approach based on the individual's previously accumulated knowledge. This in turn broadens the overall knowledge-base of actors, since they obtain new information with every decision they make. We might say, that such new information might then be formed into an institution if it (1) proves to offer successful knowhow – compared to the knowledge previously available –

on how to solve problems, (2) becomes embedded into a workable injunction, routine or behaviour pattern to be applied by an actor and (3) is imitated by others and thereupon accepted as viable rule to solve problems or deal with challenges. The final step for the becoming of an institution is (4) thus made once that the knowhow or information is embedded in a repeating behaviour pattern, e.g. a routine, and is transferred to others, used by others and if proven successful has thereupon become a repeatedly applied rule within a certain contextual framework, e.g. an organisation, a commune etc.<sup>25</sup>. This on the other hand does not mean that such institutional arrangements are efficient, nor in all cases or ad infinitum effective: For North (1994a, 10) self-sustaining, but weakly performing institutions have to be accepted as a possible given, as he sees these in many economies with a solidly established institutional structure that is even adhered to by their actors, but which does not produce efficient economic outcomes. Such and likewise comparisons seem to propel the NIE's proponents' motivation of transplanting the most efficient institutional practices to other countries they see in need of such. The preoccupation or focus of making an institutional structure more efficient might however lead to the problem of generating not properly aligned synergies: Transplanted knowledge might even under the best intentions not fit the locally embedded institutional knowledge and information base. The effort of transplantation may in turn fail to overall improve efficiency.

In regard to the realisation of needs and wants of actors via their respective norms, the obtaining of the best information (in terms of being most suitable for the solution of problems) for the construction of norms and more complex institutions is a question of perish or survival, especially if it relates to actors within a highly competitive context (North, 1994b, 22). For Douglass North (2006, 5) this motivation of rendering one's environment intelligible by reducing uncertainties and contexts of incomplete information constitutes the basic dynamic driving economic change. If we hereto add the perspective of societal-institutional evolution as being an endless succession of encountering problems and finding respective solutions to these (Mantzavions, 2001, xiv), the question of how information is sought, new knowledge is shared among actors and stored in institutions (such as norms) as well as how the learning process evolves is a highly relevant one for this thesis: One of the significant aims here is to examine the extent to which the three norms are applied in transformational Vietnam and how these norms or their variations are shared among the actors. So as to prove information embedded in norms as valuable, a positive feedback from other actors is required.

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<sup>25</sup> This conceptualisation is influenced by and in some parts (steps (3) and (4)) borrowed from the elaborations made by Hodgson (1998a) and Nelson and Winter (1982),

Such a responsiveness or informational feedback is in fact an indicator for, or evaluation of, the effectiveness of the applied rule (de Silva, 1999, 2). Once those rules, which are equipped with the best informational transfer system, become accepted and can function as reinforcing mechanisms that reward similar habits or behaviour patterns, the herein generated dynamic will in turn help to reinforce the original rule itself (Hodgson, 1998a, 171). But at the same time there is no imperative that only one rule-solution can solve one and the same problem: Due to the heterogeneity of societies in general, human creative activity and the willingness to take risks, trial and error approaches by actors and the subsequent learning from failures helps to reduce information imperfections (North, 1994a, 1) and simultaneously expands the variety of different rule-sets being generated and adopted within similar contextual problems or challenges. This variety is highly necessary due to the specific nature of evolving socio-economic environments: For Nelson and Winter (2002, 26) all economic systems are under constant change, which in turn requires continuous trial and error learning and experimentation, implying that there is no ergodic or stable condition to which all developmental deviances sooner or later return to. In the view of Nelson and Winter, there however are certain sustained routines (especially occurring and spreading in the environment of a firm) that help to bridge the issues of uncertainty and imperfect information. These routines are regularised behaviour patterns or institutional mechanisms that provide a basic user manual on how to tackle certain situations involving problems and their solutions. These routines have the potential to provide the ways for the establishment of new institutions but they can also be discarded if not deemed necessary any further. Most importantly however such routines as they become imitated and tested by a variety of actors can function as a general learning based response to the challenges of everyday life and these routines – ‘routines as genes’ as the authors phrased it – or in our case *norms* may equally well allow for an element of continuity and stability in the evolutionary development of socio-economic environments (Nelson and Winter, 2002, 30). Such regularities do not remain valid forever and are surely bound to the specific environment from which they emerged, but as Kornai (2007 [1992], 13) pointed out there are ‘lasting results within a specific historical period and a specific system’. So if we return to norms as the main mechanisms inquired in this thesis and ask for the reasons, why certain norms have sustained in Vietnam, the above discussion of different institutional approaches seems to indicate that some rule-solutions to challenges are perceived as continuously more useful and effective than others and thus become imitated – simply because they provide an element of stability within an evolving context of novelty and challenges. In regard to their survival over time, such norms need to be highly flexible in their



application: This means for norms, that their application must allow for a certain leeway of trial and error so as to become modified and be further able to function as a ‘problem solving device’ for respective contextual challenges.

## **4.7 Transformation Economics and Institutional Evolution**

When thinking about patterns of transformation and change, it becomes clearly visible that there is a direct connection to the process of evolution: In the course of transformational change information flows and feedbacks as well as learning and trial and error process become altered, reframed and thus change the behaviour of actors (as well as the latter change the development of the former). For Thorstein Veblen (1989, 12) economic change ‘... is a change in the economic community -- a change in the community's methods of turning material things to account. The change is always in the last resort a change in habits of thought’. Veblen’s concept already alludes to the fact that the science of economics is not only about the features of production and exchange of goods and services, but about the ways, habits, norms and rules of how and under which conditions goods and services are produced and shared among by economic actors. In the following paragraphs we will now look at the state of the art of theoretical elaborations on the institutional transformation of economic systems.

The major feature of the transformational process that economies pass through is that all transaction and productive activities of a stable economic system – or in Schumpeter’s words a circular economy<sup>26</sup> - go through modification in quality and intensity. During a systemic change actors become gradually, but not necessarily fully unhinged from their former environment of habits, norms, conventions and rules, which can entail disorientation and the perceived loss of safety. On the other hand, the same actors might also experience more freedom and thus eagerly test new options and ways to pursue their needs and wants, which in turn extends the institutional realm: Interest groups and major stakeholders change so as old ones vanish while new constellations appear; information flows and feedbacks take new shapes and increase in relative amounts; this in turn also alters the learning processes and trial-and-error behaviour of individuals and actor groups, which again has an influence on the becoming of new formal and informal institutional structures. Some literature on transformational processes in East Asia<sup>27</sup> indicate this strong impetus on institutional change and the increased occurrence of interest group dynamics, modifications of economic planning

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<sup>26</sup> See Schumpeter (2011 [1934]).

<sup>27</sup> See Heilmann (2004, 2009), Naughton (1999, 2010), Gillespie and Nicholson (2005) and Gillespie (2002, 2008).

and trial-and-error practices accompanying the institutional socio-economic transformation in both countries. In regard to the vast theoretical research previously conducted on economic transformation and transitional economies, the idea of the following paragraphs is less to cover the entirety of institutional topics treated by the institutional economic theory on transformation, but to focus on the most relevant aspects for this paper in terms of what influences the development of socio-economic norms in post-transformational systems. In that regard, we consider (a) temporal aspects of institutional transformation and (b) qualitative changes of the institutional scaffolding via institutional transplants as the most significant aspects.

## 4.8 Temporal Aspects of Institutional Change

Economic transformation implies the concept of institutional change through time. In the case of Vietnam this process - the *doi moi* reforms of 1986 – was a formal response to the economic deadlock confronting the state (Fforde, 2008 and 2009) via a top-down approach that first modified the institutional macro-layer. Such a change of the formal rule structure had an effect on actors, their habits and norms. At this point, the question of the subsequent actors' adaption to the new formal setting and the adoption of new individual or informal rules is decisive for our investigation: This process of adaption to and adoption of new formal and informal institutions by economic actors is according to Groenewegen and colleagues (2010, 136) a 'process of enculturation and reproduction', indicating a continuous effort that requires *time* to entail effective results.

Taking outcomes of gradual institutional transformations as an example and juxtapose these with the results provided by shock reforms, one crucial variable for success seems to be the amount of time allocated for the institutional renovation by those who guided the process (Godoy and Stiglitz, 2006, 2). In this respect previous literature features a heated debate for the best approach for transformation/ transition from a planned to a market-based economic system: The distinct positions are on the one hand those, who are in favour of *shock therapy* (e.g. Sachs and Woo, 1997), suggesting a fast institutional change of privatisation and liberalisation so as to generate economic growth. Proponents of the *gradual approach* (e.g. McMillan and Naughton, 1992) – implying a step-by-step change of institutions – emphasised the sensitivity of institutional structures, which under a vast shift from old to new rules would crumble and lead to social inequalities, economic imbalances and the demise of socio-economic safeguards. In their analysis of shock therapy and transformational speed, Godoy

and Stiglitz (2006, 2,3, 22) see at best ‘mixed results’ with shock therapy ‘as not conducive to success’ and that fast privatisation having ‘adversely affected decadal growth’.

The general orthodox explanations and theories stop at suggesting their ‘best-practices’ at the macro-layer, however the entire story goes beyond getting formal institutions right: What is thereby left open is how those affected by transformations react to the fact of change: How do norms, habits, values and all the rules that organise everyday life change? One hint in this direction is given by Groenewegen et al. (2010, 148) by their analysis of fast institutional change: ‘When such a radical change takes place, the shared mental map of the actors is completely replaced, along with the corresponding institutions.’ Being in that state of orientational dislodgement might pose big challenges for the solving of the very basic and daily tasks such as earning sufficiently to secure one’s meal. So if changes (of transformation) are of the most incremental nature affecting or even threatening many people’s life, the statement of North (1994b, 6) that ‘...the larger the number of rule changes, ceteris paribus the greater the number of losers and hence opposition’ becomes very persuasive. To minimise the occurrence of ‘losers’ and ‘opposition’, North underlines the function of informal rule systems, which ‘can foster dialogue between conflicting parties’. But here again time is required to form new or realign old informal rule structures (North, 1994b, 8f). This process can be described as ‘spontaneously’ and divided into three phases: (1) Externalisation, as the regularity of new behaviour forms needs to become visible to others; (2) Objectivisation, where the regularity in behaviour has to become a ‘fact’ that others take into account; (3) Enculturation, where the reality is a shared part of the behaviour of all people in the community, i.e. it becomes internalised into the actors’ mental maps (Groenewegen et al., 2010, 143). The above said indicates that if given a sufficient amount of time to evolve, informal institutional structures - such as in our case norms - can provide a quite useful tool for actors to manage the problem-solving task of every-days life under conditions of larger macro-layer based transformational processes.

## **4.9 Transplantation of Institutions**

The idea that time is required to foster effective institutions has been somewhat neglected by proponents of *shock therapy*, since they considered a swift exchange of failing rule structures for Western best-practice rules as most effective. For some cases among those countries undergoing transformation in the 1980s (South America) and the 1990s (Eastern Europe, Soviet Union (SU)), this held true in the initial years: Heybey and Murrell (1999, 132) for example found that ‘... a high level of liberalization at the beginning of reform, leads to

higher growth during the first 4 years of reform, as does a higher pre-reform growth rate'. But equally the authors also find that 'initial conditions do have a substantial effect on economic growth during transition...indeed the effect of initial conditions seems to be much more important than that of policy changes' (Heybey and Murrell, 1999, 132). So when looking at countries, which did not went through *shock therapy* but opted for a gradual reform, we find comparably high growth rates<sup>28</sup>. So what can we take away from this aspect? A very cautious explanation would be that gradual reform did work out comparatively well up to the present stage, because initial (formal and informal institutional) conditions reacted favourably to this approach. When contrasted with *shock therapy*, gradual reform does to a bigger extent concede path dependence. This means it allows for actors of the old system to survive the transformation towards the new, which in regard to interest groups and stakeholders allows for their survival by the perpetuation of some crucial institutions thus lessening the opposition of stakeholders to the reform process itself (North, 2005, 51f). On the other hand, the survival of ideological interest groups could also hamper the development of a market economy, since 'the greater the longevity of the communist period the greater the inhibition of pro-market institutions and cultural norms, and the more limited the capacity to develop such institutions (Hodgson, 2006a, 879)'. However this argument, which goes in favour of *shock therapy* and against gradual reform, has to be handled with care for two reasons: Firstly, it should be considered that among the politico-ideological elites are not only those opposing market reforms, there are also stakeholders that accept these reforms as they see their career being dependant on their capacity to adapt (Kornai, 2000, 33f). Secondly, there is evidence that informal institutional structures that existed before the implementation of communist or socialist rule and which operated adversely to the new ideology also persisted and endured the new political period (Hodgson, 2006a, 884): Looking for evidence of such economic practices in gradually transforming economies, we find informal markets and informally kept private farming plots such as in China during the Maoist times (Naughton, 1996, 277) or in pre-*doi moi* Vietnam (Kerkvliet, 2001, 9; Kerkvliet, 1995, 399). This in itself is a strong indicator that fostering economic growth via transformation does not generally require an entire refurbishment of the institutional layer via transplanting foreign institutions and enforcing them top-down. The alternative can moreover be a continuation in fostering those (informal) bottom-up structures that have prevailed under adverse conditions and a gradual opening-up of the strict rule structure so as to allow new structures to evolve and become integrated.

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<sup>28</sup> Taking the WB-data series for Vietnam as an example for gradual reform, (<http://data.worldbank.org/country/vietnam>) we find annual GDP-growth rates of 4.8% for the initial reform period 1986-1990 and 6.8% for the first decade (1986-1996). Later periods exhibit equally high rates.

Another line of critique addresses the concept of best-practice solutions itself: As stated by Chao (1997, 305), there is no universally applicable administrative model and that administrative reforms failures in the East Asian context stem from the copying of ‘western rationality’, whereby there is only insufficient attention paid to traditional cultural and socio-political contexts in the target countries. Chao thereby seems to allude to the informal institutional layer, where norms do play a decisive role. A further argument states that these transforming countries don’t display the same institutional demands as do front-line countries – instead those systems that catch up, should focus on finding effective institutional patterns and proceed according to these (North, 2005, 21), which is in fact asking for a systemic trial-and-error process featuring a learning from failures and proceeding along successful results of institutional-evolutionary innovation. Gradualism along these lines can reduce uncertainty that comes with large-scale institutional change and the high costs of institutional reversal because of previously failed transplantations (Roland, 2008, 153). The problems entailed by simultaneous transplantation of many new rules (as would be advised by *shock therapy*) into a different environment are various in nature: A lack of political support from top leaders, cheap imitations of external experience, unrealistic appraisals of the reform situation, underestimation of the reactions of anti-reform parties, faulty planning and implementation, unduly restrictive techniques and instrumentality, absence of feedback, goal displacement and so forth (Chao, 1997, 306). There is no question that these issues might also occur via gradual reform approaches. However, whereas the latter has in East Asia, e.g. China and Vietnam, been a consecutive sequencing of reform measures so as to increase economic effectiveness, the former emphasises the necessity of a multitude of measures being implemented simultaneously so as to gear the entire development towards efficiency. Furthermore, the transplantation of blue-print institutions has another weak point: It would require unanimous top-down enforcement by local expertise – respective technocrats and cadres would all need to be well informed, trained and united in their willingness to transform the economy. Discarding the likelihood of this constellation, Rodrik (2007, 164ff) thus opts for the local knowledge approach relying on mechanisms for elucidating and aggregating local information so as to change the structures based on a common effort of society and state. This latter argument very much hints to the role that norms could play to establish new ways of doing things within a transformational economic setting, e.g. how the economy of a country can be transferred into an increasingly market based track of production and cooperation.

## **4.10 Relevance of Theory and Methodology for the Analysis of Transformational Vietnam**

As outlined above, an institutional analysis of the transformation of an economic entity – as in the case of this thesis the transformation of Vietnam – is confronted with the problem of investigating institutional settings within a changing context. Therefore it is necessary to identify and pinpoint certain institutional components that are less susceptible to change, feature a certain degree of continuity and thus allow for an analysis of actors' behaviour, activities and interaction over a period of transformation. For this purpose norms have been identified in the above discussion as embedding vital information and techniques for the solving of (economic) problems, while featuring a certain degree characteristic continuity and of frequency in their adoption by socio-economic actors. Therefore the three norms cooperation, compromise and competition have been chosen as tools for analysing the ways of how actors in a transformational socio-economic context pursue their needs and wants. When looking at the adoption of the three norms by actors in the transformational state of Vietnam, the question arises to which extent cooperation, compromise and competition were and are actually practiced: Are these norms accepted by a broader part of non-state actors in Vietnam and how are these norms applied by state and non-state actors in an antagonistic context? The assumption outlined in the hypothesis is that these dynamics exist and this will be tested in the subsequent chapters.

Going into the evolutionary development of norms and their application by actors, one has to start with a look at the historically grown value and norm context of Vietnam. The rationale behind this step stems from the concept of evolutionary institutionalism, that is, institutions don't grow overnight, but instead require a due time before beliefs and ideas can become institutional compounds that in turn guide the behaviour of economic actors. In the following chapters we will see that the norms of cooperation, compromise and competition have been explicitly applied by actors so as to help achieving their respective economic needs and wants. Furthermore it will be shown that the adoption of cooperative norms may appear within contexts of market economic transactions and vice versa that competitive norms may also occur under the umbrella of the formal structures of the planned economy. In essence, the following analysis will show that once specific economic objectives are recognised by actors, they will employ norms related to cooperation, competition or compromise to reach these objectives, thereby often ignoring whether their approach conforms to the formal institutional framework as it has been top-down implemented by the state. This in turn also means that the

realm of informality is exploited by societal actors to their advantage and therein adopted bottom-up measures do in some cases directly contravene and in further consequence put pressure on the formal institutional framework of the state. In order to depict a comprehensive overview on the evolving practice of the norms in the country – stretching from Colonial Vietnam, over the unification of the country up until the introduction of the reforms of *doi moi* – a perspective of analysing political and economic events against the background of the socio-cultural fundamentals has been chosen.

## **5 A Historical Perspective: The Emergence of Value and Norm Structures in Vietnam**

### **5.1 Traditionally Embedded Value and Norm Concepts at the Village Level**

So which major economic value sets and beliefs shaped Vietnamese society and guided its way along the path of development towards the 20<sup>th</sup> century? Part of the answer can be found in the operating mechanisms of the second smallest entity of societal organisation after the household, namely the village. According to Brocheux (1983, 791), Vietnamese villages or rather village organisations were since pre-colonial times seen as an ‘autonomous, self-contained entities’ that operated along a concept of ‘imperial law yields to village custom’ (*phép vua thua lệ làng*). Brocheux points out that there is a ‘relationship between two forces’ or in other words a conflict of rule systems, whereby the informal, non-codified or bottom-up emerging laws of the village outweigh the top-down norms coming from the state (ibidem, 791). Why then is it that the village could maintain such a strong and autonomous role against the political centre? One reason is that the country exhibited a feature of being difficult to govern by one political centre given the geographical propensities of Vietnam. Against this background the village functioned as an intermediary for the centre namely via the collection of taxes from its community, which were thereupon sent to the next higher administrative authority. Due to the organisational distance between centre and village, the former depended on the cooperation with the latter, even if this entailed a high loss of control and transparency (Tran et al., 2008, 14). When the Vietnamese culture expanded towards the south in the 17<sup>th</sup> century, cooperation again played a crucial role for those frontiersmen who left their homes and founded new village communities practicing the same cooperative norms they had used before (Tran et al., 2008, 15) and thereby followed the principle of imitating an effective concept.

Within the village organisation of Vietnam, hierarchies have played an important role for the governing of the community’s public life. But within these hierarchies competition among the wealthy shaped the communities’ economic interactions. The hierarchical order itself and the competition for it depended on how much one could contribute to the benefit of wealth for the entire community (Hy, 1985, 162). So in order to achieve a goal featuring rivalry and exclusivity, competition as a norm appeared and was rewarded with a higher administrative status, provided that the competitor could further the social cohesion of the



entire community. This support for solidarity in essence equals a strengthening of cooperation within the village organisation, since it led to the establishment of networks that go beyond descent linkages, marital alliances and other forms of kinship, but were in fact permeating different societal classes so as to bring like-minded interests together and generate a sense of equality and communal unity. Occasional violations of such principles by the community leaders that contravened the reallocation of communal land on a periodic basis to all male members of the village, have led to peasant uprisings and violent opposition. In these cases the competitors, i.e. the lower, disadvantaged actors adopted cooperative norms in forming associations so as to file complaints or in worse cases topple their leaders (Hy, 1985, 163ff). This dynamic of the village thus equally exhibited norms of cooperation as well as competition as means for helping actors to realise their goals under specific circumstances: The choice for these norms indeed depended to some extent on whether the goals were in their nature rival and exclusive (competition) or not (cooperation).

The pre-colonial cultural heritage also led to a specific formation of how Vietnamese society perceived market-economic features as well as the foreign transplanted ideology of communism. As the traditional economic system was mainly built on agriculture with commerce being to a major extent disdained by Confucianism, socialist class theory could easily merge with the existing value set (Adger, 2000, 755) and communist ideology that started to flourish in the north of the country started very early to adapt its economic concepts to culturally embedded norms and values: Economic production in Vietnam's command economy shortly before and after the political unification of the country followed a typical Soviet central planning system with its top-down coordination and allocation of resources and means of production. But simultaneously a parallel system of spontaneous markets based on pervasive private commercial incentives competed with but sometimes also complemented state distribution networks (Gillespie, 2002, 661f). This already shows that norms transplanted to Vietnam had to conform to the local cultural value heritage, and as we will see later on, it evolved into a very specific scaffolding of a market and planned economy.

## **5.2 The Beginnings of Formal Institutional Change: French Colonial Rule and the Influx of Communism**

When communism gradually entered Vietnam in the 1920s it encountered a very beneficial environment: Vietnam was a colony under French rule and although massive Foreign Direct

Investment (FDI) came from France (8 billion francs<sup>29</sup> during 1920 – 1938), the money mainly went into infrastructure or properties belonging to the French state and French entrepreneurs (Freeman, 2001, 1-7). Parts of these investments also went into the strengthening of local governance capacities however at the village level administration was given to or kept in the hands of locals, mostly minor and senior notables (Brocheux, 1983, 793). As the colonial regime was foremost focussed on creating a market for their products and suppressing the development of a domestic enterprise sector (Freeman, 1996, 187), the overwhelming majority of the population in the countryside was kept poor. Although they constituted the labour force of the country, the colonial government's treatment of these parts of the society was far from benevolent or supportive towards these social strata, which in turn had to resort to the establishment of mutual aid structures and other modes of cooperation in order to make their living (Brocheux, 1983, 793).

### 5.3 Communism Merging with Vietnamese Values

Against the background of foreign oppression and rampant poverty in the rural areas, the Indochinese Communist Party (ICP) worked on introducing communism in the country by presenting their ideology as a system of universal utopian equality (*thiên hạ đại đồng*) using phrases appealing to known, communal norms in society and demanding a fair system that would entail a reallocation of the means of production and an equal share of duties and responsibilities (Hy, 1985, 168). The gradual success of the ICP was to convey a general idea of society that featured a strong congruence of interest with the masses (Womack, 1987, 482). The expansion of these ideals culminated in the occurrence of *Nghệ Tĩnh* uprisings in the early 1930s, where like-minded peasants, workers and intellectuals started to revolt against the colonial regime and the local elite, which in fact set in motion a conflict and competition between the local classes: Those, who owned, such as landlords, rich farmers and the village elites against those who desired, i.e. the poor rural population. Here again rivalry and exclusiveness of economic goals induced the emergence of competitive norms. The ICP leadership thereupon began to instrumentalise these conflicts so as to gather peasants' support for their movement (Hy, 1985, 169) and thus continued to emphasise cooperative norms that proved to be appealing to the rural population: Herein, the economic goals were seemingly depicted as commonly inclusive and non-rival so that everyone would be able to enjoy their benefits. Here again it needs to be emphasised that the early ICP, very similar to its Chinese counterpart, saw the villages as their 'bastions for support' (Kerkvliet et al., 1998, 4). The

<sup>29</sup> Equalling the value of around 8 billion Euros in 2007 ([http://en.wikipedia.org/wiki/French\\_franc#mediaviewer/File:FrancEuro1907-1959.png](http://en.wikipedia.org/wiki/French_franc#mediaviewer/File:FrancEuro1907-1959.png)), although the above source does not clearly indicate whether the purchasing power parity is accounted for in both periods.

major key for their success is seen in their capacity to forge coalitions – also with workers and intellectuals – by promoting concepts of equality and cooperation as well as in their capacities to establish information networks so as to spread their ideas along the north of Vietnam (Hy, 1985, 170).

On 2 September 1945, Ho Chi Minh declared the independent Democratic Republic of Vietnam and thereby sparked 30 years of war against the French colonial system and later the US-South Vietnamese coalition forces. Although this created an entirely different context of ideological competition with the colonial and capitalist-based systems, the guiding strategy for promoting the communist ideals remained the same and even became extended: On the one hand, the formation of the national united front can be seen as an extension of cooperation beyond the oppressed classes to groups that sympathised with nationalistic ideals. On the other hand this meant that the ICP's successor organisation, the Viet Minh, used networks and alliances with much broader groups that in terms of ideology were originally competing with the communist concept: Trade unions, Buddhist groups and democratic organisations were now included in the network and helped to promote communist values (Dosch and Vuving, 2008, 6f). In fact cooperative norms seemed to have helped the victory of the Communist Party of Vietnam CPV, despite the fact that it meant to compromise on values with the cooperating parties and groups. A possible explanation might be found in the nature of the goals that these groups pursued: A change of the political and economic power structures in the country.

## **5.4 The Unification Period up to *doi moi* – the Emerging Monopoly of the Communist Party**

The very cooperative stance that bound different interest groups before and during the war abruptly ended with the victory of the Communist Party of Vietnam (CPV)<sup>30</sup> over the U.S. and the subsequent unification of the country. At this point the CPV turned towards full top-down enforcement of economic coordination and set aside attempts to establish legislative structures for law-based governance of the country. In fact, socio-economic activities of resource allocation, production and transaction became increasingly prearranged by the state (Rose, 1998, 98) and so were political structures, meaning that no rival political organisations next to the CPV were admitted (Kerkvliet, 2001, 3). The rationale behind this decision can be explained by the aim of the CPV to 'promote a sense of national unity across a country once

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<sup>30</sup> The communist movement in Vietnam has been very heterogeneous as it has been constituted of different groups with varying ideals and objectives, which simultaneously existed during the period of 1925-1976 (for more details see for example Van and Cooper (1983)). As these different groupings merged together into the 'CPV', this name will be used for the sake of convenience in this chapter.

splintered by regionalism', which is best explained by Ho Chi Minh's believe in unity as the source of success (Koh, 2008, 659). The image left to the observer is that of a top-down enforced mode of national cooperation under a one-party rule that should according to the CPV leadership help to spread their vision of best-practice norms. Based on the developments depicted here, we might come to think that one fundamental flaw of in the party's concept may lie in the fact that the CPV since its beginnings merely amplified some sentiments in society (Kerkvliet et al., 1998; Hy, 1985; Womack, 1987), but neglected the plurality of norms and values that had evolved beside cooperation related norms in the country.

## **5.5 Top-down Meets Bottom-up: Politicised Agriculture**

One very early example of the failure of top-down enforced cooperation already became evident in the course of the 1950s in North Vietnam: The collectivisation of agriculture into agricultural collectives was one of the early tests of putting ideological norms into economic practice. Behind these measures stood the justification that economic production and transactions in agriculture could actually be conducted more efficiently, if coordinated according to a plan that controls for inputs outputs and actors' production behaviour. The idea was that cooperation in large groups would – in a way as claimed by the principle of the economies of scale – be more productive than single family farms' operations taken together (Kerkvliet, 1995, 401). By 1960, 86% of all peasant households and 68% of total farmland in the North were transferred into cooperatives often by brutal means (Do and Iyer, 2003, 4), that is, against or competing with local actors' ideals. In that case, the goals of the state exhibited a clear discrepancy with the economic goals of the peasants: Individual farming practices according to the traditional ideals were preferred to cooperative farming enforced by top-down means (Kerkvliet, 2001). This popular disdain for such norm-intervention by the state has been reflected in the South: Here, the same concept was implemented only two decades later, but the opposition from the peasants was comparatively fierce, which in turn prevented the large scale formation of controlled agricultural cooperatives in that region (McCarty, 2001, 10). Similar features of resistance again showed up in the 1980s, when the state had to give in to peasant opposition against the low pecuniary remuneration for their agricultural output. This example has been taken up by Kerkvliet (1995), who states that between political leadership and peasantry existed a terrain of contesting or competing norms regarding authority, production and allocation of resources. This space of contesting norms had in the course of the 20<sup>th</sup> century been captured by the peasants and their norms and had thus enabled their bottom-up efforts to be victorious over the state's top-down enforcement (Kerkvliet, 1995, 400f).

## **5.6 Informal Economic Activities as a Necessity for Survival**

Different to what was aspired by the CPV, the unification of Vietnam did not entail the establishment of an immaculate and unchallenged planned economic system. What happened instead was that a double-tracked, mixed economic structure of production and exchange started to emerge: On the formal side, the imitation of a Soviet-style planned economy was set up by the government all over the country and it did in significant parts collide with informal and spontaneous markets (Gillespie, 2002, 661f). This situation in fact reflects the dynamic of the two antagonist forces of bottom-up and top down, namely informal and formal institutional settings tangling with each other, because they were applied by two opposing actor groups for their means of realising their respective economic objectives. The question at hand is how, or if, these two competing structures were synchronised with each other?

Initially, that is before the unification, the U.S. – protected South Vietnam was fully embedded in the dynamic of free-market capitalism allowing the private enterprise sector to develop freely. These developments were also furthered by the migration of business people from the north to the south, especially to Saigon, which contributed further to the formation of private production and market-exchange structures (Freeman, 1996, 187). Interestingly, when in 1975 the U.S. retreated and most of formal business and commerce structures vanished with the flight of capital and entrepreneurial parts of the society, informal market structures have gradually started to fill the void and thus helped to provide urban residents in the south with goods and services (Freeman, 1996, 188). With the unification of the country, CPV leaders tried to counter these developments and started to nationalise all market business activities by installing agricultural collectives, state-owned enterprises, and privatising private property. This way of extinguishing the competition from the alternative market based economic system was deemed to be successful by the communist leadership since economic decision-makers believed that such structures could be simply replaced by a top-down designed, planned economic metabolism (Yu, 2008, 7). These measures however met with dramatic failure: Then General Party Secretary Le Duan, who held the highest office in the country from 1960 until 1986, pursued a hard-line, non-compromising policy course against any economic activity that did not accord with or was not designed under the plan. However due to the ever waning of Soviet economic aid (Kokko et al., 2007) as well as domestic plan-inherent economic failures, i.e. a lack of a variety of goods including daily necessities, the demand for such goods produced in the informal sector soared, giving rise to petty and household enterprises, who could survive in the grey economy (Freeman, 1996, 189). Depicting a very similar picture, Kerkvliet (1995) underscores that the groundwork for

market-based economic exchange and production had been established quite before the initiation of *doi moi*. He similar alludes to the widespread phenomenon of urban black markets occurring before 1986. For Kerkvliet, such economic patterns show that people opposed and competed against pre-determined ways and means of the state impeding their attainment of respective ends.

In regard to the significance of this second, informal system, Fforde (2009) goes into more detail by showing how much this systemic competitor to the formal economic structure was actually maintained and nourished: As for workers discretionary spending in North Vietnam during the 1970s, Fforde finds that ‘food purchases on the free market made up around 35% of urban workers’ total expenditure on food’ (2009, 492). Even more fascinating is his finding of the fact that also SOEs were relying on free market activities so as to obtain resources for the maintenance of their production (Fforde, 2009a, 493). Such behaviour patterns, whether generally applicable to the situation in the country or not, actually show that out of this competition between two systems, a kind of compromise or even cooperation has emerged. The reason for this possibility of compromising between formal and informal industrial production was founded in the fact that there were shared economic goals – the maintaining the operation of the SOEs vis-à-vis the urge to achieve individual needs and wants on behalf of non-state actors. Maybe due to that alignment of objectives, the informal petty-enterprise sector was accepted by the communist leadership before and after unification. The reason for this assumption can be found in the fact that Vietnamese cadres themselves had to some extent depend on the informal sector: Falling real wages and high inflation rates also affected *their* salaries, making it impossible for them to satisfy their families’ needs by simply following their daily routine. In order to solve this problem, also state-actors resorted to private, informal economic activities such as raising live-stock and illegal trading so as to realise their most basic needs and wants (Freeman, 1996, 188). Such economic compromises that were also practiced by representatives of the state, met with harsh counter measures, even leading to changes in the very political centre, as exemplified by the removal of reform advocate Nguyen Van Linh from the Politburo in the mid-1980s (Yu, 2008, 9). And yet, the necessity for a reform of the economic system was clearly evident.

## **5.7 *doi moi* as the Peak of Economic Renovation in the 1980s**

### **5.7.1 External and Internal Factors Behind the Reforms**

The reasons for the initiation of *doi moi* (renovation) are not solemnly founded in the domestic socio-economic development taking place in Vietnam since the 1960s. The renovation of the economy was to some extent also a consequence of external developments, more specifically, the necessity to initiate and continue with economic reforms from the mid-1980s to the early 1990s was to some extent imposed on the country by the waning support of its long-time ally, the Soviet Union (Kokko et al., 2007, 3). Originally, the biggest support for Vietnam came from the PRC, which however stopped after the Sino-Vietnamese war and the subsequent deterioration of relations in 1979 (Dosch and Vuving, 2008, 9). The role of the major supporter was thereupon played by the SU, which throughout the 1980s provided aid to the Vietnamese economy in the size of 10% of Vietnam's GDP, 40% of the government's budget and 75% of the total public investment in the mid-1980s (Forsberg and Kokko, 2007, 2). With the SU itself being entangled in economic difficulties, the support for Vietnam decreased, which may have intensified the pressure for economic reforms (Fforde 2009, 488f).

At the domestic level, the *doi moi* period was hailed by the government, which up to then had fully exhibited a weakening economic power, as the beginning of liberalisation: Changes towards more market coordination were set forth, the formal decollectivisation of agriculture was initiated – that all however being safeguarded under the premise of keeping the political system unchanged (Yu, 2008, 11). Although the renovation process officially only commenced in 1986, it had built up on earlier measures, such as the Output Contract System in agriculture and the Three Plan System implemented in industry both in 1981. Economic renovation continued beyond that up until the mid-2000s, embodied in a Politburo Resolution of 1988 confirming that individual households not cooperatives are the basic unit of production and in the private enterprise laws of 1999 and 2005 (Stromseth, 2010, 68). The reason for the continuation of the process can be explained by its initial successes, which helped to put aside ideologically conservative forces within the party. Thus step by step economic reforms started to change macro-economic and legislative structures, with price and currency reforms leading the way for more private economic activity within domestic and with non-domestic economic actors. At the macro-economic level, three steps were implemented to remedy problems of the state economy and simultaneously foster more private economic initiatives: Raising interest rates to high levels attracted the opening of

private deposits by households, while credit expansion was kept low so as to fight inflation; next to that, the government expenditures were massively reduced so as to fight the budget deficit; finally hard budget constraints were imposed on SOEs forcing them to either improve efficiency or cease its operations (Kokko et al., 2007, 4). The influence of the state continuously decreased and economic planning thus gave way to a coordination following supply and demand, which in turn furthered the decentralisation of economic decision making (Freeman, 1996, 194).

When looking at the economic reforms at the level of sectors, it is especially agriculture and state owned enterprises in industry, where major formal institutional modifications have been implemented. Similar to the reform and opening process in the PRC, reforms in agriculture spear headed the economic renovation: The driving concern behind this push was food security and food shortages, which plagued the country since the early 1980s (Markussen et al., 2008, 6). The *doi moi* reforms helped to alleviate this problem for the sector that at that time comprised 70% of total employment and 40% of Vietnam's GDP: As a result of the reforms, agriculture achieved annual growth rates of 4.8% in the 1990s, when 3.1% was the average in agricultural growth in the East Asia and Pacific region (Balisacan et al., 2003, 1). The significant institutional step behind this recovery was decollectivisation and the shifting of production responsibility to households, which aimed to remove mistakes of the planned economic system in agriculture (Kerkvliet, 1995, 411). As for industry, SOEs were seen as the economic backbone of the state and thus measures to increase productivity could generate a broad support among stakeholders for reforms (Fforde, 2009a, 493f): In the course of these measures, planning mechanisms were removed and enterprises gradually achieved more authority for making individual production plans. Furthermore, the channels for selling products were liberalised, allowing SOEs to individually choose to whom they would sell their product and – in most cases – to which price they would do so (Loc, 2006, 37). Due to these measures SOE productivity and wage levels began to increase, with the latter exhibiting a growth of annually 10.5% in the 1990s (Manning, 2009, 16). Despite these positive prospects it should be added that liberalisation also entailed the closure of many SOEs and thus the dismissal of many state employees.

### **5.7.2 Bottom-up vs. Top-down and the Compromise in the Party Centre**



Besides the relatively popular analysis of *doi moi* in respect to institutional changes at the level of macroeconomics, economic policy and economic sectors, the following paragraphs will try to set forth a different interpretation of the reform process – one that occurred as a contest between the formal and the informal institutional realm. The previously depicted, ongoing dynamic between these two spheres – a mostly competitive but in some cases also cooperative or compromise-finding interplay between formal and informal norms – partially displays the nature of economic transformation in Vietnam that was officially decided upon by the party in 1986: Its reform path can be described as a ‘gradual, ...phased and partial’ one (Guo, 2004, 393), exhibiting a bottom-up ‘spontaneous’ nature that was ‘driven by the people’, who in response to the weaknesses of the planned economic system (Fforde, 2009b, 81) tried to find more suiting ways to achieve their needs and wants. The complementary move, which facilitated and gave the final go for reforms, however came from the official leadership. Initially this happened informally by means of accepting and to some extent participating in informal, market based economic practices, whereas later in the 1980s, the central government formally allowed the introduction of market economic activities. This in essence can be seen as a heuristic, trial-and-error approach (by formal and informal sides) to solve the looming problem of the country: The weak economic performance. So in regard to the question of why these developments at the large, macro-scale of national reform could take place, is most likely to be explained by the initial motivation for change as being derived from the weak economic performance of the country: By the early 1980s, Vietnam was listed as the ninth poorest nation in the world, its economy being mainly based on small-scale production, featuring low labour productivity and food shortages (Yu, 2008, 7). As depicted above, informal economic activities not complying with official norms had occurred in socialist Vietnam at least since the unification of the country. However, describing reform as solely driven by bottom-up developments does not fully grasp the story: Informal private economic activity was in many cases enabled by official relaxation on these informal norms. What can initially maybe be seen as an acceptance of the competing informal practices, gradually developed into an acceptance of producing outside the official plan with models formally being implemented such as ‘output contracting’ in agriculture and ‘fence breaking’ in manufacturing (Vo and Nguyen, 2006, 5). Looking at the state industry, the allowance for employing ‘outside activities’, i.e. firms bartering for inputs and outputs with other firms or outright selling products on the black market (Yu, 2008, 9), can be seen as conceding to the necessity of allowing an alternative norm to partially take over economic coordination between actors – an act of compromise going beyond top-down enforced cooperation.

Interpreting the reforms as being propelled by the Vietnamese characteristic of ‘pragmatic flexibility’ (Vo and Nguyen, 2006, 5), might help to explain why officials turned to informal deals with non-state actors and why ex-aequo non-state actors dared to act counter to formal norms and rules, which Kerkvliet (2004, 4) asserts as the decisive factor for reshaping the state’s rules in the course of reforms. What the author however neglects is the rich body of information on the struggle within the party centre: Here, reformers gained the upper hand against conservatives and won the backing of the party to deepen and continue the reform of the economic system, since pro-market relaxations had already shown positive effects on the economy (Guo, 2004, 399f; McCormick, 1998, 127f; Malesky et al., 2011, 11-20).

As mentioned above, the first large-scale formalisation of this acceptance by the state leadership came with the third Five-Year Plan (1981-1985), wherein the ‘output contract system’ for agriculture and the ‘three plan system’ for industries were adopted. Overall these steps indicated a shift towards emphasising the generation of food and consumer goods at the detriment of heavy industrial production (Yu, 2008, 9). As for the state industry this meant a general shift of focus towards the market: Once quotas were reached (Plan A), any excess outputs could be sold on the market (Plan B) and state provided assets and capital goods could be used to process inputs purchased from the market (Plan C). Now these options were not even new to the SOEs, but now they became formalised, for market and plan were merged together in a new system that distinguished between ‘outside’ and ‘inside’ respectively (Fforde, 2009a, 493f; Yu, 2008, 9f). Such dualisms could however not obscure the fact that these two systems of operation and production were now embedded in a game of competition in respect to which side performed better. The more the market side of operations proved to be a remedy for the economy, the more the concept of market liberalisation gained momentum and did in turn fuel a ‘state-business interest’ that helped reformers to push on for more economic change (Fforde, 2009a, 494). The *doi moi* reforms in 1986 continued to further pro-market norms and concepts of competition and were even intensified by the exogenous shock of 1989, when Soviet aid to Vietnam stopped, which before the reforms were a significant support for the economy. The increased market radicalism – reflected in slogans such as ‘let markets be untied’ and ‘allow being rescued by yourself’ (Vo and Nguyen, 2006, 29f) – paved the way for even more liberal economic laws in the early 1990s strengthening private companies, banking services and foreign investments.

In general, the reform developments are not graspable by only looking at one of the two sides - formal and informal norms and rules – as the sole determining factor for the pushing ahead of economic reforms. More rather it appears to be that the course of developments has been determined by the interacting and responding dynamic generated

between both sides, which benefitted from the official economic logic of ‘tolerance of violations of the norms of strict socialism’, as Fforde (2009, 490) has put it. And yet what stands out and distinguishes the actions of state- and non-state actors, i.e. in the way how they employed their formal and informal norms, is the following: Bottom-up developments always seem to push rather temperately against the formal framework, be it by either adopting an internally cooperative or a competitive stance; whereas top-down implementations appear to have carried a more blind and coercive nature, which has in cases after unification been met with failure and thereupon guided to more compromise-related stance in economic policy. In the following chapters we shall therefore look whether we get a more detailed picture on these relationships and features of pursuance of economic goals, when looking at some of the state’s economic laws, the changes among economic actors’ behaviour in the fields agriculture and business and finally at the evaluation of the three norms in the norm-survey conducted among economic actors.

## **6 Top-Down guidance by the state: What are the Official Norm Preferences since *doi moi*?**

### **6.1 Introduction**

Understanding the institutional dynamics behind the behaviour of state and non-state actors cannot solely be based on the analysis of non-formalised norms practiced by socio-economic actors. Moreover it requires a closer look at the playing-field within which actors operate. Therefore this chapter aims to grasp the formal side of the economic rule scaffolding by analysing its major pillars: Firstly, we will check Vietnam's constitutions of the years 1948, 1959, 1992, the amended version of 2001 as well as the current constitution of 2013<sup>31</sup> in respect to their economic institutional characteristics. Secondly, the most significant economic laws will be discussed in this chapter: These major legislative pieces – namely on cooperatives, state owned enterprises, private enterprises and investment – have played decisive roles in the course of transformation (Vo and Nguyen, 2006; Malesky, 2007; Gillespie, 2002, 2008; Malesky and Taussig, 2009; Nguyen, 2006; Le and Harvie, 2010; Fforde, 2005; Loc, 2006) and can thus be seen as properly reflecting the change in preferred norm and value sets set forth by central state actors. The major idea behind this chapter is to identify the evolution of the normative injunction of the formal economic system, which the state has continuously reshaped and adapted according to its ideals. The formalisation of these ideals is reflected in the constitution and economic laws so as to guide the country's citizens in their pursuit of economic goals. The overarching logic adopted by the state via the top-down enforcement of norm ideals is to delineate a playing field and framework, which actors have to adhere to for the realisation of economic goals. In order to capture the changing economic context over time, we will take a close look on whether there are visible shifts within the three norms: That means to identify whether there has been an evolution within the prescribed norm set over time, e.g. from cooperation via compromise to competition that we expected to happen in the course of the transformation from a plan to an increasingly market based coordination of the economy. Whether the citizens really follow on track will be discussed in the later chapters of this thesis and in order to set a proper frame for the later comparison, this chapter intends to (1) depict the evolution of the formal preference context regarding the three norms and (2) the underlying dynamics and drivers behind this evolution.

In regard to the choice of the above listed legislative pieces, it should be emphasised once more that these have played major roles for the formal institutional framework of

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<sup>31</sup> Unfortunately there was no translation of the first post-unification Constitution of 1980 available for this thesis.

Vietnam: On the one hand, the constitutions set forth the most important and fundamental institutional structures for the country and thus provide the basic of norms and values Vietnamese citizens have to adhere to and shall actively practice. In regard to the laws on cooperatives, private and state enterprises and investments, the selection stems from their repeated emphasising in the secondary literature as well as from the consideration of their role for industry against the background of economic transformation: Whether it is general research on economic transformation (Godoy and Stiglitz, 2006; North, 1994a; Hodgson, 2006a; Kornai and Qian, 2009) or specific inquiries of Vietnam's economic renovation (Le and Harvie, 2010; Rand and Tarp, 2010; Perkins, 2001; Thanh and Anh, 2006; McMillan and Woodruff, 1998; Hansen et al., 2004; Hakkala and Kokko, 2007), most of the research tends to focus on the changes in the secondary sector of the economy. Is it necessary to follow a well walked path? In this case it sure is, since this paper choses a different angle to look at institutional changes in industry over time, namely by evaluating the modification of the formal institutional framework characteristic (measured by the changing emphasis in norms, namely between cooperation, compromise and competition) over time, which have been designed and reshaped by the government. These repetitive efforts of the state were done so as to provide a development trajectory for the industry against the background of gradually changing value ideals and due to the constant information feed-back of the circular dynamic between codified rules and informal or private rules by responsive actors. To the very best knowledge of the author, looking at institutional change via this approach has not been adopted by preceding research on Vietnam.

## **6.2 Method for the Norm Identification Process**

The herein applied method of analysis is based on the methodology depicted in chapter 2. However, we need to add some further features and clarifications regarding the method so as to tackle the designated task of this chapter: The identification of the three norms and shifts in their respective emphasis broadly follows a two-step analysis, namely (1) the counting and weighing of norm relevant statements that relate to cooperation, competition and compromise<sup>32</sup> within the respective laws. (2) In order to evaluate the dynamic of a change in the emphasis of norms, the following chapters will also analyse the discussions of the respective laws, which have been conducted by prior research on Post-*doi moi* legislation by preceding studies.

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<sup>32</sup> For the respective synonymous norms the reader is referred to Table 2 in chapter 2.2.

Based on available translations of the constitutions of SR Vietnam as well as Vietnamese laws on cooperatives, private enterprises, state enterprises and on domestic and private investment<sup>33</sup> tables were constructed that list the entire number of normative injunctions as well as the respective textual contexts<sup>34</sup>. An overview of the investigated laws and constitutions is listed in

Table 3.

Table 3 Investigated constitutions and laws<sup>35</sup>

Constitutions	Cooperative Laws	Enterprise Laws		Investment Laws	
1948 Constitution of Vietnam					
1959 Constitution of Vietnam					
1992 Constitution of Vietnam		Law on Private Enterprises 1990 (amend. 1994)			
				Law on Promotion of Domestic Investment 1994	
			Law on State Enterprises 1995		Law on Foreign Investment 1996
1992 Constitution of Vietnam (amend. 2001)		Law on Enterprises 1999		Law on Promotion of Domestic Investment 1994 (amend. 1998)	
	Law on Cooperatives 2003		Law on State Enterprises 2003	Law on Investment 2001	
2013 Constitution of Vietnam	Cooperatives Law 2012	Law on Competition 2004		Law on Investment 2005	
		Enterprise Law 2005			

What needs mentioning concerns the approach adopted for this chapter: The method of quantifying and weighing the entries of phrases (or norms, as in the present case) in a legislative document is similar to what has been done in previous works by Heilmann (2008) and Frank (2012): The former has quantified the number of economic legislative measures in selected years relative to the entire quantity of published legislative documents during the

<sup>33</sup> Most English translations of the above listed economic legislative pieces that date back up until 1994 can be found under <http://vbqppl.moj.gov.vn/vbpq/en/Pages/vbpq.aspx?loaivb=Law>. Unfortunately, there were only few other sources available to this study, wherefore hardly any early legislative measures of the Post-*doi moi* period could be studied in this chapter.

<sup>34</sup> For an example of the evaluation of norms in legislative the reader is referred to appendix 11.5.

<sup>35</sup> Herein listed names of the laws were directly adopted from the corresponding translations.

entire period, whereas the latter has counted the occurring quantity of specific names in published articles of a journal over a designated time period. This latter work is very similar to the first analytical step in the following paragraphs, where we look for and quantify the occurrence of the three norms and their synonyms so as to see whether a change of emphasis, e.g. a shift of the dominance of one specific norm to another, has taken place over time. Therefore the norms listed and quantified within the tables (see appendix 11.5) are either the three norms themselves or their respective synonyms (see

Table 2 in chapter 2.2). Herein, contextual dependency is significant: Not the mere stating of the norm in the document is important, but its contextual function. Therefore the criterion for the quantification of a normative injunction (related to cooperation, compromise and competition including respective synonyms) was (1) to verify if the promoted norm operates in a way so that a structure to the interaction between two or more actors is provided, or (2) that it functions as determining the behaviour of actors. This method of identification is based on the definition of institutions (of which norms are a subcategory) given by Groenewegen and colleagues (2010, 372). According to them, ‘institutions... are systems of hierarchical, social rules that structure behaviour and social interaction’. Therefore the following statement ‘the alliance between the workers and peasants’ would be quantified as indicating a cooperative norm, since it establishes a cooperative structure-behavioural relationship between two actor groups. By implication this means that the herein used method of quantification did not include statements, wherein (1) norms are merely listed for the explanation of their meanings and are thus out of any actor-interaction related context; (2) furthermore, no statements of norms were included, which operate as injunctions demanding actors to relate their activities *to non-actor entities*, i.e. regulations, historic events, national targets and so forth. (3) Finally, statements of norms that neither establish a connection between two or more actors (i.e. no actor-interaction context), nor function as a guideline for the behaviour of actors but are taken out of an actor-related context, were excluded.

The choice regarding the translation of the respective laws and the different constitutions were guided by the principle of obtaining appropriate English translations of the originals, so as to make sure that the content and especially the norm ideals were conveyed properly. Therefore the following sources were used: [www.Constitutionnet.org](http://www.Constitutionnet.org), [www.worldstatesmen.org/INTRO.html](http://www.worldstatesmen.org/INTRO.html), [www.vietnamlaws.com](http://www.vietnamlaws.com), <http://www.law.unimelb.edu.au/alc/asian-law-resources/vietnamese-legal-research-network-vlrn-online> and <http://vbqppl.moj.gov.vn/vbpq/en/pages/vbpq.aspx>. These sources share a

common denominator, which is the high qualitative standard: The above listed web-links are either hosted by trained law scholars from Vietnam, government agencies or international organisations with an emphasis their professional standards (see for example: <http://www.Constitutionnet.org/about#t16n6> and <http://www.vietnamlaws.com>).

## 6.3 Content: Laws

### 6.3.1 The Constitutions

Based on the above methods, the examining of the different constitutions of Vietnam exhibits a shift in norm related emphasis, that is, from a decrease of cooperative norms towards an increase of competitive norms over the past 65 years. This does not mean that the SR Vietnam does in terms of its basic legal principles on economic activities abandon every feature of cooperative norms, but we see a clearly visible decrease of cooperation related normative injunctions vis-à-vis a slight, but continuous increase of competitive injunctions (see Figure 2). In terms of absolute quantities, we should not be mistaken to evaluate the constitutions as being solely dominated by cooperative and competitive norm related statements. However, within the realm of cooperation, compromise and competition, the numbers draw the obvious picture of an increasing top-down promotion of competitive norms for economic activities within the Vietnamese society.

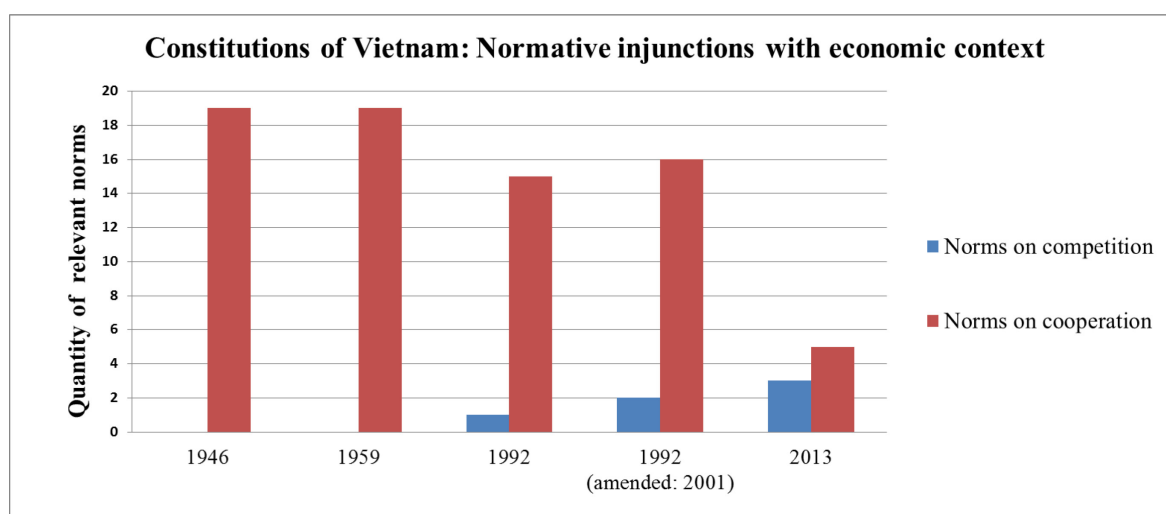


Figure 2 Quantification of norms with economic relevance in the constitutions of Vietnam



How where these changes of emphasis related to economic norms within the different constitutions evaluated by previous research? In regard to the Pre-*doi moi* constitutions of 1959 and 1980, Day (2004, 24) describes these versions as being strongly geared towards the ‘transition to socialism’ and ‘aimed at building a socialist state’. After the unification of the country, the 1980 Constitution was set up to fostering of those socialist institutions that would come near to the Soviet Union’s ideals. However, systemic failures such as bureaucratic corruption and economic decline in the 1980s lead party leaders to recognise that their governance models ‘based on communitarian economic policies were failing’ (Day, 2004, 24f).

The informal bottom-up responses to these institutional shortcomings were tried to counter with the signing of the 1992 Constitution, which according to McCarty (2001, 26) ‘marked a new phase in Vietnam’s development towards ‘a market economy regulated by the State’. A possible reflection of this development tendency can be discerned from Figure 2, wherein we witness a clear diminishing of cooperative norms in favour of competitive norms. And yet still, ‘close cooperation and coordination’ between state actors was being demanded in this constitutional version (McCarty, 2001, 26): Thus, cooperative norms still dominated over competitive norms.

A very interesting feature that goes hand in hand with the increase of competition related norms is the revived emphasis on law and legislative procedures in the course of the *doi moi* restauration: The role of law has been re-evaluated during the late 1980s and early 1990s, the ‘law based state’ and the ‘Socialist Rule of the law State’ were ideals promoted in the Eighth Party Congress, shortly before the 1992 Constitution. When the constitution was drafted Vietnamese policy makers in fact reassessed the significance of the role of law for guiding the country and in doing so, the 1992 Constitution itself reflected many of the political values that had been already held up in the 1946 Constitution (Day, 2004, 25f). From a NIE point of view, these developments could be classified as basic steps of design in terms of ‘getting the fundamentals right’ that aim at increasing economic efficiency. From the OIE perspective, however, such recurrence to prior value or norm sets might indicate some type of trial-and-error innovation with imitative recurrence to former concepts at the formal institutional level: Certain features that have been adopted in the past, e.g. the role of law, become re-adopted due to the requirements of the time and because of the proven benefits of these features in former times. What speaks in favour of the NIE argument is that the 1992 Constitution is very much seen as promoting private property and economic liberalisation (Vo

and Nguyen, 2006, 10f; Rose, 1998, 99f) as well as private economic activity in general (Bergling, 1997, 72ff; Gillespie, 2002, 646). The explicit call in the 1992 Constitution to ‘promote a multi-component commodity economy functioning in accordance with market mechanisms’ as well as the recognition of private ownership of property and the private sector economy (Rose, 1998, 99f) are very strong indicators for a greater leeway for competitive norms and practices allowed for state and non-state actors. On the other hand, the stance for more competition could also be the consequence of a bottom-up development, driven by non-state actors: There was a series of laws in 1991 promoting foreign investment which in turn affected the amending of the 1992 Constitution’s draft before the final version became effective (Rose, 1998, 100). Other sources again report that developments involving market economic activity are often lobbied for by foreign enterprises (Gillespie, 2002, 2007, 2008). In fact, some sources implicitly put forward that the 1992 constitution’s stronger emphasis towards more market-based coordination responded to the demands conveyed via bottom-up mechanisms. Economic efficiency was very much longed for by the central government and therefore it gave a green light with the 1992 Constitution to private business and investment activities that were being demanded by private actors: Secure private ownership (Art. 23) as well as encouragement of foreign investment and trade (Art. 24 and 25) were clearly determined in the 1992 Constitution (Vo and Nguyen, 2006, 10f). Despite these very encouraging features that seem to support the establishment of a competitive environment, cooperative norms are still dominating the content of the 1992 Constitution – if we follow the pictographic analysis above (Figure 2). One explanation for this characteristic is to see the 1992 constitution as trying to ‘balance between ideology and efficiency’: Private property for example is not considered as a given right to individuals, since the general base line is still to emphasise property as being possessed ‘by the whole people’. Similarly, private economic activity only becomes legalised, but is not seen as the prevailing norm (Bergling, 1997, 73f). The dominance of cooperative norms in the 1992 Constitution with amendments in 2001 seems to continue: Although this version expanded the rights to permit ‘business and operate in any business sector ‘not banned by law’ (Gillespie, 2002, 646), the actual freedom of citizens to ‘conduct business and compete fairly in the market still faces ostensible restrictions imposed by the administrative authorities’ (Pham, 2005, 76f).

Whether or not we might find the above features of previous research fully reflected in this part’s analysis on the constitutions’ normative injunctions, the general baseline of developments seem to fit: The predetermination of cooperative norms by the state have

gradually decreased and became partially replaced by allowing a bigger leeway to more competition in economic activities.

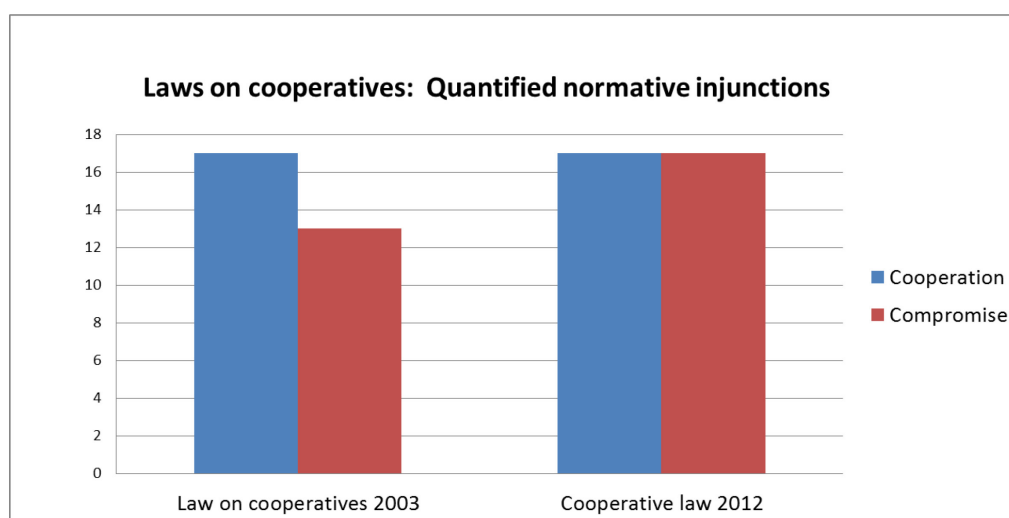
### **6.3.2 The Laws on Cooperatives**

Following the definition of the 2003 Cooperative law, cooperatives are collective economic organisations that operate akin to a small enterprise and which are made up of individuals, households or legal persons, ‘who share common demands and interests, and volunteer to contribute capital and labour in order to bring into play the collective strength of each cooperative member, to help one another efficiently conduct production/business activities’ (Law on Cooperatives, 2003, Art. 1). Their foremost principles of organisation and operation are founded on the voluntariness of its members, democracy and equality in respect to voting rights and business plans, self-responsibility regarding the results of the business activities and foremost, cooperatives fulfil the function of strengthening those basic values of cooperation and community development (Law on Cooperatives, 2003, Art. 5). The principal characteristics have not been modified much in the most recent 2012 Cooperative law, only in respect to the minimum membership (seven persons) as well as minor aspects such as training obligations for members and a sustainable development of benefits for the community (The Cooperative Law, 2012, Art. 3.1., 7).

As far as research on cooperatives’ development and the impact of respective legislation is concerned, there was very little material that could supplement the analysis on the use of norms and respective shifts within the laws on cooperatives: Earlier research on Post-*doi moi* development of cooperatives in Vietnam draws a mainly pessimistic picture, outlining that respective rural industrial employment has not increased significantly since the reforms and that many handicraft cooperatives collapsed in the late 1980s and early 1990s. The decrease from 13,261 to 3,761 cooperative entities during 1989-1992 is said to be based on the incapacity of these units to generate sufficient employment and economic output (Hy and Unger, 1998, 81). Likewise, only 10% of agricultural cooperatives were operating profitably in 1994, with another 40% being at the brink of collapse and the remaining 50% said to be only existing on paper. Up until the mid-1990s, cooperatives’ formal institutional development was based on party rules and provincial decrees (Wolz, 2000).

However the Vietnamese government continued, at least legislatively, to further the development of cooperatives during the late 1990s up until today: The first respective law

installed was the Cooperative Law of 1996<sup>36</sup>, which aimed at providing a bigger leeway to cooperatives and their members in regard to the organisation and planning of production. What followed was the 2003 Law on Cooperatives and the 2012 Cooperative Law. These changes might have helped to enable a slight resurgence of this economic segment: In 2009, there were 13,500 cooperatives (about 11,000 in industry and agriculture together) that created about 295,680 permanent jobs generating 5.45% of the GDP. However, according to the Director General of the Cooperative Development Department at the Ministry of Planning and Investment, this latter number still marks a strong decrease from the original 11% of the GDP in 1995 (Nguyen, 2011, 1). Additionally, cooperatives are often perceived as recurring to the financial safety net of the state and the role of cooperatives is often misinterpreted as a competition driven enterprise instead of its ‘actual function’, which is to act as a beneficial structure for its members (ibidem, 2). Especially this latter fact, which also finds emphasis in the two most recent laws on cooperatives emphasises the function of this entity as being rather cooperation based and less competition driven, purely market based vehicles. This feature is reflected in the very strong emphasis on cooperative norms in both cooperative laws (see Figure 3). Nevertheless, also the compromise related norms are strongly embedded in both laws and were increased in quantity from the version of 2003 to the one in 2012. Apart from the fact that there were only two legislative pieces available for analysis, these changes clearly are too small to identify a clear trend, and yet they are somewhat similar to the development we can discern from the previous chapter: The dominance of cooperative norms becomes curtailed so as to make space for competition and compromise based norms as Vietnam is increasingly including market-based principles of economic coordination into its economy.



**Figure 3 Quantification of economic norms in the Cooperative Laws of Vietnam**

<sup>36</sup> Unfortunately, there has been no translation of the law available at the time of writing this thesis.

### 6.3.3 The Laws on Enterprises

We are going to start this subchapter with an analysis of the changing use of norms within the legislation for the private sector and the state-owned enterprise sector. Subsequently, these norm related aspects will be contrasted with data and analyses provided by previous research.

The figures (Figure 4 and Figure 5) on the regulatory framework for private and state owned enterprises exhibit a similar general development tendency, which is the relative increase of all three norms, whereby under the 2005 Enterprise Law those norms indicating compromise and competition have – if taken together – a bigger quantitative weight than cooperation related norms. This supports to some extent the hypothesis of this paper claiming that there is a development trend in the use of norms towards competition, although cooperative norms continue to receive prominent emphasis. The Enterprise Law of 2005, which covers state and private enterprises (Enterprise law, 2005, Art. 171.2) can in this context be seen as exerting a convergent function, which is to guide state-owned and private enterprises under the same norm premises. This is to some extent reflected in the feature that it fits well into the legislative development path of the private (Figure 4) as well as of the state-owned enterprises (Figure 5). From an institutional point of view, both cases however exhibit a trend of an increasingly norm-regulated framework for these sectors.

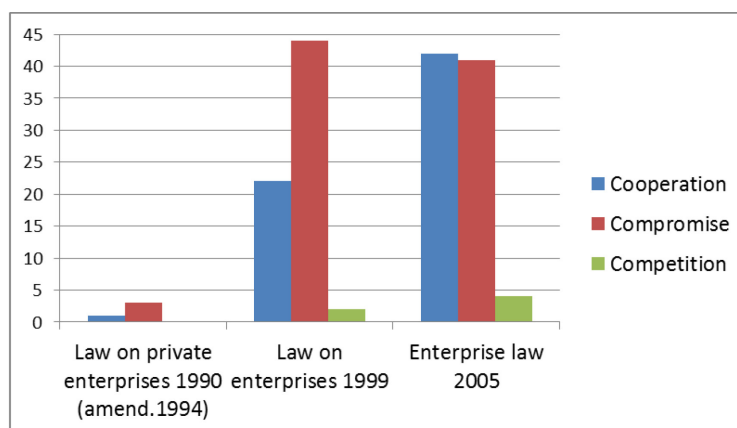
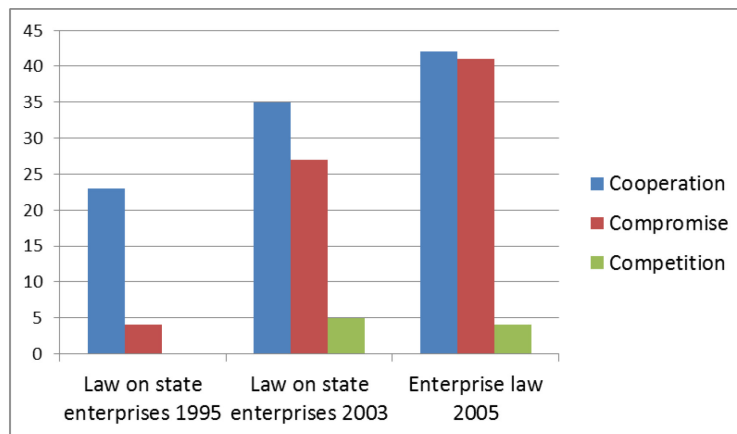
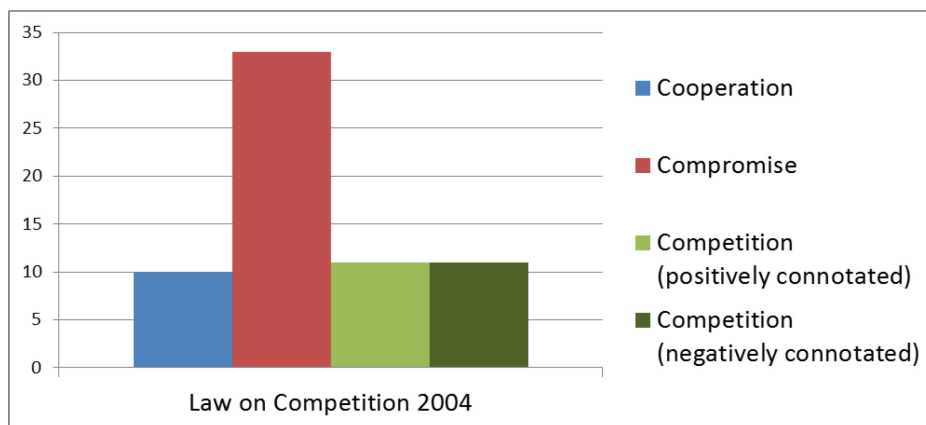


Figure 4 Quantification of economic norms in the laws addressing private enterprises in Vietnam



**Figure 5 Quantification of economic norms in the laws addressing SOEs in Vietnam**

Another significant piece of legislation for enterprises is the 2004 Law on Competition. We shall treat this law outside of the chronological analysis of enterprise legislation since it sets forth a guideline regarding the extent of competition legally allowed for enterprises to adopt in their business activities and may thus carry a quantitative bias towards the norm of competition. However the quantification of the norms in that law (Figure 6) shows an interesting picture: As a matter of fact, the enactment of the law indicates that the government has recognised competition as an important norm for the business segment. However the quantification of the norms in this law show that even explicitly encouraged competitive behaviour becomes balanced by cooperation and compromise related norms. Especially normative injunctions on compromise are taking an outstanding position. Furthermore, the analysis reveals that there are equally much positive and negative connotations of competition in this law. We might read this as a clear hint of the legislators to point out that competition has its negative sides as well. This might in further consequence also explain the very weak representation of competitive norms in the above analysis on laws for private and state enterprises (see Figure 4 and Figure 5): Although in these cases competition was exclusively promoted in a positive context, the very weak emphasis on the norm in these cases might stem from the cautious stance of the government towards competition.



**Figure 6 Quantification of economic norms in the 2004 Law on Competition in Vietnam**

Taking now a look at respective research on the nexus of business operations and their response towards legislation will provide a more elaborate perspective on the issue. The general consensus on the legislative innovations for private companies states that these measures helped to recover and promote private company growth in Vietnam: The 1990 Law on Private Enterprises and its amended version in 1994 spurred the number of registered private enterprises from 414 firms in 1991 over 5,189 in 1992 and 39,180 in 1998 to 45,601 firms in 1999 (Nguyen, 2006, 2; Schaumburg-Müller, 2005, 356). Additionally, registered household enterprises that may employ up to 20 persons increased from one million units in 1992 to more than 1,700,000 in 1999 (Schaumburg-Müller, 2005, 356).

The implementation of the 1999 Law on Enterprises has been considered as the most successful policy among the reforms of formal enterprise management, since it eased the administrative burden companies were confronted with (Le and Harvie, 2010, 3; Nguyen, 2006, 14) and increased the growth impetus in the sector (Dapice, 2001, 7), when measured by the numbers of enterprise registration (Manning, 2009, 8f): Herein, the most important innovation was to allow enterprises to register first before going through the general procedure of administrative checks and verification by the government (Le and Harvie, 2010, 3f).

Although the numbers depict an impressive picture regarding the increase of registered private enterprises, especially since the 1999 Law on Enterprises and another surge in 2005 – maybe due to the 2005 Enterprise law – we should be careful with our judgment regarding the successes created by these legislative innovations: In 2002, there were 63,000 enterprises registered, contributing 53% of GDP, but this number excludes the vast amount of household businesses - around 30 million employees, i.e. 87% of the total labour force – that were not

captured by official statistics since these household businesses were operating outside of the registered framework (Hansen et al., 2004,1). Additionally, it should be mentioned that respective doubts on the correctness of business registration related data during this period have occurred (Hakkala and Kokko, 2007, 5ff).

Also after the 2005 Enterprise law became effective in 2006, the development in the corporation segment further continued along a positive growth trend, with 120,000 private enterprises being registered in 2006 (nearly the six-fold amount of 2000, when the 1999 Law on Enterprise came into effect). It is important to note that a significant share of this increase stems from the formalisation and registration of former household businesses (Malesky and Taussig, 2009, 8f), which were not attracted towards formalisation by the 1999 Enterprise Law. Two years later in 2008, the overall number of firms incorporated under the Enterprise law 2005 made another jump to 150,000 firms and here again formerly unregistered household businesses were the major contributors to this effect. In this period those entities were seen as constituting the fastest growing business sector, as they increased their share of industrial output from 7.9% in 1996 to 20% in 2004 (Gillespie, 2008, 679f). Checking these facts again with Figure 4 on the legislative development addressing the private business sector, the question is whether these increases of registered enterprises have something to do with the shifts in norm use and emphasis that took place along the path of legislative development. If we follow the reasoning of Le and Harvie (2010, 19f), the 2005 Enterprise Law could especially encourage the registration or establishment of private enterprises due to those incentives that were generated by allowing a bigger role of the market for enterprises and the increase in official emphasis of competitive norms – both aspects were explicitly expressed in the 2005 Enterprise law: A later survey in 2007 among private SMEs seems to confirm this fact (Le and Harvie, 2010, 20). A more detailed look on the background of this legislative development reveals two interesting phenomena treated by the NIE and OIE theories, which seemed to have spurred the legislative dynamic for the business sector towards an increased emphasis of competitive norms: There were obviously some forms of value based institutional transplants happening in Vietnam as well as a learning-by-doing and imitative approach on behalf of the Vietnamese administrators, who designed and implemented the relevant laws in the business sector. In regard to institutional transplantation and imitation, foreign donor and investment communities helped to promote a neoliberal paradigm among the Central Institute for Economic Management in Vietnam. This Institute was responsible for drafting the laws of 1999 and 2005 and its members were closely working together and were very well acquainted with foreign donors, foreign investors, and local consultants (Gillespie, 2008, 693f).



Additionally, western legal models were increasingly used as legislative sources for business laws and therein valued components were imitatively embedded from one domestic law to the next – see for example the 1993 Bankruptcy Law, the 1995 Civil Code, the 1997 Commercial Law, the 1999 Law on Enterprises and so forth (Pham, 2005, 76). If we take the above two aspects together, namely the shift of norm use within the laws, vis-à-vis the influence of market-ideology exerted on these laws as well as the growing of company registrations due to an increase of compromise and competition emphasising legislation, it seems as if the top-down strategy to shift towards more competitive ways of economic activities was successfully accepted by private entrepreneurs.

The evolution of legislation addressing state-owned enterprises (SOEs) has been described as a ‘fluid context-driven phenomenon’ with the state forwarding pragmatic policies that were in accord with the country’s national preferences, i.e. policies aimed at making SOEs more efficient (Gillespie and Nicholson, 2005, 29). The first law covered in the above analysis was the Law on State enterprises in 1995, which was issued in a time when SOEs were mainly competing with each other, since the private sector was negligible and when only very little foreign direct investment entered the country. In the early 1990s, some demands by officials were voiced in favour of a stronger regulation of SOEs regarding their market-oriented activities (Fforde, 2005, 243f). However these attempts for curtailment were countered with the enactment of the Law on State Enterprises in 1995: According to this law, SOEs were divided into two groups, non-profit making firms that would cover distributive functions and profit-seeking firms, which were to compete with private and foreign invested enterprises. Generally, SOEs were now given much more leeway in regard to matters of competition that is how to handle production, fixed asset investment, business contracts, and revenue management (Loc, 2006, 39). This privatisation trend continued into the next decade: Fforde (2005, 249f) finds that during the early 2000s many regulations in this field aimed to equitize SOES that is to converse them into public limited corporations in the sense of opening them to new investors. Therefore increasing business efficiency and improving competitive performance has been the dominant issue at this stage (Fforde, 2005, 249f). This dynamic has been upheld and was strengthened in the Enterprise law 2005, which has furthered the *equitisation* of SOEs and has thus been pushing them along an increasingly competitive path. On the other hand, SOEs are still guided by norms of cooperation and compromise, e.g. in relation to their ways of communication with and lobbying of state officials and respective supervising agencies (Gillespie, 2008, 699f). Overall, we may see that competition and compromise related norms have increased their significance for SOEs’

operations, but at the same time their behavioural patterns are still dominated by cooperative norms.

### 6.3.4 The Laws on Investment

Apart from the laws on enterprises, we will use the next paragraphs to cover the aspect of domestic and foreign investment so as to obtain a comprehensive perspective on how capital flows have been directed according to top-down enforced norm preferences. At first sight, the analysis of the legal development in that sphere seems to indicate that domestic (Figure 8) and foreign investment (Figure 7) were subject to diametrically opposed approaches: While domestic investment has become increasingly regulated by normative injunctions in regard to cooperation, compromise and competition, normative injunctions by the state towards foreign investment have diminished. In relative perspective however, we may see that there have only been very few normative injunctions for domestic investment, whereas foreign capital flowing into Vietnam would have had to follow comparably many normative guidelines. In fact the Common Investment Law of 2005 that addresses both foreign and domestic capital movements, works as a tool of institutional convergence: Here again we see a relative shift towards more competition and compromise, with cooperation still receiving the major emphasis.

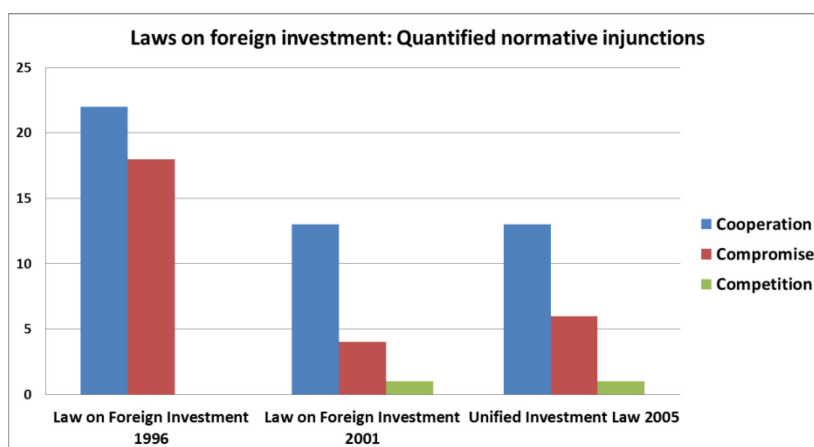
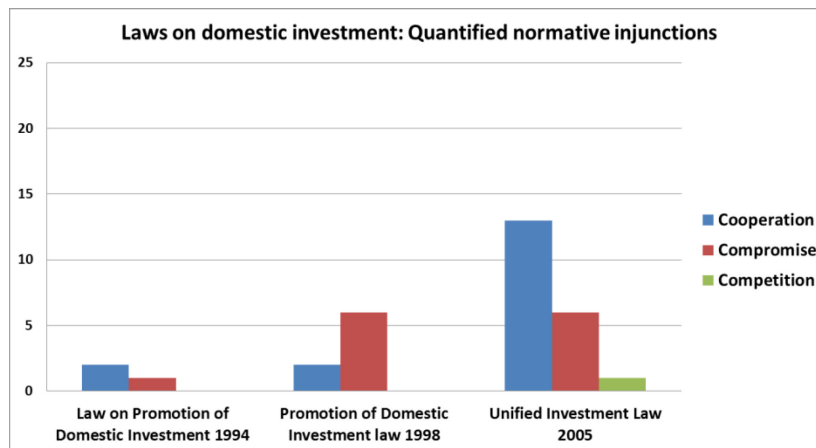


Figure 7 Quantification of economic norms in the laws addressing foreign investment in Vietnam



**Figure 8 Quantification of economic norms in the laws addressing domestic investment in Vietnam**

Consulting previous research on that topic helps to explain the background dynamics that have triggered the above depicted legislative development. After *doi moi* in 1986, Vietnam sought to attract foreign investments so as to provide the capital for economic growth (Gillespie, 2002, 642), which in fact reflects a choice or path also taken by other countries undergoing economic reform such as the PRC. There, foreign investment has been considered as key to the initial reform process (Zhao, 2009, 101-110). As for the case of Vietnam, some attest that economic growth of the SRV since the country's renovation process in 1986 has been fuelled mainly by high foreign investment, which in 2007 still accounted for over 15% of GDP compared to state-owned industrial assets contributing 40% to GDP (Kokko et al., 2007, 12). So if we ask about what happened since the 1980s in regard to institutional evolution, the response would be twofold: On the one hand, supportive investment policies were borrowed or transplanted from Western legal sources and followed the neoliberal paradigm (Gillespie, 2002, 642). On the other hand, this influx of foreign private capital constituted a regulatory dilemma for those in power in Hanoi, who were used to control and plan the economy. Therefore, institutional controls were set up in the 1990s while domestic investment has been incentivised so as to counterbalance these foreign investment flows (Gillespie, 2002, 647f), which had already started to challenge a large number of SOEs that began to incur losses (Loc, 2006, 37f).

According to official statistics, the 1994 Law on Domestic Investment Promotion and its revised version of 1998 were seen as the first successful steps that helped to spur private investment and thus private enterprise growth (Nguyen, 2006, 2, 8). However, some more detailed analyses of the entrepreneurial behaviour patterns during that time find that there has been a lot of hesitation over investments in SMEs and cooperatives, which in many cases

tended to keep the money as a safety net (McMillan and Woodruff, 1999) or, if they invested, tried to rely on informal channels for the acquisition of loans (Freeman, 1996, 191). This to some extent indicates that the formally provided institutional structure has not taken sufficient account of the information feedback conveyed by the practiced norms of domestic entrepreneurs, since it generated no major incentives for these actors to make use of formal lending and investment channels.

At the side of foreign investment during the same time period, legislation is said to have had developed according to the needs and expectations of foreign investors (Day, 2004, 32), especially since the 1990s (Ho and Baxter, 2011, 3), who were in favour of more competitive investment laws (Malesky, 2007, 9). This again did go closely hand in hand with Vietnamese policy makers, who were asking for foreign legal assistance, especially in the realm of investment legislation (Rose, 1998, 94f., 108ff; Gillespie, 2008, 690f). The consequence of these requested legal transfers was the creation of institutional structures favouring foreign investment, which in turn lead to very high increases in productive output of the Vietnamese economy during the second half of the 1990s. During the period of 1995-2000 the foreign invested sector's output increased by 181% compared to the previous decade (Friedman, 2004, 10). The sequence of Foreign Investment Laws were perceived as extremely welcoming by investors so that even after the Asian Financial Crisis in 1997, FDI only declined for a short period, just to pick up even stronger in the following years (Dinh, 2009, 50f). In fact, securing foreign investment appears to have become an integral part of the Vietnamese economy: In the early 2000s, the Vietnamese Prime Minister for example stated that 'all foreign businesses... are an integral part of the Vietnamese economy' and regarding these he added that 'if you fall loss, the party will suffer' (Pham, 2004, 32).

The hitherto latest development is the 2005 Unified Investment Law that aimed at levelling the playing field between domestic and foreign investors and extensively minimised the degree of administrative intervention – a step that has been described as a veritable milestone in investment legislation (Yu, 2008, 29; Vo and Nguyen, 2006, 14f). The increase of competitive features that have been introduced via this law followed the logic of the early 1990s, namely to support foreign investment and improve the general investment climate in Vietnam (Dinh, 2009, 48). As mentioned by Vo and Nguyen (2006, 15) this latest law follows an evolutionary path in as far as it had taken up those key features of the 1998 Law on Domestic Investment Encouragement and the 1996 Law on Foreign Investment, which were favoured by the domestic and international investment community. So in general the above

said tends to confirm the hypothesis that the top-down norm and value related preference is to reduce cooperative norms vis-à-vis increasing compromise and competition related norms. However for the case of investment, we need to note that this shift has been pushed strongly by foreign, pro-market forces that were in favour of more competitive norms in respect to the institutional frame managing investment activities.

## **6.4 Discussion on the Evolution of the Formal Institutional Setting**

What can we take away from the analysis of the shifting normative injunctions that are characteristic to all above legislative realms? Other than what has been elaborated in the methodology chapter, we cannot identify a *strictly linear* change of the state preferences in terms of the norms promoted in the legislative pieces: There were no cases of legislative evolutions, in which cooperation related norms were in their entirety abandoned and substituted by competition related norms. Such a development would equal an entire change of the institutional character from one side to the other side of the spectrum, and would thus mean the exchange of the entire economic value system. Rather than that, we can witness a *relatively linear* development, wherein some cooperative aspects were gradually reduced in favour of the adoption of compromise and competition related norms. Never the less, the above analysis covered many cases in which the legal development followed a path of shifting back-and-forth, along which for example norms of cooperation are initially reduced just to become re-strengthened later. Such is very reminiscent of a trial-and-error approach, where experiences made along an evolving process determine whether a certain path should be continued, become partly reversed or entirely replaced. Overall it seems that these legislative developments in Vietnam's business sector feature an approach that generally continues a trend towards compromise and competition, in which ideologically socialist values become sometimes bolstered by re-introducing cooperative values so as to enable a balanced transfer of the institutional structure. If that is to be the story behind the legal development in the above presented cases, then the quantification of norms can tell us something about the institutional shaping and moulding of the path that has been chosen for the transformation of the economic system. In some instances this happened in a linear fashion and in others it followed an oscillating mode, where – in terms of traversing from one side to the other – too much 'forward' (i.e. competition) has been smoothened by returning a little 'backward' (i.e. cooperation).

The analysis of norms in this chapter stands for the first part of investigating Vietnam's business development, which is the treatment of the formal institutional realm, i.e. the codified rules of the system. The second step in each subchapter consisted of treating the informal reaction of business entities to the norm-changes in the formal institutional system: How did these business entities perform (differently) under the changing legislative superstructure? Cooperatives, a segment insufficiently covered by non-Vietnamese research literature, for example exhibited a recessive tendency of economic performance, which has been in parts linked with the weak or inadequate legislation (Nguyen, 2011, 1-5). It cannot be established, whether this correlates to the norm related emphasis on cooperation and compromise in the legislative work. In regard to other types of enterprises the results are mixed: On the one hand we had seen an enormous increase of registered companies over time, which were actively responding to the legislative promotion of competitive norms (Schaumburg-Müller, 2005, 356). On the other hand, SMEs or more correctly household enterprises, which in 2004 comprised around 87% of the workforce seemed to be less attracted to walk along the path of formalisation (Hansen et al., 2004, 1). Was the top-down enforced, norm structure by the state not accommodating their needs? A hint forwarded by Gillespie (2008, 685f) claims that SMEs operate on a very different norm basis, which is to interact upon values of trust, loyalty and benevolent sympathy. Formalised top-down enforced rules or norms for that matter were seen by SME entrepreneurs as generating distrust and thus disturbing the habitual interaction structures, which are perceived as requiring a gradual bottom-up evolution. This would in fact speak for the explanatory effectiveness of the OIE perspective, which rejects the NIE's approach, that is, to emphasise the feasibility of transplanting institutional structures across cultural territories and thereby generating economic efficiency. On the other hand, successes in regard to the transplantation of international rules to Vietnam, has been exemplified in the development of investment laws for foreigners. Herein we see a strong tendency of alignment of these laws with international standards, especially in respect to foreign actors' preference for competitive norms. Domestic SOEs however were very much excluded from that process (Gillespie, 2008, 686) and in fact they seem to have profited only very little from these legislative transplants: Rates of foreign and domestic investment do indeed have exhibited a pattern of continuous growth, whereas investment rates by SOEs were slowly decreasing over time (see Figure 9).

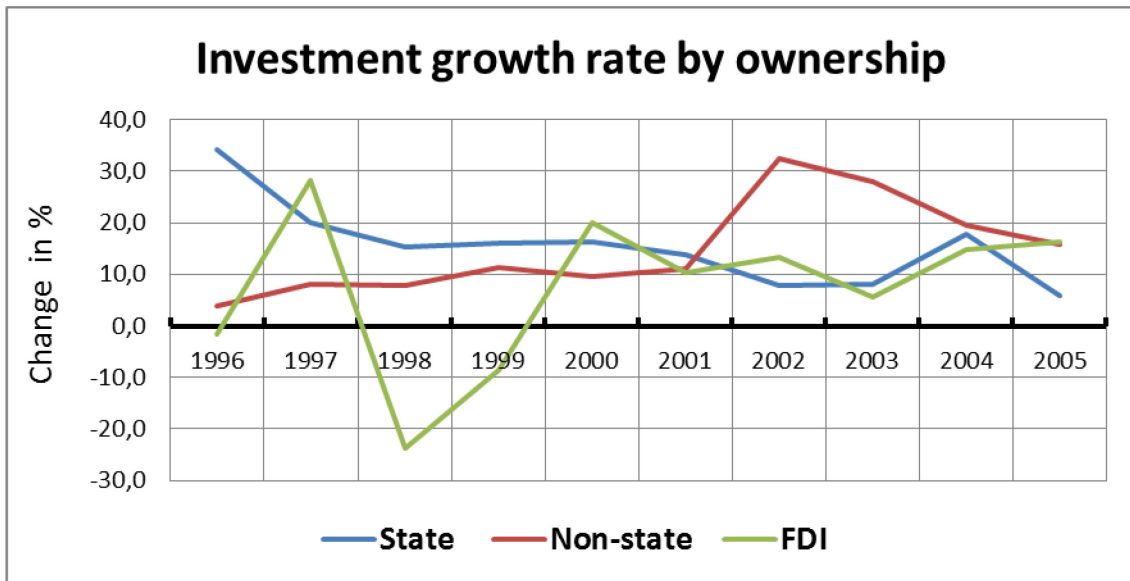


Figure 9 Investment growth rates (the author, based on Vo and Nguyen, 2006, 17)

To which extent the formal norm based institutional orientation in matters of business and agriculture has been adopted or rejected by the Vietnamese citizens for the realisation of their needs and wants, will be subject to the analyses of the following chapters.

## 7 The Evolution of Norm Practices in Agriculture

### 7.1 Introduction

Over the centuries, Vietnamese agriculture has developed a very intricate system of rules and norms on how to cultivate the lands and integrate working actors within the commune into agricultural production. This evolutionary development of institutional structures can be best described as a bottom-up process (Kervliet, 2001; Fforde, 2009a). In the 20<sup>th</sup> century however this bottom-up processes became object to profound modifications and challenges generated by the rigorous top-down regulations of the CPV. The reasons for the vast changes in agriculture during the last century, can be explained from an institutional perspective as (1) a transplantation of institutions to Vietnam from abroad and (2) a systemic change of evolutionary evolved, bottom-up structures through the top-down imposition of new rules by the CPV. This competition between two systems has been initiated in the 1920s and 1930s (see chapter 0) in the north of the country and has since unification continued along southwards. This process has exhibited many twists and turns and the following chapters will analyse how bottom-up and top-down forces interacted with each other, which norms were decisive during this conjuncture of two sides during the last 50 years of the 20<sup>th</sup> century and to which extent state and non-state actors could realise their economic goals.

Looking at the traditional cultural heritage of agriculture we can find that there exist several concepts relating to the three norms of cooperation, compromise and competition: Ho Chi Minh has for example reflected on the traditional system of communal cultivation of land in Vietnam. According to the traditional perception, the Emperor Hoang De has instituted the *tien dien* system by which communal land was divided into nine equally sized parcels, of which eight were shared among the members of the commune whereas the last, the major part (not less than one quarter of the entire area), was being collectively cultivated for the benefit of the entire commune. From each of the private plots around one quarter was reserved for the commune, for that it could be divided among the commune every three years providing a piece to every new member. The other three quarters could be sold within the group. Thus, the system allowed for some to become rich and simultaneously enabled a certain safety net for the weaker members in the group (Brocheux, 1983, 792). What this depiction clearly shows is that collective or cooperative norms existed side by side with competitive norms in pre-communist Vietnam: The latter representing ways of realising and pursuing private needs and wants, whereas the former acted as a kind of superstructure that would ensure the survival of the community by bringing together the group's factors of production namely land and labour.



## **7.2 Top-down Enforced Collectivisation in the 1950s**

This traditional structure and its mechanisms were bound to dramatic change in the 1950s, when the first agricultural collectives were set up in the north of the country. According to the ideals of the CPV, collective farms were to be established in rural areas, effectively managing – via their local representative organisations – the cultivation of farmland, thus competing with and then substituting private and household farming systems in the rural areas. The major reason for this top-down enactment of institutions was based in the conviction that collective and cooperative farming activities would according to the concept of economies of scale generate a bigger output that would be easier to coordinate. The urgency behind the implementation of this concept originated in the increased resource necessity to uphold the war against the colonial power of France and then later to maintain the struggle for independence against the USA (Kerkvliet, 2001, 8). This in fact can be seen as the first steps towards a system of top-down enforced cooperation, which actively negated the traditionally embedded, private-competitive practices that had evolved over centuries in the countryside.

What state-actors were indirectly doing when they implemented collectivisation was to exploit the cooperative sense that existed within rural communities by forcing peasants to abandon their traditional practice of norms and give-up their possessions for the greater ideals of the country: This clearly marks an attempt by the leadership to align the characteristics of an economic goal in a way that it becomes non-rival and non-exclusive for state and non-state actors alike. Initially in the early to mid-50s agrarian reforms were conducted and land was allocated quasi-equally among the peasants. This trend was however reversed in 1955-57 when collectivisation began (Kervliet and Selden, 1998, 40f): The means of production including land, livestock, tools, irrigation facilities and so forth were collectivised by specialised teams and cooperative leaders, who would then oversee the collective production process. Very similar to the PRC, this political measure was thought to generate bigger outputs according to economies of scale, which could then be channelled into the industrialisation of North Vietnam. But this control over the rural means of production was also considered vital by the leadership so as to stand a chance against the US forces and the South Vietnamese forces. The dynamic behind this forced cooperation however led to ever bigger agro-economic entities with more and more actors requiring top-down allocation to specific activities (Kerkvliet, 1995, 401f). How did non-state actors in rural communities respond to these developments? According to what we can gather from preceding studies, villagers felt alienated by this assignment to work with and on something that didn't belong to them anymore (Fforde, 2008; Fforde, 2009a; Kerkvliet, 1995) and even those, who had

received land and power in the land reform due to expropriation of landlords and rich farmers were dissatisfied simply by the means how these measures were implemented: On the one hand this interruptive intervention into the rural economic system was disapproved of by non-state actors, and on the other hand, the new cooperative leaders – former poor peasants – did not received the popular support, which the CPV expected to generate with its methods among the rural population (Moise, 1976, 86). Furthermore as Kerkvliet (1995, 402f) depicted, large agrarian cooperatives alienated the community: According to his interviewees – rural peasants in northern Vietnam – collectivisation initially led to increased prosperity due to better organisation, but then plummeted into disaster, when size and complexity overwhelmed the concept of top-down enforced ideals. General objections of the peasants against collectivisation were the little or not-existing incentive to work, since tasks were rewarded equally and not measured by their respective output. Collective property was not cared for sufficiently, giving rise to tendencies of privately using collective property as much as possible for private sideshows. Food in general was sparse, of not sufficient quality, and only the justification of the war kept people to continue working within the collective. What finally turned the tide against the collective system in agriculture was the abolition of private markets for vegetables and livestock since the late 1950s: These exchange infrastructures have traditionally helped communities to make ends meet by selling their surpluses against other necessities. These factors combined made rural agrarian communities hostile against collectivisation (Kerkvliet, 1995, 404) and possibly initiated the bottom-up informal competition with and challenge of the state's norms. For starters, markets did not vanish, but they became informal and underground: Initially tools and crops were illegally transacted at black markets by the peasants of agricultural cooperatives. Later in the 1970s, after the state had recognised their necessity for agricultural production and their persistence due to the effective exchange mechanism, state-actors were increasingly giving in to markets (Kerkvliet and Selden, 1998, 40f) as a compromise for upholding the collective system.

The opposition of non-state actors to the implementation of the collective system in agriculture was strong, already so in the 1950s, which in turn lead to diverse forms of informal resistance and challenge by the peasants: What served as a starting point was the daring of individuals to extend their private farming land beyond the official five percent limit. The therefrom derived yields did in general exceed the gains from the collectively cultivated land by three to four times. Driven by discontent, peasants enlarged these areas at the cost of the collective land, put more efforts in their private farming activities and did only moderately contribute efforts to the collective, but instead focussed on their individual

parcels. By the late 1970s, villagers in the north derived about 60-75% of their income from these private plots, which had extended from the original 5% to something between 7-13% (Kerkvliet, 1995, 404ff). What can be discerned from these developments is that non-state actors achieved their goals by simultaneously employing practices of competition and group internal cooperation against top-down enforced cooperation: On the one hand they actively worked against the formal system by adhering to informal norms, e.g. the use of markets and the extension of private farming. On the other hand, non-state actors actively worked together in their challenge of the system: Private, informal digressions away from the formally allowed norms, would not have succeeded, if it were only pursued by a minority of individuals, who in turn would have been sanctioned by the larger community. In reality, such private informal activities were practiced by several, if not the majority of actors in northern rural communities as has been shown by the numerous interviews of Kerkvliet (1995; et al., 1998; 2001).

### **7.3 Waning Rigidity of Formal Norm Enforcement in the 1960s**

How did the state and the party react to such informal norm patterns that emerged as a response to the formal rules and norms? If seen from a comparative perspective, than the formal institutional system in Vietnam remained relatively laidback to such informal deviations. In fact, the formal institutional structure in agriculture was never as rigidly implemented as in the PRC, where exceptions to the rule were hardly accepted before the reform and opening process in 1978/9 had begun. As mentioned earlier, collectivisation in Vietnam did not entirely abolish private cultivation of farmland since it allowed for 5% of the entire area to be privately farmed, which has been officially seen as a compromise to the peasants for their contribution of national liberation (Le, 2009, 169f). Beyond that, participation in the collectives was handled in terms of a voluntary membership during the early 1960s and withdrawal from the cooperatives was accepted by the party. Reasons for this official stance towards compromise at the local-rural level mainly stem from the economic dependency of the party on the peasants regarding their support for the war in terms of food, troops and even financial support (Moise, 1976, 88), which the party leadership did not want to risk and thus allowed for a bigger latitude to informal or household activities of the peasants, who in turn enjoyed a bigger bargaining power (Kerkvliet and Selden, 1998, 47). Never the less, peasants on the other hand, became increasingly opposed to the collective system and competed ever more fiercely and yet indirectly with it. A widespread perception on their side – which may explain why non-state actors didn't compete directly and revolted against collectivisation – was that outright opposition could be seen as unpatriotic and thus as a stance against the interests of the many. Peasants' response instead aimed at obstructing the

proper workings and effective production within the cooperatives (Kerkvliet, 2001, 9; Fforde, 2008, 7-10). Simultaneously during the 1960s, there was no uniform consensus within the party leadership itself on how far collectivisation were to be enforced, at which pace it should be implemented and on whether household based farming should be further allowed or not. The reasons for this debate within the party can be explained by a bottom-up information feedback, that is, the response of peasants to local officials in direct discussions or via mass organisations and other official channels. What this feed-back of such complaints helped to create was in fact a certain norm or rule change: Beginning with the 1960s, the impetus behind collectivisation began to be turned down by officials, as they were beginning to realise the divergence between what has been planned in theory vis-à-vis what was actually unfolding in reality in the attempt of collectivising agriculture (Kerkvliet, 2001, 8). This informal decision at the side of state actors should be identified as a bottom-up induced learning process.

#### **7.4 The Receding Collectivisation Process and Bottom-up Induced Compromise in the 1970s**

In the course of the 1970s, the failures of enforced cooperation in northern Vietnam's agriculture became increasingly visible to an increasing number of state officials, mostly via official and unofficial reports that in turn lead to even more questioning of the rationale of such measures among these state-actors (Kerkvliet, 2001, 8): In this case, the information feedback chain was obviously working, simply by means of reported numbers on falling production rates and idle cooperatives that were communicated to the political leadership. A further political imperative for agrarian economic policy making resulted from the military successful advances of the North Vietnamese army towards the south of the country. However, attempts to collectivise the newly integrated southern areas were met with direct resistance from peasants, who tried to hold on to their private plots and individual farming practices (Kerkvliet and Selden, 1998, 51). The opposition in the South even continued after unification in 1975, when further attempts to push agricultural cooperatives achieved only little success: From the mid-1970s onwards up until the initiation of *doi moi*, only 5.9% of farmers in the Mekong Delta and 15-20% in the south-eastern region had actually participated in such agrarian cooperatives (Do and Iyer, 2003, 4; Hy and Unger, 1998, 61ff).

To which extent can these developments explained against the background of a theoretically rigid formal system? Firstly, state-actors did refrain from putting any force into the collectivisation process in the south as they have learned from earlier mistakes in the north

of the country (McCarty, 2001, 10). Secondly, after reunification the government of Vietnam was very reluctant to implement new rules in the South that would fully contravene the agro-economic realities in that area as it feared major revolts in that area (Kerkvliet, 1995, 414), that would strengthen refusals to cooperate and thus entail outright competition with the formal system. Collectivisation therefore had to be achieved by piecemeal methods of trial and error, which however seemed to have failed if judged by the low numbers of agrarian cooperatives established before *doi moi* (Hy and Unger, 1998, 61ff). Finally, peasant farmers in the Mekong Delta functioned as important suppliers for the informal economy, i.e. black markets that were producing food for Ho Chi Minh City. Thereby they nourished the vast urban population and advanced the petty-enterprise sector that produced urgently required consumer goods. Both of these tasks could not have been provided by the newly established administrative in the south (Freeman, 1996, 190). Thereby maintained market economy elements in the South were definitely not ideal in the sense of state-actors since it represented a competitive systemic approach to their top-down enforced norms. Moreover, officials in many rural areas were urged by the peasants to deviate from the formally institutionalised set of norms: Demands for compromises were voiced in regard to higher procurement prices of cooperatives' outputs as well as for the allocation of work away from the cooperative to private households: On the one hand grain prices were extremely low so that farmers simply refused to sell their staples and thus forced state-actors to cooperate in terms of adapting the price to a level that was more beneficial for the peasants. On the other hand, villagers demanded from collective brigade leaders to outsource collective land and works to private farms in order to achieve better production levels needed for maintaining a decent levels of subsistence (Kerkvliet, 1995, 410). What this seems to prove is that compromise had been achieved due to complementary characteristics in the economic goals state and non-state actors strived for: Both sides tried to achieve a growth of output in agriculture for their respective benefits. Furthermore these developments indicate that bottom-up enforced cooperation together with information feedbacks initiated a learning process that changed the norm practice at the part of local state actors, who accepted the demands of non-state actors, even without asking higher leadership levels as depicted by Kerkvliet (1995, 410).

This learning process at the side of the lower administrative levels in north and south Vietnam also extended to the higher echelons, especially after the additional experiences made in the South since the mid-1975s: Vietnam's leaders increasingly began to ponder on whether efficient agricultural performance would actually need to allow household based production (Kerkvliet and Selden, 1998, 48) and ongoing disagreements in the late 1970s

slowly initiated a path away from the rigid formal institutional conception (Kerkvliet 2001, 8). After punishments of disobeying officials, who challenged the state's norms and rules on agriculture and tolerated deviations, did show only very little effects, the official stance was to make increasing concessions to the villagers in the late 1970s, such as the backing away from collectivising all of the animal husbandry of farmers and quietly acquiescing the extension of private farmland beyond the 5% limit. Especially in regard to southern farmers these steps were taken to try and re-invigorate the piecemeal collectivisation process and to lull these farmers into cooperation – any yet these measures failed (Kerkvliet, 1995, 408), leading cadres to adopting a more compromise based approach for interacting with the peasantry's economic system: In the South a practical contract system was amended to the collective systems, meaning that privately owned capital goods such as water pumps and small tractors as well as services themselves were lent on a contract basis to the agricultural cooperative (Hy and Unger, 1998, 61f). Seen from their institutional nature, these contract systems do astonishingly resemble the production output contracts later introduced in the early 1980s, wherein all surpluses to a contracted output could be retained for private use (Do and Iyer, 2003, 4). In the north of the country, a similar system, the so called 'sneaky contracts' *khoán chui* had gradually emerged in the provinces Ha Bac, Ha Nam Ninh, Ha Son Binh, Hai Hung, Hai Phong, Nghe Tinh, Phu Tho, and Vinh Phuc. As a resemblance to the southern model, certain tasks such as pig-raising or growing vegetables were outsourced to private households by the cooperative team based on non-codified contracts. Moreover, peasants often forced production teams to allow for such contracts since it increased the entire communities' agricultural output. Therefore, and because authorities put a blind eye to such practices, sneaky contracting was maintained as an informal way to buttress the collective system (Kerkvliet, 2001, 9). Such sneaky contract systems did in fact yield extremely high returns, as in Hai Phong province were more and more land was transferred to private farming, and was finally serving as one of the leading models for formal reforms in the 1980s (Kerkvliet, 1995, 407).

## **7.5 The *doi moi* Renovations: Formal Changes at Micro and Macro Levels in the 1980s**

The developments of the preceding decades culminated in two specific events in the 1980s: Firstly, the realisation of the CPV that the collectivisation system had failed leading to initial, formally sanctioned reforms that aimed at reallocating tasks away from the agricultural cooperatives back to private households. Secondly, the fortification and embedding of

informal norms and behaviour patterns was continued by the peasants, which increasingly muscled state-actors in a compromise for more leeway to private, out-of-plan economic activity.

As farm production and living conditions for the rural population stagnated in the 1980s – at a time when the country was stricken by natural calamities – the CPV came to realise that agricultural reforms were unavertable if the party wished to maintain its legitimacy: Meeting the people's needs and wants were seen as crucial for their further existence (Un, 1998, 1). This came at a time when informal arrangements between private households and the agrarian cooperatives had reached an all-time high with 7 - 20% of collectives' lands in the entire country being cultivated by private households (Kerkvliet and Selden, 1998, 43). This has been perceived by cadres as the only way to substitute for the shortcomings of collectives and in fact the informal system had forced a compromise upon state actors as informal and market based activities sustained the operation of the agricultural and in parts the industrial segments of the economy (ibidem, 43f). As for the very dire cases of agricultural performance in cooperatives, investigation teams of the central government identified among the reasons for failure that private activity had been completely suppressed, whereas in other localities which were better off, the private system was actually acquiesced by local cadres. In some of these cases the peasantry actively supported their local leadership, since they had implemented an incentive system aiming to include private production for the sustaining of the agricultural cooperative (Rose, 1998, 100).

The competition stemming from the informal system that was directed at the formal-institutional economic framework can be seen as immensely though, if measured by the gains that private actors derived out of the former: Incomes obtained from informal activities had reached 42% in 1959, increased to 54% during 1966-75 and peaked at 61% in the early 1980s (Hy and Unger, 1998, 64f). This meant that non-state actors did actually successfully pursue their needs and wants by adopting and following competitive norms, which other to the typical conception of actor behaviour in a market economy was not directed at their fellow competitors, but at the formal system. And this opposition seemed to have finally born fruits, when the first formal top-down permission for private activity was instituted in 1981 – the 'contract 100'.

The general concept of this new formal institution aiming to improve agricultural production was to implement contracts at the commune level that would allow individual households to privately cultivate idle land that belong to the cooperative as long as the

operations of the cooperatives were maintained (Kerkvliet, 1995, 396f). These contracts were to last for one year and although outputs beyond the contract could be kept by the households, the respectively transferred rights were only rights of *usus*, while *usus fructus* and *abusus* rights still remained at the cooperative level (Marsh and MacAulay, 2006, 2f; Kerkvliet, 1995, 410). This decision, which was made by the Central Committee, not only stemmed from the perception of continuously spreading ‘sneaky contracts’, but also from the prior decision to encourage local enterprises to get their agricultural products directly from farming cooperatives that due to a lack of productivity had to be supported by alternative means, i.e. private farming. The question of whether this formal decision is based on imitations of the experiences made in the course of economic reforms in the PRC with the household responsibility system has been negated in interviews conducted by Kerkvliet in the 1990s (1995, 410). However the author indicates that there definitely was a learning effect within the party centre, as parts of it became aware and thus wanted to further the economic success, which had been achieved by the ‘sneaky contracts’ system. In fact, reformers within the party centre were willing to accept such a compromise between originally opposed economic systems since they had permitted experiments that followed a heuristic nature, a kind of planned trial-and-error at the local level: Success was proven near the important city of Hai Phong, which was industrially important and, at that time, in the course of an immense build-up process. The nearby Hai Phong commune – with a relatively poor agricultural cooperative – had tested the contract system with 100 hectares cultivated by households and due to successes generated in the Hai Phong commune the surrounding communes subsequently adopted the same scheme by imitating – all based on formal approval. Never the less, this system could not yet fully overcome the burden collective farming had caused for agricultural production and experiments were bound to continue, due to the fact that peasants increasingly started to turn against the cooperatives, and were at that point directly competing with the cooperatives by means of private production activities that started to go beyond the boundary of the contracts (Yu, 2008, 7ff; Kerkvliet, 1995, 410-413). Clearly, the rural, non-state actors demanded even bolder reforms and due to their successes the bottom-up employed norms had grasped momentum within the formal institutional framework.

## **7.6 The Evolution of Norm Practices after *doi moi***

### **7.6.1 The Heritage of Reforms in Agriculture**

In 1986, this continuous path of learning, imitation and success on behalf of the side of non-state actors in agriculture culminated in the official *doi moi* reforms that primarily began in



the agricultural sector. The reason for this might not only have stemmed from the many issues discussed above that made improvement an absolute imperative, but also due to the fact that the sector contributed 40% to Vietnam's GDP and 70% to total employment at the time. A direct consequence of the state's concession to bottom-up demanded reforms was a strong growth in agriculture that later in the early 1990s would achieve annual growth rates of 4.8% and thereby ranged about one percent higher than average growth rates for agriculture in the East Asia and Pacific region (Balisacan et al., 2003, 1). Major subsequent steps in agricultural reforms were the 1988 Land Law, that fully transferred *usus fructus* and *abusus rights* from the cooperative to the households. The amended 1993 Land Law also permitted the *ius abutendi* to households. These developments as well as the abolishment of any price control and the permission to freely vend their products on open markets (Yu, 2008, 13f) indicates an acceptance of the formal side to cooperate with the needs and wants of non-state actors in agriculture. This is very much the contrary to the isomorphic efforts Fforde (2008, 5f) has ascribed to the top-down governance of the CPV during the 1950s up until the mid-1970s, when the main objectives were aimed at *enforcing* cooperation via the method of collectivisation and realising a planned economy. At least in post-*doi moi* Vietnam, state and non-state actors in agriculture encountered each other at a similar and yet very different power level than they had at the outset of the nation building process in the early 1920s and 1930s. On the one hand, cooperation once again seemed as the necessary norm for the continuation of the interaction between both sides, on the other hand competition between norms and ideals of both sides were soon going to fall into disagreements in the 1990s over how far privatisation of land use rights should go.

### **7.6.2 Protests over Land Rights and against Privatisation in the 1990s**

The gradual ending of collectivised agriculture must not be interpreted as a perceived victory of farmers chasing the party or the state out of rural communes: In fact, Kerkvliet (2001) emphasises that peasants were very much interested in cooperating with the state on such issues as public security, loans and credits, subsidies for production and so forth. Their refusal of collectivisation should actually be seen as a rejection of having to follow an overly rigid and controlled production system in agriculture (Kerkvliet, 2001, 10). As discussed above, such rejection was met with the gradual acceptance of informal norms by state-actors in the course of three decades and in the 1990s the perception of these state-actors was that cooperation with the peasants in regard to agricultural production should from then on follow the formal rule set. In fact, Fforde (2008,6) describes the position of officials towards

agriculture as expecting that bottom-up developments would now automatically adhere to the formal institutions. This may be interpreted as a demanded trade-off for the *doi moi* reforms and the desire to maintain a grip over agricultural production after having allowed for more marked-based activities in that sector.

As a matter of fact, this attitude of state actors did again fall back into the pattern of dictating norms to non-state actors. In other words, it again meant a side-lining of the crucial information feedback mechanism, which on several occasions during the previous decades helped to exchange positions between both sides, i.e. when farmers indicated how they want to achieve their economic goals towards officials, and upon which the officials reacted by providing a leeway to farmers for their productive activities. Such dynamics of interaction helped to improve local conditions and enabled the mediation of competing interests before and during the reforms of the 1980s. The following example of institutional misalignment in the 1990s however will show that there were cases in which proper feedback channels were lacking: In the mid-1990s the Vietnamese central government – its majority now being fully convinced of privatisation and market based activities in agriculture – made the probably unfortunate decision to implement an institution (the 1993 Land Law) that would allow for the transfer of land among private actors. Although the law would allow poorer households to sell their land in times of hardship, the danger instead perceived by peasants was the risk to become landless and thus fall into a poverty trap. The subsequent response to the law was that many villagers opposed such top-down privatisation due to reasons of their adherence to traditional norms of land management, according to which a periodic redistribution of land would maintain a certain degree of equity among the community (Kerkvliet and Selden, 1998, 51f). By this mechanism, land would neither be sold beyond the community and poverty could be curtailed by basic redistribution of its parts to poorer or new members in the commune (Brocheux, 1983, 792). The decision to challenge these new pro-market, top-down enforced norms can be explained by the strong sense of cooperation and community between the peasants, who lived within a context of being tightly-knit and related together by marriage, implying that the loss of the few could mean the loss of the many in these communities – national directives that aimed at dissolving these structures were thus met with oppositional response and challenges (Hy and Unger, 1998, 92). Here again economic goals of state and non-state actors were diametrically antagonistic: The 1993 Land Law aimed at the privatisation of lands so as to increase productivity at the national scale, whereas the peasants tried to keep the land within their commune so as to generate a certain socio-economic safety net.

As for the case of 1996/7 that occurred in Thai Binh and parts of Ha Tay province, the intensity of opposition by the peasants to the new formal norms, reflected in the 1993 Land Law, was not directly targeting the formal system itself. Moreover, the law allowed for illegal norms that in this example manifested in corrupt behaviour of local officials, who expropriated farmers of their land. These farmers in turn felt they were not properly compensated for their loss and thus staged violent protests designating corrupt practices and illegal imposition of fees and taxes (Quan, 1998, 326; Un, 1998, 3). The dimension and the violent results - half of the province's 260 sub-districts experienced peasant demonstrations, 10,000 demonstrators even gathered in the provincial capital in May 1997 and it came to clashes with the police that ended up in open violence and the burning of local offices (Kerkvliet, 2001, 13; Un, 1998, 3) – are very clear indicators that after the *doi moi* reforms, formal institutions could instigate a very dangerous situation of competing norm sets within an increasingly market-coordinated context: The officials' practices were motivated by personal monetary rewards (Un, 1998, 3), whereas responses by the peasants expressed a desire to preserve their communal existence based on cooperative cultivation and handling of the land. What can be gathered from this case is that even after the reforms had taken place with state-actors at the central level apparently having grasped the bottom-up information feed-back mechanism, the introduction of more market elements in the economy would now allow for new forms of competition between actors that from this point on started to take place at a bigger and more open level.

### **7.6.3 The Increase of Informal Norm Practice at the Expense of the Formal Norm System**

This pattern of competing interests in agriculture, where the formal institutional system attempts to supersede informal norms continues further in the 21<sup>st</sup> century. The state after being embarked on a path towards a 'controlled free market economy' has instituted respective institutional changes, but for foreign observers 'internal contradictions' were far from being resolved. Similar perceptions are shared by state-actors in Vietnam, such as the General Director of Land Administration in 2001, who admits that socio-political issues in agriculture are further continuing after the Land Laws as these are threatening the overall stability of the country (Marsh and MacAulay, 2006, 12). The reasons for that seem to stem from the fact that top-down enforced institutions were not yet tailored to fit the bottom-up dynamics of informal norms, which Kerkvliet (1995 and 2001) ascribes to the social, cultural and historical heritage that affects the current economics of land policy. The pressure exerted

by the peasants addresses the issues regarding the usage and handling of the land and its respective rights. For them, the formal legislative structure was in some respects too restrictive in terms of use rights and in other respects too permissive and not providing any safe-guards in terms of land acquisition (Marsh and MacAulay, 2006, 12). In regard to the restrictions, we may find that the state by means of administrative interventions tried to increase the efficiency of agricultural production: Cultivation and farming was thereby determined according to what would generate the highest yields, such as rice planting for southern areas, which in turn could be sold as exports and generate high incomes for the national product. Peasants started to compete with these concepts by converting their production, e.g. from rice cultivation to aquaculture, which for them would promise a higher personal income (Markussen et al., 2008, 6). In this specific case, the bottom-up attempt to pursue individual economic needs and wants was acquiesced by official-actors due to positive responses that came from the market, i.e. a higher domestic demand for such food products (Markussen et al., 2008, 10). Other authors found similar examples of such bypassing and pushing back of official institutional guidelines, especially in the case of land transfers, which the central government continuously attempted to formalise (yet according to their ideals) (Yu, 2008). The state's appeal to peasants, namely that such transfers aim at increasing agricultural efficiency are met with resistance on behalf of the peasants as depicted in a case in the south of Vietnam: At formally organised land trading sessions, two-thirds of the attending peasants were, rather than selling or buying land, looking for partners that would help them to exploit their land more effectively (Marsh and MacAulay, 2006, 13), thus implying that they aimed to find specific cooperative means so as to advance their needs.

To some extent the state established specific institutions that aimed at fulfilling the needs of non-state actors in agriculture, e.g. by instituting loans and Land Use Credits using the land of the debtor as a collateral. By employing party-affiliated organisations at the commune levels, state-actors actually tried to support, help and cooperate with non-state actors via the provision of tailor-made household credits. However, such measures did not prove to be effective, i.e. actual credit accessibility in rural areas was not facilitated. On the contrary, it seems as if non-state actors are rather tending to take informal credits from informal money lenders or relatives and friends (Kemper and Klump, 2010, 5). This on the one hand exemplifies that competition between the formal and the informal system is also featured in service sectors related to agriculture. On the other hand, we may also discern that non-state actors in that field look for cooperative means to realise their goals, and these means are based systems featuring high degrees of trust. Trust structures in rural areas extend beyond

kinship and relatives to neighbours and even assistance groups that continue to exist within the commune in the 21<sup>st</sup> century. Street Associations, that have been oppressed or formalised during the collective period, were again revived in the post-*doi moi* period in rural areas via bottom-up efforts. Their functions are not only related to maintenance works of local infrastructure, marriage and funeral ceremonies and socio-economic safety nets, they also extended to services such as credit provision and basic economic support (Adger, 2000, 753). These assistance groups do in fact also serve as safety nets when peasants lose their farming plots in times of crisis or because of forced sell-offs (Hy and Unger, 1998, 77) and in general such groups as the Street Associations have in the Post-*doi moi* period again emerged as the major binding factors for communal livelihood as they strengthen ‘collective-security mechanisms’ for enhanced resilience and reinforced collective decision making structures among non-state actors (Adger, 2000, 755).

#### **7.6.4 NSCs vs. IFGs: Competing Formal and Informal Systems**

One of the very well documented cases of competing informal and formal structures in the recent history of Vietnam has been extensively discussed in a paper by Fforde (2009, 8-21), which will be borrowed as a basis for the following analysis of actors’ norm practices.

In the 1990s, state actors attempted to come up with a new mechanism so as to improve agricultural production, as performance level did neither fulfil the needs of the formal economy, nor adhere to the formal standards of production put forward by the central leadership. This new instrument was called New Style Cooperative (NSC) and was set up ‘to deal with the problems posed by the old-style cooperatives’ (Fforde, 2008, 8). However due to the political imperative of employing formal rules and norms, membership and integration was not supported by the population, instead peasants turned to Informal Farmer Groups (IFG), who successfully competed with the NSCs, although the latter would provide a vast range of assistance in forms of agricultural activities such as provisions of water supply, drainage, utilities for harrowing and so forth (Fforde, 2008, 9). The attempt to offer help for integration into the formal system via the NSCs was however met with resistance, since peasants saw their interests better realised by the IFGs, leading to the establishment of a mere 3,104 NSCs covering only 32% of the rural communes in the beginning of the 2000s, while the rest remained within organisational structures generated and maintained by the IFGs (Fforde, 2008, 11). Official surveys that looked for the reasons of such behaviour by the peasants found out that farmers who were in the IFGs – around one of two households in the Mekong area and one in five in the Red River Delta to the north – in parts refused to integrate

into the formal structures due to the experiences made under the old cooperative system, which clearly marks a learning effect on behalf of the peasants. What these farmers wished for, was in the case of southern households practical help such as the assistance with training (60% of questioned households), help for the carrying out of artisanal work (46%), operation of cooperatives according to community values (92%), operation according to market principles (38%) and strengthening of communal cooperation and help (92%) (Fforde, 2008, 12f). Cases of properly working NSCs related to those that were run in a more democratic manner instead of top-down enforcement of rules, which in turn received favour from the peasants as they saw in it the willingness of state-actors to compromise and cooperate with the peasants.

The general assessment of Fforde is that IFGs could successfully compete with NSCs due to the fact that the former offered actual livelihood improvements, whereas the latter mainly emphasised difficult-to-obtain subsidies and political support of the state. As soon as these perceptions of farmers were conveyed to local level hierarchies of the state, officials at the local level increasingly started to support IFGs. And these actually presented themselves in different shapes and forms, according to the needs of its members: Fforde lists artisanal IFGs, which would invest in skill training, tools and assistance for the locals; next to that were Credit IFGs for the mobilisation of capital targeting specific investment opportunities that would help actors to get a foothold in the market and even Labour and Asset Holding IFGs that helped to generate income opportunities and allocate work more efficiently according to market requirements (Fforde, 2008, 15ff). This evolutionarily grown variety of organisations providing specific services for specific needs seemed to have surpassed the comparatively single-sided approach of the state's NSCs, since the IFGs were more responsive to the demands of a mixed economy with market and planned elements in it. As Fforde put it, the IFGs could convince farmers because they generated a kind of safety system for the challenges of the market, thereby being tailored to the requirements of the cooperative norms among the peasants (Fforde, 2008, 19), which was something the state-actors tried to do, but failed in providing it.

## **7.7 Discussion**

The above depiction concludes the concise assessment of norms practiced by state and non-state actors in agriculture over 60 years of time and it reveals the impressive nature of the subject: We see that competition for the realisation of norms has existed between the two actor groups and to some (and less researched) extent also within these two sides. But

simultaneously, we find that cooperation lies at the core of the non-state actors in agriculture, thereby reflecting a norm-system that could provide safety against exogenous impacts be it either from top-down enforced norms of the state or by the dynamics of the market. More than in one case we could also witness that state-actors were, at least at the lower levels, ready and willing to compromise and cooperate so as to achieve at least a part of their designated goals. In most cases this however meant that the original formal institutional scaffolding they tried to advance had to be modified (by a bottom-up feed-back process) according to the norm ideals forwarded by the peasants. As Kerkvliet (1995, 2001), Fforde (2008, 2009) and others have emphasised, the *doi moi* reforms were initiated by the bottom-up rejection of formal rules. Looking at these dynamics through the lens of norms and their practices has to some extent helped to show that the economic ideals, which stood behind that change, were not achievable by simply adhering to one norm or the other, but by the choice of the game changers to achieve what they want via adopting or resorting to a contextually evolved set of norms and rules.

## **8 Economic Norms in the Business Sector: How do Private Actors Pursue their Goals?**

### **8.1 Introduction**

The analysis of non-state or private business norms needs to take the specific formal institutional context of Vietnam into account: The evolutionary path of industry that can be witnessed in Vietnam, exhibits a gradual formalisation process taking place since the *doi moi* reforms, which gave more rights to and reduced the constraints for private often informal economic activities – e.g. street markets, petty- and household enterprises (Vo and Nguyen, 2006, 10). These developments within the formal institutional scaffolding also generated a response by private business actors in regard to the practice of the three norms. The major question for the case of the private business sector is whether it aligns its norms and cooperates with the formal institutional structure, or whether it maintains contravening norms and tries to make compromises or even straightforwardly competes with it. For the state actors the question arises, whether or to which degree they adapt formal norms to the changes and challenges stemming from domestic and foreign private enterprises.

In regard to the time-frame, the following paragraphs will be focussed on non-state business developments and activities around and after the initiation of the *doi moi* reforms, as business related developments in this period are comparatively well covered by the secondary institutional economic literature that hints on norms and behaviour related to cooperation, compromise and competition. A specific focus will also be set on the informality of business practices in respect to the three norms.

### **8.2 Historical Performance Overview of Private and Public Business during *doi moi***

Similar to the striking stagnation in agricultural production, the formal business and commerce sector in Vietnam found itself in a dire state of unproductivity during the mid-1980s. At this point the Central Committee had realised the economic flaws of its socialist programs: Although reform steps for the recovery of the economy were taken in the 1980s before the *doi moi* renovation process, inflation and international debts were still soaring and SOE performance lacked behind expectations, while black market structures and informal economic activities continued to increase beyond known levels: At this point, estimates state that performances of the informal or shadow economic activities had contributed to 85% of the country's GDP – if calculated by the output of those activities happening outside of the



plan – which must have demonstrated the strong potential of this segment to the leadership (Freeman, 1996, 194). In terms of an analysis of norm-systems, this situation implied that the boundless extension of the informal economic segment must have posed a strong competition to the formal economic structure and since means of oppressing it have not generated expected results, the government was bound to integrate and cooperate with an otherwise overwhelming economic dynamic of informal entrepreneurship: After the initial formal recognition of private enterprises in the course of the 1986 *doi moi* reforms (Van Arkadie and Mallon, 2004), the 1990 Law of Private Enterprise officially embedded private business activities in the formal institutional framework. What thereupon followed was a reaffirming sign in 1992 with the enactment of the new constitution that explicitly states the legality of private companies and thus paved the way for a full recognition of private business, – equalling a partial formalisation of informal business activities – which was achieved with the 2000 Enterprise Law (Steer and Sen, 2010, 1603).

The fact that this process was anything but smooth for private enterprises, is depicted by Kerkvliet and Selden (1998): In contrast to the PRC, where TVEs were fostered and protected by the state in the course of the economic reforms, Vietnam's government did not only lack proper guidance for the development of its SME sector, moreover it quickly opened the country to foreign investment, enterprises and imported goods and services, while it simultaneously removed price controls, which put domestic private enterprises under a strong competition with foreign and state-owned enterprises. In this regard, the PRC put more diligence on cultivating a surrounding for TVE's that enabled them to cooperate and compete with other economic entities within the domestic business realm, which in turn helped the private SME sector to develop on stable foundations (ibidem, 56f). This rather cooperative stance of the PRC's government towards private business activities in the early stages of reform can be contrasted with the more challenging formal framework for domestic private business that had emerged in the SRV. How can this be explained and to which extent did the Vietnamese government help to make matters more complicated for the formal business segment?

In very broad terms, it can be said that the Vietnamese central government intended to compete with non-state business actors, and the reason for that was founded in the economic goal, which the central government tried to attain: According to Sjöholm (2006) The primary objective of state actors in the central government during the 1990s and 2000s was to maintain control over the economy, and – against the background of the opening-up of the

economy – this task was tried to achieve via strengthening power and position of the SOEs. This in turn required a privatisation or ‘equitisation’<sup>37</sup> of the SOEs so as to be able to compete with domestic and foreign enterprises (Sjöholm, 2006, 15-18). The equitisation program aimed at improving performance and competitiveness of SOEs via ownership diversification, a subsequently expected generation of capital influx and thus a more market-based coordination of the companies’ economic activities, while simultaneously retaining state control (Loc, 2006, 49). However problems began to emerge early in the 1990s, when SOEs experienced difficulties to achieve the necessary degrees of competitiveness, since costs were constantly pushed to higher levels: Payments for employees needed to be adjusted to growing levels of inflation, high interest rates at the banks and duties to preserve and develop state investments kept fixed costs high for SOEs and their market flexibility as well as leeway for experimentation low (Fforde, 2005, 246). Furthermore, specific policy objectives of the state that would have to guide the transformation of SOEs were lacking and management was assessed as performing poorly (Sjöholm, 2006, 15). This interpretation is underscored by an analysis of interviews with several SOE managers that were conducted by Fforde (2004), in which the interviewees identified the weak performance of SOEs as being related to the following issues: (1) Managers were lacking know-how and training, (2) received little payment and hardly any rewards for achieved targets; (3) industrial relations required burdensome, official permissions, (4) regulatory guidelines that SOEs had to adhere to were unclear, complicated and difficult to follow if the competitiveness of the company was to be achieved and (5) the company’s management has been bound to party control and was thus not the ultimate decision-maker (Fforde, 2004, 4f, 18). Here the picture is very similar to agriculture, where attempts of coerced cooperation were enforced via top-down methods by the state. However in the case of SOEs, the interactive relationship took place between different groups of state actors.

The multi-functionality demanded by the state from SOEs – as the enterprises should serve as providing sufficient employment, operate along formal norms and compete with private business – did in turn lead central party leadership to slow down the equitisation process itself: Central state actors realised that the more SOEs changed into vehicles less controllable by the state, the more it became afraid of losing them (Fforde, 2005, 250). This ‘clinginess’ to SOEs became even more complicated for those cases, in which multiple state actor groups (e.g. ministries) were simultaneously responsible for one SOE: Not only did state

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<sup>37</sup> Equitisation (*Cổ phần hóa*) denotes the conversion of SOEs into public limited companies or corporations, where the percentage of shares transferred to workers and management of the SOEs is comparatively high (Loc, 2006, 4).

agencies have to cooperate with each other on how to proceed with equitisation, they also need to cooperate, compromise or compete with respective shareholders, i.e. non-state actors, which in turn entails specific conflicts of interest regarding the economic objectives that different actor groups want to achieve (Sjöholm, 2006, 19f). The mutual impediment of state-actors generated by the broad set of economic goals they pursued, equally affected state (SOEs) and non-state business actors (private SMEs): On the one hand, the formal regulatory environment of the 1990s would *theoretically* privilege SOEs over private domestic enterprises, since the former enjoyed better access to capital, land and political resources, which were effectively denied to the latter (Kokko et al., 2007, 7). On the other hand, the regulation for equitisation beginning in 1992 lacked clarity and proper guidelines thus impeding a successful transformation of SOEs (Fforde, 2004, 7). Furthermore, the state sector has not been able to generate enough jobs for a rapidly growing labour force: In 1995 these state enterprises only employed 1.8 million people out of the total labour force of nearly 35 million, increasing by one million new entrants each year (Kokko et al., 2007, 7). This stagnation happened to favour the private business sector, which could by far outdo the SOEs and by the beginning of the late 1990s to the mid-2000s, policy makers seem to have acknowledged this development: the laws on private enterprises and the law on competition clearly indicate this shift of the state towards more leeway for private business: Maybe for economic growth, but definitely for employment generation, the state had several duties transferred to the private economic business sector (Kokko et al., 2007, 7).

Against the background of a complex and partially impeding institutional development of the public sector, it is astonishing to see the impressive performance of private business – both in terms of numbers as well as output and job creation: Non-farm household enterprises increased from 1 million in 1992 to well over 2 million in 2002, with registered SMEs in the formal private sector growing from 1,000 to over 50,000 in less than a decade (Steer and Sen, 2010, 1604). This growth should less be understood in terms of newly founded companies, but rather as a transition of informal businesses entering the formal realm, partly via obtaining registration and licensing from the government (Freeman, 1996). In regard to output and jobs, private factories were contributing 29% to the country's industrial output – mostly in labour intensive sectors such as food processing and garments – while simultaneously generating the biggest amounts of jobs since the 1990s (McMillan and Woodruff, 1999, 4). This impetus had a strong effect on national growth, which during 1986-90 amounted to 3.9%, then increased to 8.2% (1991-95), 7.0% (1996-2000) and 7.4% (2001-05) (Truong and Nguyen, 2009, 129; McMillan and Woodruff, 1994, 4).

Reflecting on this strong development of the private sector against so many odds leads to questions on the nature of this segment: How do private entrepreneurs operate, i.e. how do they pursue their needs and wants? The best way to find an explanation for this question is to take a look at the lived realities of private entrepreneurs, for which Freeman (1996) provides a vivid insight via his observational evidence-based narratives of the economic interaction at Ho Chi Minh City's street markets: In his writings, Freeman describes an evolved order of uniformly scattered patterns of markets across the city that have adapted to the city's infrastructure and to the needs and wants of residents in regard to goods and spatial proximity. According to the author, these structures have evolved without intermission since the colonial period (!) and served consumers with a variety of goods starting from food products to consumer electronics in more recent times. Competition among the traders is fierce, their incomes were rising steadily and government intervention in or control over the market far from existing (Freeman, 1996, 182ff). For Freeman these dynamics exemplified in the case of Ho Chi Minh city's street markets prove that private economic development in Vietnam is less a result of formal, top-down reforms, but a cultural, long-time embedded propensity of the Vietnamese towards petty-enterprise capitalism and entrepreneurship: According to this narrative, private business never ceased to exist, but simply waited or rather pushed the government to open-up the formal economic institutional structure (Freeman, 1996, 187). A similar perspective is depicted by Malesky and Taussig 2009, who state that even in the early days of communist movements in Vietnam, then leader Ho Chi Minh had to support private business as means of furthering his revolutionary ends. As this state-to-private business cooperation ended, private economic activity withdrew to the informal economic realm, but did not cease to exist: The authors further cite previous research claiming that even before official reforms were initiated 'the majority of Vietnamese worked in the informal private sector' (Malesky and Taussig, 2009, 7). After reforms gradually took up speed, so did the private sector with household businesses being the leading productive employer in industry and services. This means that this segment among private business absorbed and still is absorbing the majority of labour that left the waning state sector (Malesky and Taussig, 2009, 8). Looking at the above as well as at the findings in previous chapters, we may therefore cautiously conclude that a specific entrepreneurial spirit is somewhat embedded in the socio-cultural realm of Vietnam and was kept alive during the rigidly planned economic period before *doi moi* (Freeman, 1996, 192f). With the reforms and the reaffirming of private business activities, private enterprises surfaced again in the formal sphere, which in turn increasingly integrated competitive norms and entrepreneurship into the day-to-day activities

of the economy (Dapice, 2001, 7). The successful drive of the reforms – when measured by GDP-growth – would most likely not have been able without the pre-existence of well-organised economic and logistical structures of the shadow economy (Freeman, 1996, 195), but in turn it asked for the state-actors to harness the newly emerging economic vigour by means of new formal institutions for private business.

## **8.3 Changes in Economic Legislation and the Response of Private Business**

### **8.3.1 The Attempt of the State to Formalise Private Economic Activity**

Looking at the role of state-actors, who in the following elaborations are represented by legislators in the central and local governments, the major aim of the formalisation process was to integrate private business activities into the formal institutional economic structure. This means that for enterprises to properly conduct their operations, the state would ideally need to build up institutional foundations that provide and channel information about market conditions, define and protect property rights, help to enforce contracts and establish rules relating to the use and abuse of market power (Steer and Sen, 2010, 1604). Vietnam, or rather the respective state actors, failed at least on some of these tasks, if measured against the response of non-state actors engaging in business activities.

The state's willingness to cooperate with private business can be discerned from the legislative developments in Vietnam since the reforms: Following the Sixth Congress in 1986, private sector activities and domestic trade were gradually relieved from formal constraints. This led to an increased emergence of private markets for agricultural goods, which was furthered by the 1988 Decision of the Council of Ministers to allow the private sector to engage in industrial production. In the same year the Politburo published a resolution that affirmed the recognition of the rights to ownership of property and the earnings of private business as lawful (Vo and Nguyen, 2006, 10). These resolutions were fully formalised by the 1990 Law on Private Enterprises and the 1992 Constitution (McMillan and Woodruff, 1999, 4). The path of formalisation in the late 1980s and early 1990s that the Vietnamese government followed was in essence an imitation of trial-and-error, which has been preceded by the PRC government some years earlier. However as for the benefit of the Vietnamese government, pitfalls that occurred in China were avoided by Vietnamese legislators, e.g. by substituting the many diverse and overlapping investment laws and regulations with one basic investment law (Bergling, 1997, 69).

After these major milestones for cooperation between state and non-state sectors were formally laid, private business reacted to this cooperative-legislative stance of the state, however with differing degrees of acceptance: If measured by the numbers, private business responded positively to the changes within the formal institutional scaffolding. In the early years of the reform, household businesses outside of agriculture increased from 1 million in 1992 to well over 2 million in 2002, and then to 7.4 million in 2006 (Gillespie, 2008, 679; Steer and Sen, 2010, 1604). Officially registered SMEs were growing from 1,000 to over 50,000 during the period of 1990-2000 (Steer and Sen, 2010, 1604) and further increased to 150,000 units incorporated under the Enterprise Law 2005. These formalised SMEs have increased their industrial output from 7.9% in 1996 to 20% in 2004 (Gillespie, 2008, 680).

The numbers on growth in registrations and growth of output however only tell half of the story, since they don't reveal anything on the operative norms of private business under the new legislative superstructure. In fact this post *doi moi* economic institutional scaffolding was to a significant extent borrowed from and transplanted as best-practice examples based on evidence in foreign countries, and thus the structure has not been locally fostered. This rationale can be either explained as reaction to international demands – emerging in the course of the entry to the BTA and WTO (Gillespie, 2008, 700) – or by the power of the donor community to further concepts they deemed profitable to their own interest (Gillespie, 2002 and 2008) or by the belief in the workings of Western best practice solutions. As for the latter, problems with the application of business contracting related practices, as means of forging reliable cooperation structures between companies, exemplifies the limited acceptance among Vietnamese private enterprises: Although recent years have witnessed an increase in the formalisation of contracts among domestic businesses, 'the trend does not directly indicate the development of...a legal mind-set within the business community' (Day, 2004, 37f). Contracts between enterprises are in general perceived as having only minor validity by entrepreneurs since judicial processes are not effective enough so as to guarantee the enforcement of contracts. Rather Vietnamese businessmen tend to negotiate any incurring issues amicably so as to preserve the business relationship and use contracts only as morally binding tool, which in their written form convey 'a seriousness of purpose and ...proved effective in galvanizing informal community sanctions against transgressors' (Day, 2004, 39). And although SMEs have become increasingly competitive on their domestic market, cooperation between foreign and domestic firms, or between domestic firms, as well as subcontracting of private Vietnamese firms to other domestic firms is only rarely practiced (Le and Harvie, 2010 19f). This clearly shows a lack of insufficient protection and

enforcement of contract laws in Vietnam. Similar weaknesses are surging in respect to the provision of formal credit through formal (state-related) vehicles or the access to land for SMEs and the protection of intellectual property rights: In regard to these mostly NIE proposed formal institutional practices ‘government policies, in general, appear to be ineffective in increasing SME efficiency (Le and Harvie, 2010, 20)’. So is it that businesses are not willing to cooperate – by making use of officially designated norms – and thus ‘fear’ formalisation? In fact private enterprises in Vietnam are well aware of the benefits – e.g. easier access to export licenses, customs certificates and government contracts – that could theoretically be reaped from playing along with the formal institutional premises. However there are certain costs, such as high fees, long waiting times for registrations, red tape and more controls due to more transparent documentation of enterprises’ performance (Malesky and Taussig, 2009, 11f). Formalisation and alignment with the state’s norms thus comes at a high cost, especially for small household enterprises and SMEs which often lack financial and productive capacities to back up incurred costs.

### **8.3.2 Capacity of the Judicial System for Solving Private Business Conflicts**

Efforts to formalise business activities in the SRV are tightly connected to the implementation of courts as a means of managing issues of conflicting interests among economic actors. The idea behind this economic judicial system, which is formally founded in the 1992 Constitution (Art. 127) and specifically established in the form of economic courts in 1994 (Gillespie, 2007, 839) was to protect the rights and property of enterprises. By these means state-actors were actually attempting to pave the way for enterprises towards transferring their operations into the formal realm – a conciliatory proposal to cooperate and align with the formal rules designed by the government.

A review of the Vietnamese judiciary processes itself by preceding research however reveals an uniform and critical to negative appraisal of the performance of the economic courts (Gillespie, 2007 and 2008; Day, 2004; Dinh, 2009; Tran et al., 2008; McMillan and Woodruff, 1999). On the one hand, courts require very detailed and well documented descriptions of the cases brought forward for litigation. On the other hand, courts in Vietnam seem to lack the training and know-how to properly investigate the cases and thus make their decisions according to the norm set forwarded by the CPV, which in turn leads plaintiffs and defendants to find informal agreements outside of the courts: A priori expected poor performance of courts thus leads to informal norms of cooperation and compromise, namely mediation (*hoa giai*) or settlement of disputes (Day, 2004, 57f). Another negatively perceived

feature relates to the weak enforcement of decisions by the judiciary (Gillespie, 2007, 864), which again deters private-actors to seek courts for getting their rights enforced. Instead neighbourhood councils or the inclusion of neutral enterprises or respective associations are looked for to achieve dispute mediation between enterprise (ibidem, 865). Again this empirical evidence depicts that private actors, who look for cooperation or assistance – similar to what has been discussed in the chapter on agriculture – do not use formal channels or rely on state actors, but rather they tend to find cooperation with and help form non-state actors. Business associations thus have proven in some cases to serve as proper replacement for courts (Tran et al., 2008, 12): Solving corporate issues via business associations, has not only proven to be more effective in terms of time, but also seemed to offer a more objective and sustainable way of resolving a conflict with other actors, since such mediations promote further cooperation between the involved (non-state) parties (Dinh, 2009, 46). Surveys among businessmen have revealed that they are in fact not deterred from the formal nature of economic courts itself and thus would not hesitate to refer disputes to such formal entities dealing with litigation. However, these private economic actors don't expect to be treated fairly and expediently (!) by the courts (Day, 2004, 63). This negative perception has in some surveys been stated by as much as 90% of the interviewees, who were active as entrepreneurs (Gillespie, 2007, 866). Contributing to this negative image is the frequently encountered practices of corruption in courtrooms, which have evolved into elaborate schemes controlled by judges and official personnel at the courts (Gillespie, 2007, 861). According to some commentators it even seems as if the 'judicial system itself ... favour[s] compromise, ad hoc bargaining and reliance on superior authorities before formalised decision making under law' (Day, 2004, 19). This statement shows the unwillingness of state actors to cooperate with non-state actors to solve disputes: Courts seemingly find it more suitable for private business actors to find informal means of resolution or do in fact demand private actors to pay bribes and thus incur higher transaction costs for themselves. For the pursuing of economic goals by businesses, McMillan and Woodruff (1999) find in their survey that managers of private companies see courts as 'weak' and as creating more problems than they solve. Furthermore, 89% of their interviewees claimed that even business associations or written contracts would not be able to solve or effectively avoid conflicts between enterprises (McMillan and Woodruff, 1999, 6). At this point, the question remains, how or by which norms non-state actors (in the form of private enterprises) pursue their needs and wants, if the formal institutional framework offers to little opportunities.



### **8.3.3 Interaction and Feedback Mechanisms between Private Business Actors and the State**

In the light of some ineffective formal institutions for business in Vietnam, private economic actors have increasingly resorted to informal means so as to realise their economic goals. Such informal means did however also lead to cooperation practices between private actors and state actors, which in turn produced a feedback to the formal framework.

Cooperation in the realm of informality between state and non-state actors has been identified by Day (2004) in his analysis on corporatist developments in Vietnam: He notices tendencies of cooperation between government and industry, which are only marginally relying on legal structures (Day, 2004, 10). On the one hand, this phenomenon can be explained by the fact that the new private business elite that had emerged after the reforms in the mid-1980s stems from the ranks of former or still serving officials (Gainsborough, 2002, 700). And they, as well as non-political entrepreneurs depend on the government for obtaining access to land and capital, licenses, protection of their property and so forth, which up until the early 2000s was not protected by the formal institutional framework (ibidem, 701). Furthermore, research on the topic has shown that also private entrepreneurs without political background have a very open attitude towards doing business based on political favours and thus they place a very high value on forms of cooperation with the state or state actors based on person-to-government connections as a business resource (Malesky and Taussig, 2009, 8). One positive, bottom-up effect that private enterprises could reap from this relationships was the manifestation of their needs and wants in the form of modifications within the formal institutional framework in the early 2000s: According to Vo and Nguyen (2006), the improvements in the legal environment for private economic activities stem at least in part from the ‘good dialogue between the business community and government agencies’. In that respect the authors have identified different channels for information exchange and lobbying, which are either conducted in the centre between industry specific ministries and business associations, or at the local level between provincial authorities and the local business community. Both ways have helped to determine respective policy priorities, leading in turn to corresponding change of the formal institutional environment (Vo and Nguyen, 2006, 16f).

Beginning in the mid-2000s, the ambitions of enterprises to have a stronger impact on the formal institutional framework via bottom-up efforts gradually moulded a new path, which would serve state and non-state actors alike. As of 2005, when the new 2005 Enterprise Law had just been implemented, the numbers of officially registered SMEs had reached an

unprecedented high with 150,000 firms. And these were mostly members of various business associations, from which the entrepreneurs expected to improve the forms of business-state-cooperation so as to realise private entrepreneurs' needs and wants (Gillespie, 2008, 679f). The state on the other hand, wanted to control these associations so as to force them into modes of cooperation along the formal 'rules of the game'. And in contrast to foreign enterprise associations, who successfully modified the formal rule system of Vietnam according to a neoliberal agenda, the role and influence of domestic associations remained comparatively limited (ibidem, 2008, 699f). For the state domestic associations in the 1980s and 1990s were mainly to serve as a means of constraining the power of private businesses so as to avoid their opposition against party and state policies (ibidem, 2008, 682). This however seemed to change slowly during the mid-2000s, as the CPV increased their efforts to get enterprises into these associates so as to make them participate in law-making (Gillespie, 2008, 682f).

It is difficult to capture the essential responses of private firms to this changing stances of the government, which seems to be willing to cooperate with the private sector in regard to changing the formal framework correspondingly, while at the same time a certain coerciveness of this top-down exerted form of cooperation can certainly be noticed. In regard to the successes, the Enterprise Laws of 2000 and 2005, together with the 2004 Law on Competition clearly indicate that there were certain targets achieved, which exhibited a common denominator shared by state and non-state actors. As however secondary literature shows, SMEs evidently are still looking for a different institutional setting, which has not yet been achieved through lobbying efforts of state-guided business associations. One impediment for private business caused by the incomplete formal institutional setting relates to the finding of and match-making between enterprises for cooperation purposes: This failure stems from the lack of properly provided market information via formal institutional structures (Dinh, 2009, 11). As the governmental decrees to remedy this institutional failure did not perform well (Tran et al., 2008), private enterprises have increasingly resorted to the establishment of their own business associations for promoting cooperation among firms. The important institutional function of the associations was to increase the flow of information regarding market and business opportunities, which in consequence helped to foster a better fundament for cooperation among enterprises (Tran et al., 2008, 7f; Dinh, 2009, 47). Although these attempts are by some commentators evaluated as entailing only minor successes, an increasing amount of formally registered, private enterprises have engaged in the submission of proposals for legislation drafts – from 29% in 2001 to 39% in 2006 –,

which indicates their willingness to change the formal framework by formal channels according to their needs, instead of solely relying on informal structures (Gillespie, 2008, 684).

## **8.4 The Effectiveness of Informality**

### **8.4.1 Informal Contracting on the Basis of Trust**

Apart from directly changing the formal playing field another option for private actors is to maintain informal practices for pursuing economic objectives. Therefrom emerged habitual patterns not only help to establish feasible alternatives – although requiring higher transaction costs – but could also foster a feedback mechanism that channels information into the formal institutional scaffolding, which in turn may lead to a change of the formal superstructure. One culturally specific feature guiding informal business activities is reflected in the trust-based value structure that had permeated the Vietnamese business culture since colonial times and continued to exist throughout the socialist period as well as after the renovation in 1986: Business – especially within the ethnic-Chinese merchants – has been ‘based upon personal relationships and word-of-mouth agreements’. Any merchant, who would fail to fulfil his business obligations would be ostracised by the community, thus lose face and reputation, therefore being banned from the local business community (McMillan and Woodruff, 2000, 17). From the perspective of the modern observer such value-based cooperation and sanctioning systems might appear to be unthinkable in present Vietnam, considering the increased size of involved actors and business opportunities. However as secondary literature indicates, in a slightly modified fashion this system continues to guide business activities up to the present day (see Gillespie, 2008; Vo and Nguyen, 2006; McMillan and Woodruff, 2000). Trust between enterprises can be measured by the amount of credit granted to a partner and this trust decreases to the extent that enterprises operate beyond family-clientelistic levels and enter wider networks including previously unknown business partners (McMillan and Woodruff, 1998, 1f). But also within these structures business ethics matter and sanctioning mechanisms apply, if partners default on payments or deviate from concluded deals. Here again, information feedbacks and exchanges have an important role: On the one hand business people often meet in groups, some on a daily basis, and discuss their relationships to other business entities. According to a survey by McMillan and Woodruff (1999), cheating on one enterprise might for example cause other enterprises (54% in the survey sample) to refuse to work with the culprit. On the other hand, sanctioning is not the only norm applied here, as many respondents indicated they would attempt to assist and mediate between the conflicting

parties (McMillan and Woodruff, 1999, 14f). This to some extent exemplifies that norms of cooperation and compromise (finding a solution to a dispute) outweigh norms of competition (outpacing rivals by cheating on them or sanctioning defaulting enterprises). In a broader sense this could be related to the feature of a common, non-rival but exclusive goal among private entrepreneurs: Realising a proper functioning of their business activities, under the constraints of not-adequately functioning formal institutions, requires effective rules to further cooperation, which in cases of non-compliance can sanction wrongdoers. Thus alternative means with comparatively 'soft' sanctions are applied (e.g. blacklisting defaulting actors in the community), which in turn can exclude misbehaving partners from the attainment of their goals. Once ties of cooperation are bonded between enterprises and trust has overcome general uncertainty, interactions between enterprises are maintained, even if a substituting switch to a more profitable partnership would be possible: Due to uncertainties regarding reliability of and high risks related to new partners, 71% of the surveyed SMEs in Vietnam have expressed an unwillingness to switch their partner even for a higher expected profit (McMillan and Woodruff, 1998, 16). These interaction and behaviour patterns seem to fit well into the premise of familiarity guiding business operations in the country: As families do traditionally come first also in regard to business matters, the next subsequent partnerships that are approved of, must equal personal relationships that feature '*trung thành* (loyalty), *tin hcam* (sentiment toward others), and *tin* (trust)' (Gillespie, 2008, 685).

Having established a certain partnership level of trust and having thus put much effort into minimizing monitoring costs, there is yet the likability of a high residual loss, i.e. that partners still default on their business obligation. At this point we find a very interesting, originally formal tool among the repertoire of private enterprises for the strengthening of inter-firm cooperation: the contract. Although perceived as having a very weak legal effect, since courts are not considered as capable of enforcing contracts, relational contracting has proven to work as some kind of morally binding as well as sanctioning tool (McMillan and Woodruff, 1999, 20f). Contracts, especially in their written form, have been employed in inter-firm cooperation, but in an informal way, namely rather to reduce the room for misunderstandings between parties than as a requirement for judicial decision-making and legislative conformity. And yet, written contracts function as mechanisms for assessments of reputation and enterprise sanctioning among business circles in Vietnam (Vo and Nguyen, 2006, 10), simply because contravening contracts might incur future losses for the defaulting party due to condemnation by the business community (McMillan and Woodruff, 1999, 2f). Although being used within a context, where rights are not enforceable by formal means,

written contracts enable the specification of quantities and qualities of goods exchanged for money. Additionally, written contracts can facilitate mediation processes by third parties in the case of conflicts or disputes among contractee and contractor (McMillan and Woodruff, 1999, 11). And this latter aspect is considerably significant as contract agreements still possess very weak enforcement mechanisms due to the informal nature of their application (Tran et al., 2008, 12). Thus dispute settlements, that is, the action of finding a compromise, require a good inter-firm relationship and a proper integration into the local business environment. Interestingly enough, this embeddedness into the local business community does not mean that enterprises always rely on other companies for the resolution of partnership disputes. The most frequently (!) used method in the event of inter-business disputes is for the contractee to maintain negotiations with the contractor. Thus breaking the relationship is avoided and smooth but continuous pressure on the defaulting party (e.g. by sending employees to ask for the payments or goods, or by temporarily ceasing payments or delivery of goods etc.) can be exerted (McMillan and Woodruff, 1999, 11). The above depicted informal framework of norms and values exemplifies the nature of business operations under the absence of a proper formal institutional framework: Such a system is based on specific values and employs sanctions, just as formal systems do, but it exhibits a less competitive nature in the sense of rivalry for and exclusiveness of goals, but rather a cooperative and compromise based system of interaction.

#### **8.4.2 Informal Norms Enforcing Formal Changes**

Understandably, mapping and tracking the impact of informal patterns on the formal institutional framework poses certain difficulties and thus respective analysis by previous studies is comparatively sparse. So what has been grasped and documented by previous research is that private actors prefer oral rather than written forms to communicate and attempt to influence state actors in the course of pursuing their needs and wants (McMillan and Woodruff, 1999, 2). The choice for informal policy influence stems from the perception of SMEs – here seen as a non-state actor group – who consider public participation as only little effective for influencing legislative policies and thus resort to organising *tro lan nhau* (mutual assistance) networks to ‘infiltrate the state, find informal allies, and build networks that may conceivably be seen as fulfilling state-public and private objectives simultaneously (Gillespie, 2008, 695)’. The main focus of these activities aims less at the modification of laws, but rather at the form of their implementation (ibidem, 697). In many cases such relationships however do not necessarily serve the modification of the formal institutional

framework via a bottom-up cultivated cooperation network, but help enterprises to obtain rather ordinary services easier and faster than normal. This includes the obtainment of licenses or permissions, support for the resolution of business disputes and in some cases also ‘formal’ protection against competitors (McMillan and Woodruff, 1999, 6). As for the mechanism of changing formal norms via informal pressures, which in essence can be interpreted as a bottom-up induced or coerced cooperation, a significant analytical pivot is to differentiate between local and central state actors: As for the implementation of the new Land Law and the resistance to it by household enterprises, the subsequent change in formal institutional norm practice was in many cases realised at the level of local cadres without approval of the central government: Gillespie (2008) for example shows in his description of that matter in a particular case, that household enterprises’ resistance to the conversion of land was more or less acquiesced by the local government on grounds of shared moral and communally supportive principles. The response-interaction evolution between state and non-state actors was based on an information feedback mechanism and on trial-and-error compromise finding, with the local government representatives initially attempting to provide incentives to local household enterprises. The latter however refused to reach out even a little and in turn convinced local state actors of the immorality to deprive private entrepreneurs of their land and thus their basis for existence. Local state actors in return knew about the danger of losing local trusts and thus bended the formal rules so as to compromise with local non-state actors’ demands (Gillespie, 2008, 696). This mechanism, although only depicted in the particular case above, is very similar to what has been discussed in the chapter on agriculture, and it seems that the norms of non-state actors, once they have achieved a basic level of alliance and cooperation, can be strong enough to compete with and thus influence the norms practiced by formal actors, since both sides could thereby at least partially attain their respective (economic) goals.

## **8.5 The Costs of Informality**

### **8.5.1 Pecuniary Costs of Informal Business Operations**

Operating within the realm of informality entails specific expenses for private actors, which accrue due to the choice of these non-state actors to pursue their needs and wants via informal practices. One explanation forwarded by Malesky and Taussig (2009) for non-state actors to follow the path of informality despite these expenditures, stems from an uncertainty regarding formalisation: Enterprises, especially SMEs expect that their overall operating expenses – e.g. registration and licenses, taxes etc. – could increase once they go formal (Malesky and

Taussig, 2009, 11f). Be it formal or informal, business activities require a proper financing and for those enterprises that remain in the grey economy, obtaining financing from formal channels poses difficulties: In 1995-97, only 21% of 259 surveyed private enterprises have received formal bank loans (McMillan and Woodruff, 1999, 6). Thus private informal business in Vietnam can resort to informal credit services, such as are provided by so called *hui*. These vehicles can be described as informal savings rings or cooperative credit circles, in which participating enterprises first cooperate and invest money into it and thereupon 'compete against each other for the right of the first withdrawal', which can be decided either by lottery or by offering for the highest interest payment (Freeman, 1996, 192). These Hui have been established as a response to the distrusted government-run bank system, emerged in Vietnam long before the renovation policy in 1986 (ibidem, 192) and seem to be able to maintain their services, despite high interest rates amounting to 4-7% per month (!). Entrepreneurs were or are willing to accept these rates due to their expectance of high returns and recoupment of the credit costs (McMillan and Woodruff, 1999, 6f). For these *hui* to exist, compromise and cooperation between actors is again necessary, since they pursue the common, not specifically exclusive or rival, goal of making business. The next step in this initially cooperative relationship however leads to competition on who can take out money first: In this instance the goal is in its nature temporarily rival (the money in the informal fund is reduced until credit and interests are paid back) and (partially) exclusive (the money can only be used by a few actors at the same time). The concept and the purpose of these informal credit circles, together with the goals that participating actors pursue, determines the norms applied within different instances of their operations.

Another type of costs that informally operating, private business actors have to shoulder are informal payments to and the bribing of officials. The necessity to resort to such bottom-up induced cooperation practices can be seen as a response of businesses to cope with the non-existence of property rights and legal protection, while simultaneously pursuing economic interests (Malesky and Taussig, 2009, 12). Malesky (2008, 93) finds that around 66% of firms incur same informal payments for the running of their business and consider that as normal. A further 79% perceive an expectation to give 'gifts' when meeting with officials and 40% think that paying bribes is necessary for securing government contracts (Rand and Tarp, 2010, 1). Bribing officials is sometimes used to modify legislative implementation for the benefit of companies and in these cases informal social gatherings such as weddings, sporting club meetings and parties are the preferred occasions to influence officials (Gillespie, 2008, 697), most likely by employing monetary means. Here again the basic concept is to foster a

type of cooperation between private and state actors, which in turn may give the former a competitive edge vis-à-vis other enterprises. A more detailed analysis on bribing incidence, motivation and practices in Vietnam is provided by Rand and Tarp (2010, 1-17), which we will use to analyse the phenomenon in respect to applied norms.

With little surprise, we may see that paying bribes is mainly used by enterprises to circumvent formal rules such as obtaining easier access to public services (30% of 998 surveyed companies), reducing taxes (20%) and favourable conditions for government contract bids (66%) (Rand and Tarp, 2010, 3). Although the central government has initiated anti-corruption campaigns (*ibidem*, 1), and although paying bribes is found to have a negative effect on business performance (*ibidem*, 16f), such informal payments continue to be practiced in Vietnam's business world. However in the sample of the authors, informal payments exhibited a decrease in actual practice from 37% (2005) to 23% (2007) (*ibidem*, 2). Company embeddedness within the legal structure has an effect on the amounts of such payments and firm size equally matters: Rand and Tarp (2010, 4-8) find that formal medium enterprises can be forced into bribing an official, who in turn might either impede or support the further business expansion of a firm. Household enterprises and SMEs in general, if not registered might use bribes rather for inducing a temporal cooperation, which they control in terms of length (see also: McMillan and Woodruff, 1999). For both cases – either top-down coerced by state-actors or bottom-up induced by private actors – bribes can forge cooperative relationships, but may also entail severe constraints on the performance of the company, especially if it is semi- or fully formalised. Maintaining operations along the path of informality thus brings certain advantages as well as disadvantages for companies pursuing their goals: On the one hand, payment of bribes and avoiding formal legislatively determined costs may increase informally operating firms' competitiveness compared to those enterprises that adhere to the formal rules in Vietnam (Hakkala and Kokko, 2007, 9f). On the other hand, informality appears to incur high costs and in some cases coercive cooperation games that impede the expansion of businesses' operations (Rand and Tarp, 2010). Therefore norms of informal credit and payment can serve the attainment of short-termed goals, but may prove to generate a significant obstacle for enterprise development in the long term.

### **8.5.2 Labour Relations and Strikes in the Informal Realm**

Another impediment to the attainment of economic goals for private enterprises in Vietnam stems from its handling of labour relations. When looking at the characteristics of strikes and labour unrest, we may find that these demonstrations of force do often affect domestic SMEs



that operate along informal paths especially if their shares are held by foreign capital<sup>38</sup>. For what is known regarding domestic SMEs, labour unrest and strikes have become more common since the early 1990s (Gainsborough, 2002, 699f) and have since 2005 entered a period of dramatic annual rises (Schweisshelm, 2014). In regard to entrepreneurial non-state actor groups operating within the informal realm, this can be explained by two aspects: For one, there are no legal, *independent* trade unions in Vietnam so far (Schweisshelm, 2014; Gainsborough, 2002, 699f), which makes organisation of labour relations in informal enterprises very difficult. Secondly, as SMEs are in most cases very small and flexible in regard to labour supply, organising informal unions may run contrary to the interest of employees since they would have to compete with more diligent job seekers.

From the perspective of the informally operating company, any attempt to formalise might entail high costs, since then, upholding effective labour related regulations – e.g. regarding remuneration, social security payments and so forth – would require more expenses for these enterprises and this in turn provides a compelling argument for enterprises not to formalise (McCarty, 1999, 13f). The thereby gained benefit of cheap labour, however puts these enterprises into a weak position, since its workers remain not contractually employed and are thus highly volatile: As for Hanoi in 2009, 60% of workers did not have any contract and 30% are temporarily employed (Cling et al., 2009, 5). While enhancing flexibility for any company in the short term, such arrangements might impede technological upscaling of the enterprise since there are only weak incentives for the management to invest in proper knowledge building and human-capital formation as workers not bound by contracts might leave the company any time. Weak cooperation between company management and employees is further given due to lacking contractual agreements between both sides. For Manning (2009, 31) such features combined with top-down dispute resolution (often with the help of local officials siding with the company management) do affect motivation, creativity and work effort of the employees in (informally operating,) non-unionised companies. Under such weak forms of enterprise-internal cooperation between management and the lower staff, consensus and compromise finding are of the utmost necessity to maintain the company's proper operation: According to McCarty (2001, 7), strikes of employees are more likely to occur within those enterprises that are outside of such consensus frameworks. Such conditions can be seen from the methodological perspective as strong divergence between antagonistic goals of two opposed non-state actor groups. In this regard, emerging conflicts could be resolved once that management entered negotiations with its employees (Chan and Norlund,

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<sup>38</sup> See for example: Manning, 2009; Truong and Nguyen, 2009; McCarthy, 2001;

1998, 180f). Such necessary adoption of compromise practices however implies that both sides have to make concessions in regard to the pursuance of their economic goals.

## **8.6 Discussion**

The analysis of norm practices in the Vietnamese business sector since the reforms has shed some light on how private enterprises have attempted to achieve their respective needs and wants: The main findings indicate that cooperative norms were frequently adopted by private enterprises, and to a lesser extent we find that norms related to compromise constitute an important ingredient in day-to-day business activities. Competition related practices on the other hand were mainly reported by secondary literature when it came to the interactions between state and non-state actors. Hereby it is interesting to see, that state actors within and around SOEs had significantly used means of competition to further their respective goals: From the side of the government, SOEs were seen as vehicles to maintain control over the economy, which in turn led state actors to try and marginalise private business by not allowing them to have too much economic stake during the early period of reforms. However the objectives of SOE managers and the state itself were to some extent incompatible, which impeded an effective cooperation between the two groups of non-state actors. Private business on the other hand was performing comparatively well, which in turn demanded from state actors to provide more leeway to this group, e.g. by strengthening the formal framework for private business activities. This cooperation may be seen as a result of failure by the state to keep the economy running via assets (SOEs) controlled by them. Furthermore cooperation between state and non-state actors was possible because both sides pursued compatible economic objectives: GDP growth as longed for by the state and growth of enterprises and their turnover as targeted by the group of private entrepreneurs.

The second hurdle to this cooperation between state and non-state actors however lies in the incomplete formal framework as well as the forms of coerced cooperation forced by state actors upon non-state actors: The formal rules of the game did not perform sufficiently well so as to convince private business to rely on these. Their response was not only rejection, but moreover attempts to change the formal rules via bottom-up induced strategies. The few successes in cooperation that occurred between both sides has been induced by bottom-up efforts of private business and was acquiesced by state actors due to mutual furthering of each side's economic interests. More usually however private actors resorted to informal structures to achieve what they want. As secondary research literature has shown there are various strategies for the realisation of individual goals, but also these come at a price: Successes

under informal rule and norm structures are dependent on patience and leniency in inter-company interactions, which supposedly might impede a smooth growth performance of the SME sector. And although competition among private business has been described by previous research as a marginal phenomenon, there are certain costs to it: Access to capital is difficult and needs to be generated through sometime uneasy cooperative structures. Services demanded from the formal system need to be obtained via informal ways that quite often incur high payments. Furthermore the (at least) partial informality within enterprises as means to save costs can entail conflicts between management and labour, which makes the latter a potentially powerful group when it comes to impede decision-making by the management of private businesses.

Interestingly this paper segment could highlight several aspects of especially cooperative and competitive norms that have been also identified in the chapter on agriculture. In the above chapter we however see less forms of outright competition between state and non-state actors, which to some extent might be explained by the latter's capacity to fully operate within the informal economic realm, which still seems to offer sufficient options for pursuing respective economic needs and wants without having too much contact with the formal rule structure and the respective state actors. As we will see in the next chapter on the results of two surveys, the above exemplified importance given to cooperative norms in business and work is also emphasised by the majority of survey participants

## **9 Survey on Norms among Economic Actors: Identifying Norm Preferences at the Individual Level**

### **9.1 Introduction and Rationale of the Chapter**

The analysis of the preceding chapters has shown how non-state actors – and to a lesser extent also state actors – have adopted norms of cooperation, compromise and competition for the advancement of their respective economic interests. The therein observed patterns did however mainly reflect the general tendency or collective choice of actor groups for one norm or the other. As for the question of why a specific norm was collectively agreed upon and practiced, the cases in the previous chapters did not, and could not, depict a clear causality: That means, we do not know whether within one specific situation only one single context-specific norm, was deemed as best and thus imitated by all other actors involved or whether a variety of norms emerged within a specific circumstance and only one norm (the norm adopted by the majority) was captured by the case studies while others were neglected. As a matter of fact this question cannot be answered based on the approach in this thesis. What however can be done is to investigate the individual preferences that actors assign to the achievement of their economic needs and wants within an economic context.

For this purpose, the following chapter will use two data sources on values and norms practiced by state and non-state actors in the economic context of Vietnam. The reason for using this approach is to shed light on individual preferences, how individuals perceive their environment, how norms are modified over time and how learning and imitation within private environments takes place. Therefore, the first part of the chapter will analyse findings generated by the World Values Survey (WVS)<sup>39</sup> and focus on norms and values that relate to actor behaviour in economic contexts and which exhibit characteristics of the norms cooperation, compromise and competition. The second part of the chapter is built upon a questionnaire survey designed and conducted by the author among Vietnamese citizens, who were contacted on Vietnamese online chat fora. In regard to the exact names of the fora that were targeted by the survey, the author has been asked to conceal name and IP-address of all fora's websites so as to avoid inconveniences for the respondents, who in turn were willing to state their views on matters of norm practices in private economic contexts. The respondents

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<sup>39</sup> See: <http://www.worldvaluessurvey.org/wvs.jsp>. From 1981 to 2014, the WVS has been conducted in six consecutive waves, which in average last between four to six years. The WVS project is intended to continue in the future, as the next wave is planned to be conducted over the period 2016-2018. In regard to Vietnam, there were only two waves covering the country, namely wave no.4 (1999-2004) and no.5 (2005-2009). Therefore, the value and norm analysis in the first part of this chapter is based on the results of these two waves.

fall into the categories of state and non-state actors and the further precaution to conceal their names was taken so as to avoid any problems to occur in their work environment. The translation of the questionnaire (see Appendix 11.4 for a translated questionnaire sample) as well as the contacting of participants has been done by Mr Tran Duc Chung, who deserves credit and acknowledgement for his efforts in that matter.

The chapter itself is structured as follows: We begin by analysing the findings of the WVS<sup>40</sup> in respect to the norms of cooperation and competition<sup>41</sup>. These general findings will be juxtaposed to the results of the survey, which has been conducted as part of this thesis. Above that we will further look into certain tendencies of norm usage and adoption, e.g. whether there is a prevalence of one norm over the other two and to which degree individual actors' adoption of norms changes over time and context.

## **9.2 The World Values Survey**

### **9.2.1 World Values Survey: Characteristics and Sampling Methodology**

According to its website the WVS describes itself as a 'global network of social scientists', who are dedicated to 'studying changing values and their impact on social and political life', which perfectly fits into the methodological approach of this thesis to analyse norm patterns of economic actors. Here again it needs to be emphasised that in this thesis norms are seen as the means to realise specific value ideals (see chapter 2 on methodology).

The WVS started in 1981 and has been conducted in nearly '100 countries which contain around percent of the world's population' and is 'the largest non- commercial, cross-national, time series investigation of human beliefs and values ever executed, currently including interviews with almost 400,000 respondents'. Its main foci are directed at economic development, democratisation, religion, gender quality, social capital, and subjective well-being, and the WVS intends to serve academic research and policy making efforts.

In regard to the sampling of the WVS, the following characteristics are worth noting<sup>42</sup>:

- Samples are drawn from the entire population of 18 years and older
- The minimum sample is 1,000

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<sup>40</sup> Information on the WVS used in this chapter is entirely obtained from the WVS website: <http://www.worldvaluessurvey.org/WVSContents.jsp>

<sup>41</sup> Unfortunately, the WVS did not inquire any value perspectives that are related to the norm or norms related to compromise. Therefore the first part of this chapter will revolve around societal perceptions on cooperation and competition in regard to economic matters.

<sup>42</sup> For more detailed descriptions regarding the sampling methodology of the WVS see: [http://www.worldvaluessurvey.org/SebTest/wvs/articles/folder\\_published/survey\\_2005/files/WVS-rules\\_for\\_PIs\\_wave5.pdf](http://www.worldvaluessurvey.org/SebTest/wvs/articles/folder_published/survey_2005/files/WVS-rules_for_PIs_wave5.pdf)

- Sampling points are randomised and based on society statistical regions, districts, census units, election sections, electoral registers or voting stations and central population registers
- Interviews are conducted within a limited time frame by professional organisations
- Data collection is based on face-to-face interviews or telephone interviews for remote areas
- Uniformly structured questionnaires are used

The WVS has covered Vietnam in two of its waves, namely no.4 (1999-2004) and no.5 (2005-2009), unfortunately however the country was not covered by the most recent wave of 2010-2014. As pointed out in the above paragraphs, there is much sense in making use of the WVS for the analysis of norms practiced by economic actors in Vietnam: Among the survey items, we find questions tackling the perception of individuals' work and family environment, their evaluation of the socio-economic environment and above these static-context related questions, the WVS has also asked individuals to state their preferences in regard to how things should be changed. As this provides an ample repository for our investigation, the following chapter will deal with those items that are related to the core norms analysed in this thesis.

### **9.2.2 Discussion of the World Values Survey Findings**

In regard to the waves no.4 and no.5 of the WVS, several question items were discerned (see Table 4), which provide an insight into preferred and practiced norms among the Vietnamese population. The items discussed below were originally grouped by the WVS into several categories, namely 'work', 'perceptions of life' and 'politics and society'. According to the rationale of the methodology, the items were regrouped into the categories (1) 'norm preferences – work environment', which aims to identify the attitudes of individuals towards their work environment, and (2) 'norm preferences – socio-economic environment', which covers the norm related statements of individuals regarding the economic institutional framework of Vietnam. The phrasing of the questions listed in Table 4 has not been modified from the original wording stated at the WVS homepage.

Table 4 WVS question items for norms of cooperation, compromise and competition between actors

Category	Wording of the question <sup>43</sup>	Ref. no. wave 4	Ref. no. wave 5
Norm preferences – work environment	<i>For each of the following, indicate how important it is in your life. Would you say it is: Work</i>	v8	V8
	<i>Which point on this scale most clearly describes how much weight you place on work (including housework and schoolwork), as compared with leisure or recreation?</i>	v83	V54
	<i>There is a lot of discussion about how business and industry should be managed. Which of these four statements comes closest to your opinion?</i>	v104	-
	<i>People have different ideas about following instructions at work. Some say that one should follow one's superior's instructions even when one does not fully agree with them. Others say that one should follow one's</i>	v105	-
Norm preferences – socio-economic environment	<i>(Private ownership of business is good = 1; Government ownership of business should be increased = 10) Now I'd like you to tell me your views on various issues. How would you place your views on this scale? 1 means you agree completely with the statement on the left; 10 means you agree completely with the statement on the right; and if your views fall somewhere in between, you can choose any number in between (Code one number for each issue): Private ownership of business and industry should be increased</i>	v142	v117
	<i>(Competition is good=1; competition is harmful = 10) Now I'd like you to tell me your views on various issues. How would you place your views on this scale? 1 means you agree completely with the statement on the left; 10 means you agree completely with the statement on the right; and if your views fall somewhere in between, you can choose any number in between (Code one number for each issue): Competition is good. It stimulates people to work hard and develop new ideas</i>	v144	V119
	<i>Now I'm going to read you some pairs of contrasting statements. For each pair, do you think that the first statement or the second one best describes the CURRENT SITUATION in this country?</i> <i>First statement: An egalitarian society where the gap between rich and poor is small, regardless of achievement</i> <i>Second statement: A competitive society, where wealth is distributed according to ones' achievement</i>	v145a	-
	<i>And now, could you please tell me which type of society this country you think this country SHOULD aim to be in the future. For each pair of statements, would you prefer being closer to</i>	v145d	-

<sup>43</sup> The questions' phrasing is directly taken from <http://www.worldvaluessurvey.org/WVSONline.jsp>.

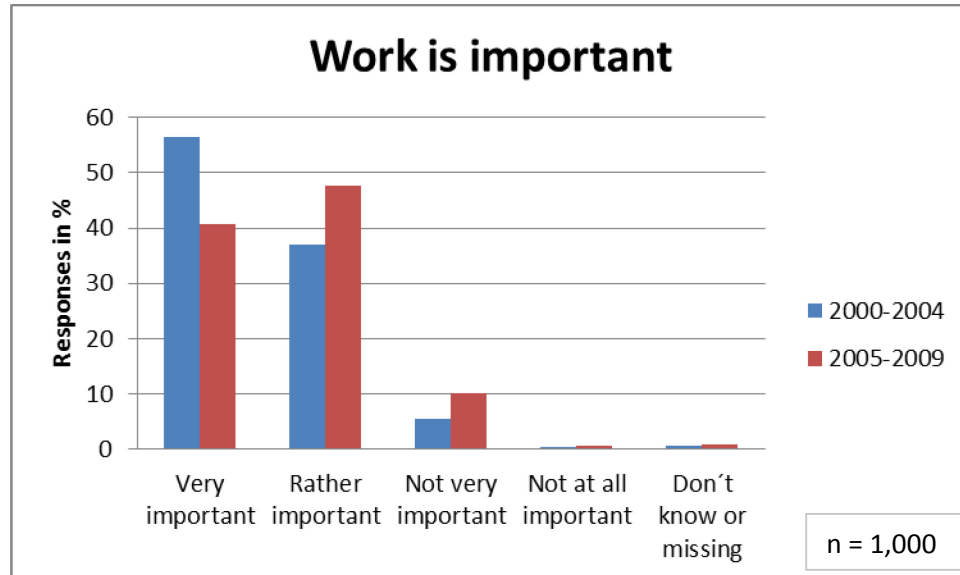
	<p><i>the first or to the second alternative?</i></p> <p><i>First statement: An egalitarian society where the gap between rich and poor is small, regardless of achievement</i></p> <p><i>Second statement: A competitive society, where wealth is distributed according to ones' achievement</i></p>		
	<p><i>(The government should take more responsibility=1; People should take more responsibility =10)</i></p> <p><i>Now I'd like you to tell me your views on various issues. How would you place your views on this scale? 1 means you agree completely with the statement on the left; 10 means you agree completely with the statement on the right; and if your views fall somewhere in between, you can choose any number in between: The government should take more responsibility to ensure that everyone is provided for</i></p>	v143	V118
	<p><i>Now I'm going to read you some pairs of contrasting statements. For each pair, do you think that the first statement or the second one best describes the CURRENT SITUATION in this country?.</i></p> <p><i>First statement: A society that assures safety and stability through appropriate regulations;</i></p> <p><i>Second statement: A deregulated society where people are responsible for their own actions</i></p>	v145c	-
	<p><i>And now, could you please tell me which type of society this country you think this country SHOULD aim to be in the future. For each pair of statements, would you prefer being closer to the first or to the second alternative?</i></p> <p><i>First statement: A society that assures safety and stability through appropriate regulations;</i></p> <p><i>Second statement: A deregulated society where people are responsible for their own actions</i></p>	v145f	-

Interestingly, some of the question items asked for in the 4<sup>th</sup> wave were omitted and not replaced in the 5<sup>th</sup> wave, which unfortunately denies the possibility to verify whether a value change has taken place among members of the society in regard to the specific question item over time. Furthermore, the WVS did not cover any questions on compromise related behaviour (if measured by the definitions forwarded in the methodology chapter). Thus the following analysis will focus on competition and cooperation related features of the WVS' question results.

In regard to the first question set, which aims at identifying the relationship of individuals to their work environment, we can see that a majority of Vietnamese considers work as very important or rather important (93% and 88% for waves four and five respectively). Here however a minimal shift has taken place from the fourth to the fifth survey

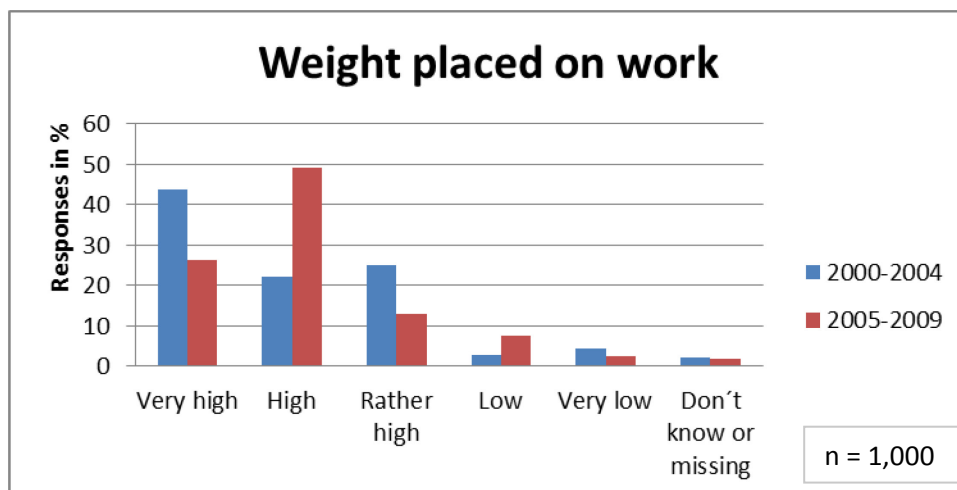


wave, indicating a slightly lower perceived importance for work among the Vietnamese society (see Figure 10).



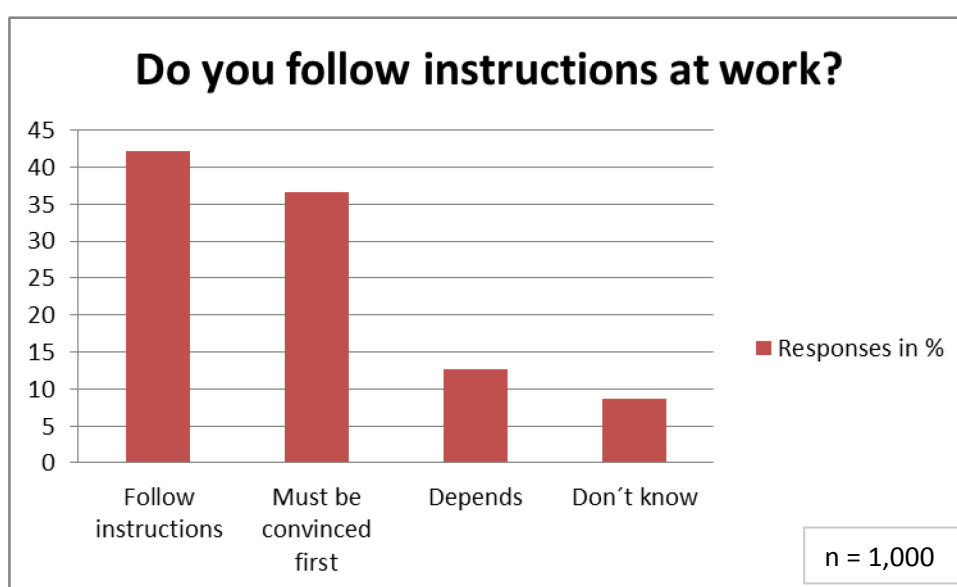
**Figure 10 WVS survey item (v8 and V8) ‘work is important’**

As far as weight placed on work is concerned, a similar pattern can be observed: Most Vietnamese assign more weight to work at the expense of leisure time (approx. 66% and 75% for the first two out of five categories in waves four and five respectively), however the interviewees seemed to have shown less willingness to sacrifice work over leisure time in the last survey of 2005-2009 (see Figure 11). The high significance Vietnamese actors attribute to work supports the assumption that working individuals have a perception of work related norms and that they may have adopted certain patterns of norm practice.



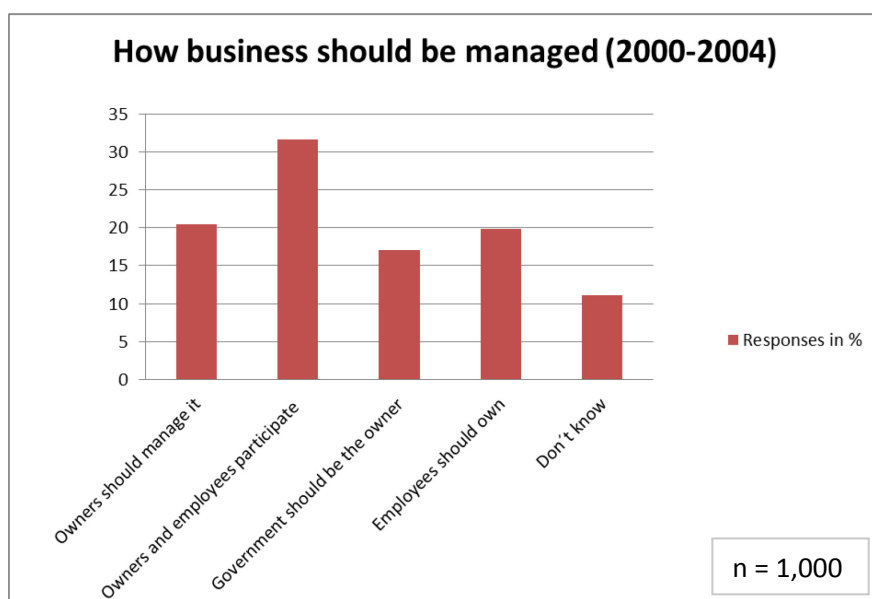
**Figure 11 WVS survey item (v83, V54) 'weight placed on work'**

When it comes to the question of whether instructions at work were automatically followed, which to some extent defines willingness and degree of cooperation, we can discern that only 42% expressed some kind of an 'unquestioned obedience' to follow instructions, whereas 36% claimed that they must be convinced first and 12% stated that following a higher authority at the workplace depends on various factors (see Figure 12). This to some extent reflects the findings of the previous chapters, where we could discern that there is a strong general propensity towards cooperation among economic actors, who however make their cooperation dependent from the attainment of individual objectives.



**Figure 12 WVS survey item (V105) 'do you follow instructions at work'**

The attitude in support for cooperation in the individuals' business environment is also reflected in another question item of the WVS: When asked on how business should be managed (see Figure 13), around 32% of the interviewees responded that owners and employees should both participate in management vis-à-vis 21% supporting management by the owners. Furthermore, approximately 20% stated that they would opt for cooperative ownership of the employees (owned and self-managed by the workers of a business) vis-à-vis 17% supporting the government as owners. Although this question item appears to be the result of a merging of two questions – namely who should own a business and by whom should a business be managed – it still exhibits a strong favour for cooperative norms stated by the interviewees.



**Figure 13 WVS survey item (V104) 'how business should be managed'**

In regard to the norm- and value preferences for the institutional features of the socio-economic environment, Figure 14 indicates a strong approval among Vietnamese society for competitive norms. And yet, when comparing the two survey waves, we find that the decisive support for competition has slightly decreased from 29% to approximately 26% as well as a significant increase of those parts among the population that take a neutral stance towards competition (from 16% to 29%).

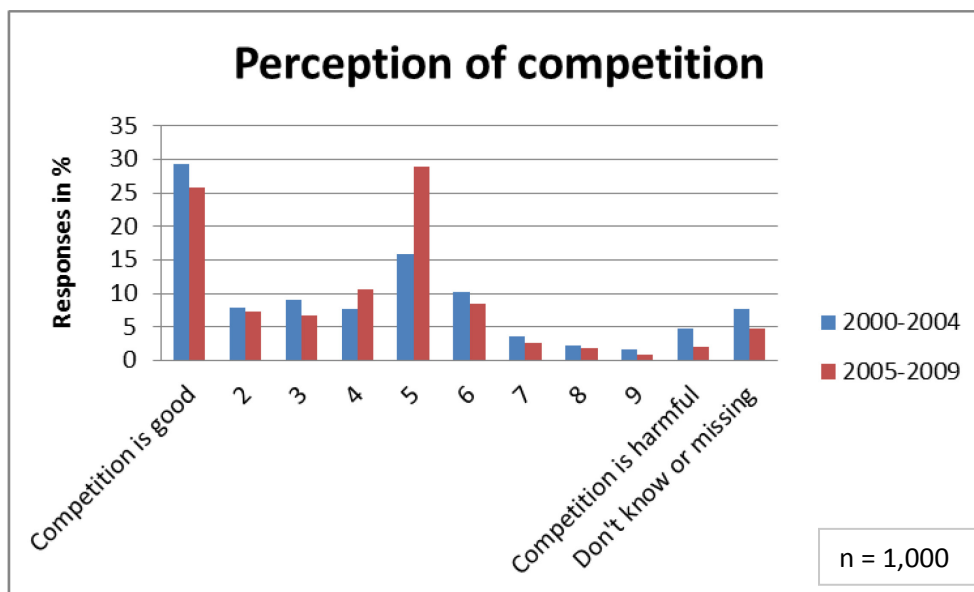


Figure 14 WVS survey item (v144, V119) 'perception of competition'

These perceptions on competition seem to be partially reflected in the attitudes towards business ownership (Figure 15): Here, however we find that in recent years a shift has been taken place. As for the period of 2000-2004, only 12% were opting for more private and 14% were in favour of more government owned business forms. More recently, in 2005-2009, the survey revealed that support of more private ownership increased to 18%, whereas support of more government owned business decreased to 9%. For both survey waves we can see that the single highest support among the interviewees (19%) is for a neutral stance.

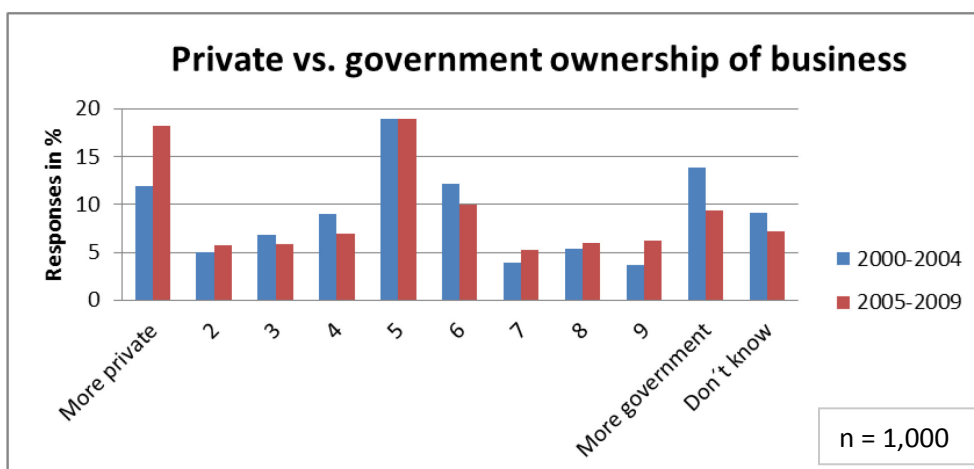


Figure 15 WVS survey item (v142, V117) 'private vs. government ownership of business'

When it comes to the norm-related mechanisms of how wealth should be distributed among society, the WVS states (Figure 16) that 40% of the survey participants see competitive norms as determining principles for the distribution of wealth in society, as opposed to 15%, who perceive egalitarian mechanisms as determining factors. When asked whether this should change, 20% opted for more egalitarian and 39% still opted for competition-based wealth distribution.

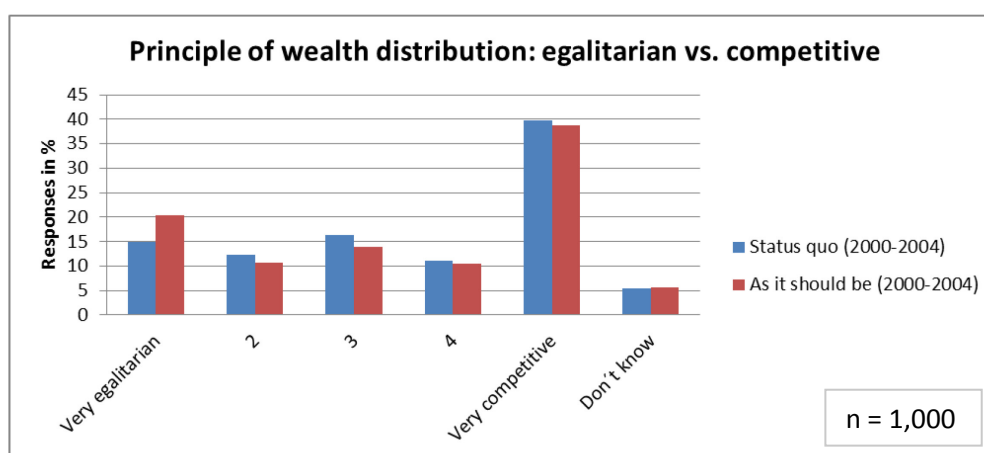


Figure 16 WVS survey item (V145a, V145d) 'principle of wealth distribution'

The final survey item that has been picked, has originally been listed by the WVS under the topic of 'Political actions recently done' (v143, V118 for waves no.4 and no.5 respectively), but since it was coupled with items that bear significant socio-economic components – namely items relating to competition, incomes, business ownership and wealth accumulation – the survey question on whether 'the government should take more responsibility to ensure that everyone is provided for' has also been included (see Figure 17). We can see that in this respect, actors in society think that individuals should do more than the government for the (economic) wellbeing of society. However also in this item we can find a shift of request for slightly more involvement of the government vis-à-vis a strong decrease of involvement of individuals: Support for the former increased by 2% from 11% (in wave no.4) to 13% (wave no.5), whereas it decreased for the latter from 24% to 14%.

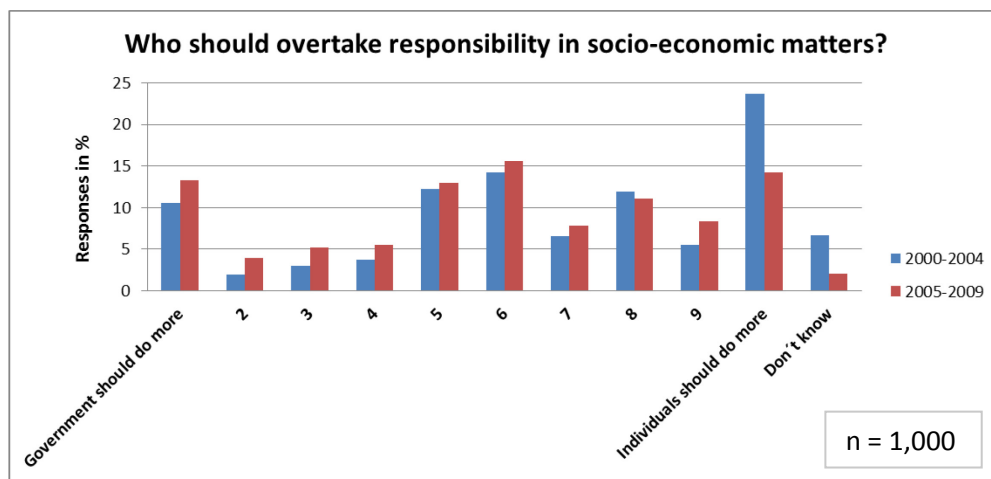


Figure 17 WVS survey item (v143, V118) ‘who should overtake responsibility in socio-economic matters?’

A major task allocated by society to the government relates to safety and stability, i.e. by determination of the formal institutional framework. In 2000-2004, the status-quo as well as the requests of the interviewees were similarly strong (41% and 46% respectively) in favour of a highly regulated framework for the provision of safety and stability in Vietnam’s society (see Figure 18). This statement may indicate a certain willingness of private actors to cooperate with the state, since that would further the economic interests of individuals.

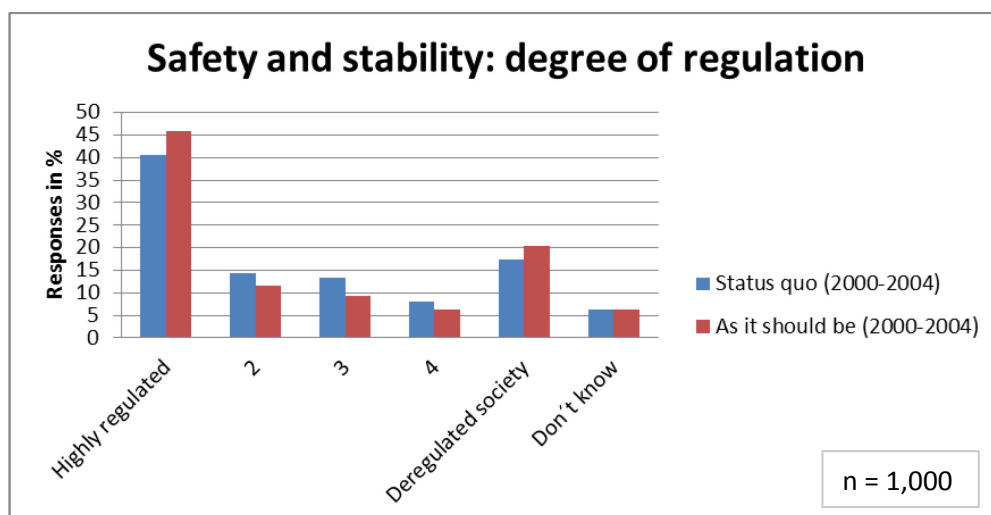


Figure 18 WVS survey item (v145c, v145f) ‘safety and stability: degree of regulation’

Overall, the analysis of the WVS seems to confirm the findings presented in the previous chapters: From what is said above, we may discern that apart from the significance of work stated by the interviewees, (1) the willingness to cooperate exists, albeit specific

conditions – maybe suitable for the pursuing of private needs and wants – have to be in place. (2) Moreover we can see that competition is very much favoured for and embedded in the practiced business norms of Vietnamese society: This perception is reflected in the responses on wealth distribution and business ownership. (3) However in regard to framework management, e.g. providing safety, stability and other responsibilities, we see that there still is a strong tendency among Vietnamese society to request or rely on the state and his actors.

## 9.3 Private Questionnaire Survey for the Thesis

### 9.3.1 Sampling, Question Design and Method of Analysis

The questionnaire survey, which has been designed for the purpose of finding answers to the research question of this thesis, has been conducted between April 14<sup>th</sup> and May 16<sup>th</sup> 2014. Initially, a questionnaire has been designed and after being translated into Vietnamese, the questionnaire has been uploaded and respective responses were saved online (see: <https://docs.google.com/forms/d/1wzdURp7qEjytwvb3--z4OvquR1SuC4kCjIoCRjw9-3E/viewform>). With the support of Mr Tran Duc Chung, three online discussion fora were identified that fulfilled the conditions of (1) being based in Vietnam and (2) being foremost used by Vietnamese citizens. Mr Chung did thereupon open a new thread in each of these fora, which had a link to the questionnaire and stated the purpose of the survey. Within nearly one month, 55 questionnaires were filled out by users of the three platforms.

The questionnaire itself consists of 12 questions (see Table 5), which have been posed in a neutral manner so as to avoid any bias for or against specific question contents.

Table 5 Survey items of the questionnaire

No	Survey Item
1	In your experience, how important are/ were the following habits in your job?
2	What did you learn from home (family) are the most important habits in life?
3	What is your perception of how people conduct business in Vietnam?
4	Which of the following norms do you think the government follows in regard to business?
5	Do you think trust is well developed in Vietnamese society, especially in business?
6	With which attitude do your parents approach work/ business related matters?

7	Which of the following norms do you think the government wants people in Vietnam to adopt?
8	According to your experience, what hat are the best ways to achieve what you want in your job?
9	What would you tell your children/ the younger generation/ your employee to be most important?
10	Do you have a high degree of trust towards your job environment?
11	Have you changed your preference for the following working norms in the last 10 years?
12	Which norm would you think to be most ideal for the business environment in Vietnam?

All questions were designed for responses along a five-point Likert scale, with ‘5’ indicating full agreement and ‘1’ total disagreement. Apart for the questions no.5 and no.10, which exclusively focus on the aspect of trust, all questions were to be responded according to perceived levels of cooperation, compromise and competitions. This multiple choice-like response option (see Figure 19) has been designed so as to account for a comparatively nuanced perception of reality by the actors, as expressed by a combination of the three norms: The idea behind it was to capture a multi-faceted picture of norm practice by socio-economic actors in Vietnam.

<p><b>1. In your experience, how important are/ were the following habits in your job?</b></p> <p>Cooperation: 1 <input type="checkbox"/> - 2 <input type="checkbox"/> - 3 <input type="checkbox"/> - 4 <input type="checkbox"/> - 5 <input type="checkbox"/></p> <p>Compromise: 1 <input type="checkbox"/> - 2 <input type="checkbox"/> - 3 <input type="checkbox"/> - 4 <input type="checkbox"/> - 5 <input type="checkbox"/></p> <p>Competition: 1 <input type="checkbox"/> - 2 <input type="checkbox"/> - 3 <input type="checkbox"/> - 4 <input type="checkbox"/> - 5 <input type="checkbox"/></p>
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**Figure 19 Multiple choice response option used in the questionnaire**

In regard to the sequencing of the question items in the questionnaire, a randomised order has been chosen so as to avoid biased responses by the interviewees. This elaboration stems from the fact that some questions can be seen as pairs or triplets (e.g. the positive-to-normative connection exhibited by question no.3 and no.12 as well as by no.4 and no.7), which serve the specific purpose of answering the research question and could have run danger of mutually biasing the responses of the interviewees, if listed next to each other in the questionnaire. In regard to questionnaire validity, this survey had the comparative advantage that even questionnaires that were only filled out partially could be integrated in the overall



assessment, since each question can be asked individually and does not in terms of its logic depend on a strictly sequenced hierarchy. Thus validity has been determined for every single question depending on whether the multiple-choice response option has been filled out properly, i.e. a value of 1 to 5 has been assigned to each of the three norms within one question.

### **9.3.2 Analysis of the Questionnaire Results**

In order to analyse the results of the private questionnaire survey, descriptive methods have been chosen, and correlation coefficients and other statistical tests for correlation between interviewee characteristics and norms choices have been avoided: Attempts of calculating the Pearson Contingency Coefficient and the Pearson Product-Moment Correlation Coefficient did not produce reasonable results and were thus left out.

In regard to the sample, 32 (58%) interviewees were between the age of 20-30, 21 fell into the group of 31-40 (38%) and 2 (4%) were between 51-60 years old. Among these 15 were female and 40 male. In regard to the place of birth, the majority (44) comes from the north, 7 from the south and 4 from the centre of the country. Out of these, only 2 are currently working in the central region, whereas 42 work in North and 11 in South Vietnam. Furthermore more than half of the interviewees (28) are employed in private business entities, 18 are state employed and 9 are students.

In regard to the perception of which norms practiced most frequently by Vietnamese (state and non-state) actors including themselves, the mean values show that cooperation is perceived as dominant (4.0 out of 5), followed by compromise (3.3) and competition (3.1). These numbers support the findings in the previous chapters, namely that cooperation plays a significant role in society, and yet compromise and competition are practiced in a frequency that ranges slightly above average. This dominance of cooperation has been expected in advance to the dissemination of the survey questionnaire, and therefore questions no.5 and no.10 were included in the design: Therein, the interviewees were asked how they perceive the level of trust among business actors in Vietnam (No 5) and for their level of trust in their job environment (No 10). Trust can in this methodological framework be seen as the necessary basis for cooperation<sup>44</sup>. According to the median of all responses, the development of trust levels in Vietnamese business society reaches 2.9 out of 5 points on the Likert scale, whereas trust in the individual job environment reaches a slightly higher 3.4 point-level. If

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<sup>44</sup> The concept of trust as a necessary basis for cooperation between business in Vietnam has been emphasised by preceding research (e.g. McMillan and Woodruff, 1999 and 2000; Gillespie, 2008; Vo and Nguyen, 2006)

translated into relative numbers (58% for question item no.5 and 68% for item no.10), we may see that these levels, or rather the general level for general trust levels among actors in business, are slightly higher to the WVS findings of 2005-2009, where 50.9% of the interviewees claimed that ‘Most people can be trusted’ with 46.8% stating that you ‘Need to be very careful’ (WVS, 2000-2004, Vietnam, V23).

This prevalent practice of cooperation over compromise and competition is further reflected in the median of the interviewees’ responses to the survey items: When categorised by age, sex, place of origin, work region and employment type (see Table 6), the respondents in general state that cooperative practices (in work, family, government actions etc.) are predominating. Deviations are very seldom, and merely when categorised according to age, the group of 51-60 exhibited a higher mean for compromise than for competition and cooperation related norms (4.3 vis-à-vis 4.2 and 3.7 points respectively) in their responses. For all the other categories and sub-categories, most weight has been given to cooperation related practices by the respondents.

Table 6 Mean values of norms measured in the responses of the interviewees

		Cooperation	Compromise	Competition
Age	20-30	3.9	3.2	3.1
	31-40	4.1	3.5	3.1
	51-60	3.7	4.3	4.2
Sex	Female	3.9	3.1	2.8
	Male	3.9	3.3	3.3
Origin	Central	3.1	2.1	2.2
	North	4.1	3.3	3.2
	South	4.0	3.9	3.1
Work -region	Central	3.1	1.8	1.6
	North	4.0	3.3	3.2
	South	3.9	3.5	3.1
Employment	State	3.9	3.4	3.1
	Non-state	3.9	3.2	3.1
	Student	4.1	3.2	3.3

Finally, another perspective of analysing the responses to the survey has been adopted. For that test, the items of the questionnaire survey have originally been designed in a pair- and triplet-like structure (see Table 7).

Table 7 Topics embedded into the survey that are based on the methodological inquiry

Focus of inquiry	No	Question Item
Imitation, learning & transferring norms	6	With which attitude do your parents approach work/ business related matters?
	2	What did you learn from home (family) are the most important habits in life?
	9	What would you tell your children/ the younger generation/ your employee to be most important?
Experiencing, choice for & adaption to norms	1	In your experience, how important are/ were the following habits in your job?
	8	According to your experience, what hat are the best ways to achieve what you want in your job?
	11	Have you changed your preference for the following working norms in the last 10 years?
Bottom-up vs. top-down: practice vis-à-vis normativity	3	What is your perception of how people conduct business in Vietnam?
	7	Which of the following norms do you think the government wants people in Vietnam to adopt?
Top-down vs. bottom-up: practice vis-à-vis normativity	4	Which of the following norms do you think the government follows in regard to business?
	12	Which norm would you think to be most ideal for the business environment in Vietnam?

As can be discerned from the above table, two major fields of inquiry were tried to capture within ten out of twelve survey questions: Relating to the pursue of needs and wants practiced by state and non-state actors, these specific questions aimed to look at (1) norm patterns reflecting imitation, learning and (adaptive) practice based on experience gathered by individuals from their surroundings, as well as (2) bottom-up and top-down practices of norms by non-state and state-actors respectively. In reference to the small sample (n=55), it has again to be stressed that therefrom obtained results can only show a small glimpse (and possibly a not fully representative picture) of actual norm patterns practiced by state and non-state actors in Vietnam.

The focus of the first set of questions (no. 6, 2 and 9) was directed at how norm practices change over time or in this case over generations. Therefore it has been asked how respondents saw their parents handling work related activities, what they had learned from home and their family, and thereupon which norms they deem useful to teach to the next generation. From Figure 20 we can discern that cooperation has clearly become more emphasised by the respondents, vis-à-vis a decrease in significance put on compromise.

Competition on the other hand has exhibited slightly more emphasis over time, but still ranks low if compared with cooperation.

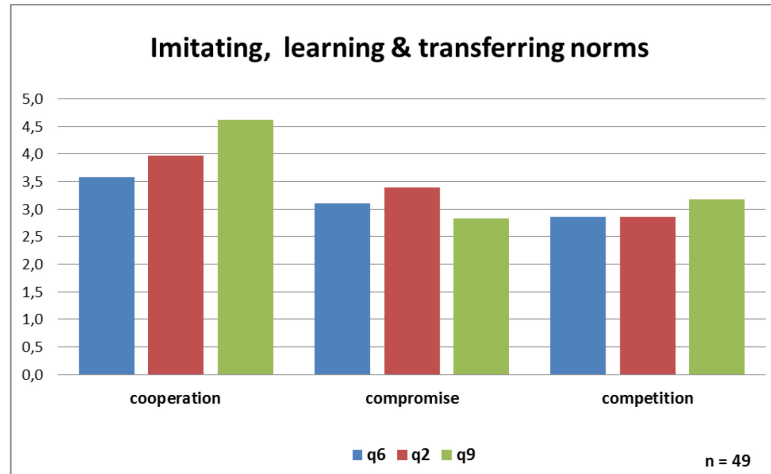


Figure 20 Imitation, learning & transferring norms

The second set (no. 1, 8, and 11) has more clearly focussed on the evolution of norms experienced and practiced by the interviewees within their respective business environment (see Figure 21). Here we find a complementary feature to the first set, namely that cooperation has been rated as most important habit (norm) and best suited for the attainment of individual needs and wants, but at the same time, the interviewees stated that they had made a significant preference change over time at the expense of cooperation related norms. Similarly, compromise has in general experienced a decrease, that is, it has been perceived less important as a working norm than cooperation and also decreased in significance for being useful when pursuing individual economic goals. Competition is seen as a slightly more significant norm for the job environment than compromise and also in terms of preference shifts, competition has been evaluated as increasingly important, slightly ranging above average levels.

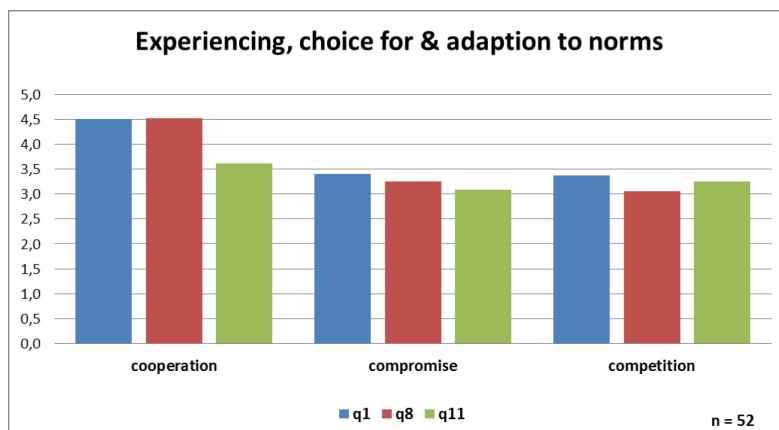


Figure 21 Experiencing, choice for & adaption to norms

The third set of questions (no. 3 and 7), attempted to tackle the difference between how business is conducted in every-day life vis-à-vis the preference of the government how needs and wants *should* be pursued (see Figure 22). We actually find that individual actors practice less cooperation – as perceived by the interviewees – than what the state would want them to. Similarly, there is also a perception of slightly more competition practiced than what the state would deem to be sufficient.

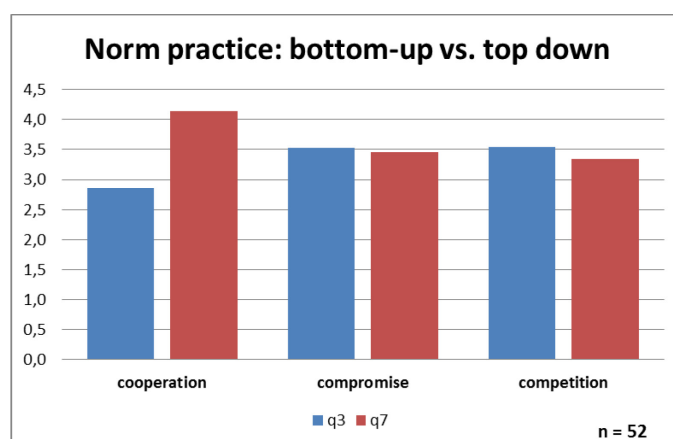


Figure 22 Bottom-up vs. top-down: practice vis-à-vis normativity

The final question pair (no. 4 and 12) aimed at complementing the third question set: The aim of this pair was to juxtapose the perceptions of the interviewees of the norms actually practiced in business activities by the state and the norms the interviewees would think would be ideal for business environment in Vietnam (see Figure 23). For this question set, we can see a small difference in regard to cooperation, where the state did practice this norm slightly

more than the interviewees would consider sufficient (this corresponds to the perceptions stated in the third set). Concerning compromise however it becomes clear that the state did less engage in this practice than would be considered useful by the interviewees.

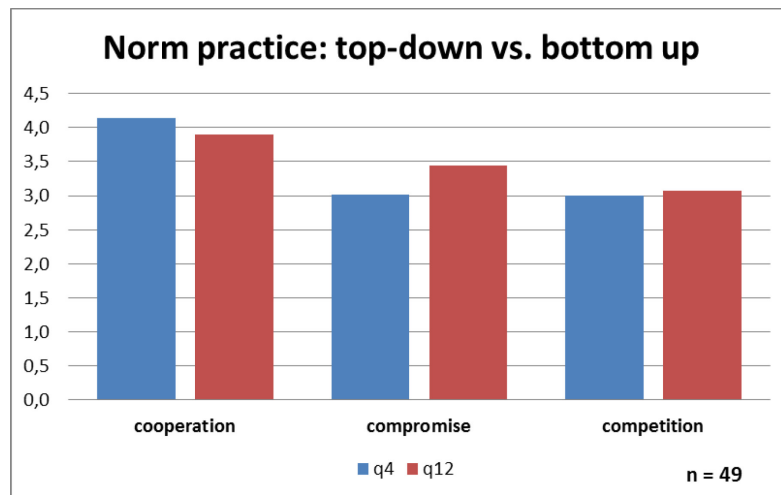


Figure 23 Preferred practices of norms: top-down vs. bottom-up

## 9.4 Discussion

The results of selected indicators of the WVS showed a high appreciation of socio-economic actors for work as playing a significant role in their lives. Furthermore we saw that individuals questioned by the WVS were also in favour of cooperative norms, if the working conditions were supportive of the respective economic goals of the interviewees. This was also reflected in the perception of survey participants, who were asking for more regulation and more responsibility to be taken by the government in regard to socio-economic matters as well as by their perception that wealth distribution is too much dependent on competitive norms. Simultaneously, the WVS participants also opted for more private business activities and largely voiced a positive perception regarding competition.

This latter aspect is to some extent upset by the responses of the questionnaire survey conducted for the purpose of this thesis: According to therein made findings, cooperation is still the most significant feature to pursue and achieve individual economic goals, especially if contrasted with compromise and competition. In this sample, competition was never fully rejected however support for this norm has in most cases only received levels slightly above the average (over 3.0 out of 5.0 points). The reasons for these results may stem from several factors: (1) Since participants of the survey came from only three online discussion platforms

the sample might be biased: Users of these platforms do possibly exclude entrepreneurs, petty enterprise owners and others, who don't have access to or don't have time and interest to access such discussion fora. (2) Secondly, the descriptive analysis of the data indicated that the interviewees were comparatively young (the group of 20-30 years accounted for 58% of the sample), which may limit the range and variety of experiences so far made in their lives. This in turn does have an effect on the responses to the survey question items. (3) Thirdly, the sample itself is considerably small (n=55) and in combination with the limited sampling source (three online discussion fora) this may explain the very small variances in the responses on individually experienced and preferred norm practices.

## **10 Conclusion**

In the following paragraphs of this conclusion we will review major findings of the preceding chapters and discuss them in regard to the primary and secondary research questions. Furthermore the hypotheses that were set forth in the methodological chapter will be reviewed in respect to these findings. In order to keep the analysis in the following paragraphs concise and easy to follow, this part will be organised according to the original chapter structure of the thesis.

### **10.1 Norm Practices in Historical Perspective**

The historical analysis of how norms were formed in Vietnam over the last century in chapter five initially indicated the dominance of the informal realm within the dynamic between formal and informal institutional systems: Top-down enforced laws from the political centre were frequently adapted and thus subject to the dominance of local informal norm structures. If gauged from the institutional-systemic level, congruence between local, informal rules and central, formal rules was always seen as the necessary ingredient for maintaining stability over the geographically stretched country. When looking at the local governance level of villages, it was found that not only cooperation, but also competition has played a significant role. The wealthy actors in villages competed for the leadership positions and this was measured in terms of how much they could contribute to the overall wellbeing of the village. Herein the norm of competition (between a few) is practiced within the context of improving cooperation (among the many). In periodically occurring village uprisings norms of cooperation were adopted by those, who felt the need for change, so as to compete with those, who were in power. In this governance setting of the traditional village the characteristics of goals played a decisive role for the choice of norms: Cooperative norms prevailed since most of the needs and wants exhibited non-exclusive and non-rival characteristics and only in very few occasions (e.g. change or attainment of local leadership) competitive norms were practiced.

It was this bottom-up established, institutional fundament that the ICP used in order to further its goal of overcoming the colonial regime and foreign dominance: Local structures that were disdained by the colonial system could only survive by means of cooperation (e.g. local mutual aid structures). When the ICP began to introduce communism in Vietnam, it promoted an idealistic system of universal utopian equality that appealed to known, communal norms in society that emphasised a fair share of responsibility and gain. Based on



the idea of congruence in goals, cooperative norms were used for the forging of an alliance between the various actor groups, which then were encouraged to compete with the ruling elite so as to bring about change. From the position of the ICP and its supportive actor groups, the now common goal of independence and the change of political and economic power structures was seen as exclusive and rival and thus had to be competed with. Within this movement internal norms of cooperation and values of equality were promoted, whereas externally competition with foreign powers and their supporters was highlighted as the major norm. In regard to the research questions, we may thus conclude that before unification cooperative norms were predominantly practiced, followed by competitive norms when it came to change or oppose governance systems. As for what has been documented in secondary literature, compromise only played a marginal role, e.g. when it was necessary to reduce ideological barriers between the ICP and other groups so as to advance a common goal. The reciprocal influence of informal norms on formal norms was only visible in regard to the predominant norm of cooperation being manifested in the ICPs ideology, which thus helped to advance the party's economic and political goals. In regard to the hypotheses, there was no visible shift of formal norms towards more competition except for the promotion of competition for challenging the political establishment at that time. Cooperation related norms evidently continued to play a decisive role, whereas goal characteristics did indeed decide over which norm was practiced by actor groups in the observed cases.

The later historical period discussed in this first chapter exemplified the changes in norms after unification up until and shortly after the *doi moi* restauration. The major challenge identified in these paragraphs was the top-down enforced system of cooperation, which the CPV deemed useful to advance its goals. One fundamental flaw in this concept however was the party's neglect of the plurality of norms and values existing within Vietnam's society. The enforcedly established cooperative system simply ignored that norms relating to competition and individualism were practiced in the countryside, and therefore this top-down enforcement of cooperation could at the meta-level be perceived as a kind of systemic competition. These formal attempts were responded to by informal reactions: In the countryside the peasantry competed with the state by further practicing their traditionally grown rule systems and via the obstruction of the collectives. Clearly in this case the bottom-up response overruled the formal top-down enforced norms and proved victorious when the leadership in the 1980s had to give-in by introducing the *doi moi* renovations. Equally in other sectors apart from agriculture, informal markets were created via bottom-up initiatives and competed with the formal system of resource and good coordination and allocation. Supplementary structures

like petty and household enterprises emerged and backed informal market transactions, which not only served consumers but also SOEs, which often needed informal markets for vital resources and semi-finished goods for production. In the face of these realities state actors have initially tried to obstruct these informal structures, however against the background of a steadily decreasing the economic performance, accepting these informal system the leadership seemed to be forced into a compromise at this point. This informally induced change of the formal rule set can be analysed in terms of the CPV's overarching goal of political stability through economic growth: However, this non-rival, but partly exclusive goal of dominating the allocation of goods and services via the formal system had to partially cede to the informally emerged rule systems. The subsequent compromise finding process evolved along a process of trial-and-error striving for a higher efficiency and culminated in the 1986 reforms that gave in to the former informal market coordination. Clearly in this second phase, competition was the initially dominating norm that moulded the dynamic between the formal and informal realms. In the course of this contest, compromise for the increasingly succeeding informal norms was allowed for by the CPV and with the initiation of the *doi moi* reforms, we may even identify a kind of cooperative stance adopted by the CPV towards the practices of non-state actors. Regarding the question of influence between the formal and the informal side, it can be said that the informal rule systems did have a moulding effect on the formal institutional system, which manifested in the 1986 reforms. As for the hypotheses, it may be said that the formal system experienced a change from originally cooperative to increasingly competitive norms. Simultaneously, the formal rule set still maintained strong characteristics of cooperative norms. The characteristics of goals have in some instances determined the choice of norms by state and non-state actors however the identification of these characteristics was only visible in a very small number of cases. In the historic process of overcoming colonisation, the struggle for independence up until the country's unification and the initiation of economic reforms, a predominant practice of cooperative norms has been maintained by non-state actors although the use of competitive norms for achieving actor specific needs and wants simultaneously occurred.

## **10.2 Changing Formal Preferences for Norms**

The second chapter focussed on the identification of the changing preference for competition, cooperation and compromise within the formal institutional framework, which operates for the purpose of realising the state's economic goals. The overarching function of the second chapter was to provide a partial answer to the primary and secondary research questions, i.e. how the formal preferences for norms had changed over time. The first segment to consider

was the institutional layer of the constitutions. Via the capturing of used norms within the constitutions it could be identified that a decrease of cooperative norms vis-a-vis an increase of competitive norms has taken place over the past 65 years. In direct comparison of quantitatively measured use of norms however the constitutional framework still puts more emphasis on cooperation than on competition, while remaining silent on compromise.

According to the findings of secondary literature, the changes in the constitutions towards an increasing emphasis of competition originate in the realisation of systemic failures related to the command economic policies. The most significant step in the sense of an outspoken support of competition came with the 1992 Constitution, which made an attempt to account for the increasingly market driven coordination of economic activities instigated by domestic and foreign non-state actors.

A similar picture of change can be found in the two Laws on Cooperatives, which were designed to operate on strictly cooperative norms, but compromise norms became increasingly emphasised and occurred as often as cooperation related norms in the 2012 Cooperative Law.

In regard to the formal norm set implemented for the governance of enterprises, the evaluation of the laws have shown that all three norms received an increase in emphasis, which indicates that the framework became more organised over time. Therein the quantification of norms has shown that compromise and competition – if taken together – were more promulgated than cooperation. This institutional evolution does to some extent support the hypothesis stating that the formal framework does increasingly shift towards compromise and competition related norms at the expense of cooperation related ones. The 2004 Law on Competition is further supporting this hypothesis as it shows that the government has recognised competition as an important norm for increasing efficiency in business, albeit cooperative and compromise related norms received an equally high emphasis in this law. This may be interpreted as a certain degree of cautiousness on behalf of the government regarding the possible effect that too much competition could have on the political-economic system. Secondary literature on this subject has shown that these laws have led to increasing performances by private enterprises, which to some extent shows that in this case formal norms did influence the formerly informal business realm by inducing actors to engage into a process of formalisation. Most possibly the strongest influence of the formal increase of competition related norms was exerted on SOEs: Their privatisation very much followed the idea of making these companies more efficient and in that sense the

government deemed competition related norms as most suitable for this task. At the same time however cooperation and compromise related norms continue to play a guiding role for these SOEs.

Finally, the Laws on Investment have been analysed in regard to the evolution of norm promotion. In this field, domestic investment has increasingly been subject to an ever more rigid regulation, whereas the rules for foreign investment appeared to have become more and more relaxed over time. In relative perspective however rules for domestic and foreign investment have developed along a path towards convergence, which was reached with the Unified Investment Law of 2005: Herein, cooperative norms received the most emphasis, whereas compromise and competition were relatively side-lined. Nevertheless, secondary literature has highlighted the beneficial effects for investment due to the 2005 law, as it is generally seen as a significant piece supporting a more deregulated investment market from which foreign and domestic firms could profit.

Summarising the discussion of this chapter it needs to be underlined that there was no strictly linear shift of the state preferences, in which norms of competition would fully replace cooperation related norms. However what has been shown in all segments that competition and compromise related norms increased (mostly however at a relatively small level), whereas cooperation related norms experienced a gradual reduction.

### **10.3 Norms Practiced in Agriculture**

As already indicated in the chapter on the historic evolution of norms, the norm practice in agriculture exhibited a high degree of cooperative forms, especially among non-state actors. Simultaneously, a sufficiently big leeway was given to norms of competition and compromise, whereas practice patterns of the former have been more and more frequent since the establishment of the SRV. Before the establishment of the socialist system the culturally inherited rule system in agriculture has put substantially more emphasis on cooperation between actors to achieve the common good, which has definitely been marked as superior to the individual attainment of needs and wants. The major dilemma for the state in agriculture before and even after *doi moi* was that state actors attempted to enforce cooperation via top-down means without considering the variety of norms existing at the local level. Enforced cooperation thus posed the major ingredient for the systemic competition between bottom-up and top-down norm practices. As however shown in this chapter, it was not the formal realm that shaped the informal realm as change rather evolved in the opposite direction.

The initial clash between the formal and the informal realm originated in the 1950s, when the state began to enforce the implementation of collectives in agriculture and thereby aimed at abolishing the traditional norms combining communal and individual farming systems. With this move, the competition of two systems – the bottom-up and the top-down – was initiated and the formal system of ‘enforced cooperation’ was considered by state actors as sufficient for the attainment of society’s needs and wants. What may be seen as major trigger for this kind of competition was the divergence in economic goals of state and non-state actors: For the state agricultural growth should help to achieve independence from foreign occupation of Vietnam. This required a rapid and thus coerced increase of economic resources out of agriculture. Non-state actors in agriculture would rather aim for achieving self-sufficiency and a decent income, for which cooperative as well as competitive norms were deemed to be most effective. The common denominator in terms of the economic goal in this relationship would be the increase in agricultural output. Correspondingly, the characteristic feature for attaining such a goal would be represented in the rule and norm system. And in this regard, a certain degree of exclusiveness and rivalry is visible: In the 1950s, the formal system had tried to exclude any non-collective norm structures, and the more one system (formal or informal) would be practiced by state and non-state actors the less the other system would be used. The chances of the formal system to win this challenge were limited since after a short time, peasants became alienated with the formal setting – due to the oppression of traditionally practiced norms – and thus began to compete with top-down enforced rules by illegally practicing bottom-up norms: (Black) markets, were illegally maintained so as to make ends meet and make up for the failings of the cooperatives. This kind of cooperation between non-state players against, and thus in competition with, the state continued in the 1960s and also affected the cooperatives: The size of collective land for private farming originally provided by the state in the sense of compromising to farmers was ever increased by these non-state actors, whereas cooperative farm land was kept largely unworked. Local state actors had to compromise with this informal development as they feared that otherwise local order would get out of their hands. The clearly recognisable superiority of informal over formal norms has been conveyed to formal actors via a bottom-up operating, information feedback mechanism, i.e. failures in harvests, direct complaints and discussions as well as critiques voiced within mass organisations. In the first instance this led to an increased debate among state actors regarding the effectiveness of collectivisation and in the second instance this led to a change in the formal norm structure: In the 1970s, the enforcement of collectivisation lost momentum: Attempts to collectivise farmland in the south

had failed and the critical voices within the CPV grew in number. The information feedback had induced a learning process among executing state actors leading to compromises on their behalf in regard to black peasant markets or the extension of private farm land for individual purposes. And this informal decision among state actors initiated the slow demise of the formal cooperative system. The informal stance of state actors to compromise that was subsequently accepted by local state actors – the contract system in the south and the sneaky contract system in the north – entailed success in regard to the agricultural output and apart from laying the foundations for the reforms of the 1980s these developments have shown the influence of informal norms on the formal institutional setting. The major reason for compromise and cooperation between state and non-state actors can be found in the goal characteristics: Obviously the struggle for different goal, namely enforcing an economic ideology (by state actors) contra maintaining traditional norms, has given way to the more overarching goal of achieving an increase in agricultural output. In the 1980s preceding steps of giving more leeway to bottom-up tendencies were formally acknowledged with the ‘contract 100’ system in agriculture allowing private farming activity per decree in 1981 and the *doi moi* reforms in 1986. At this point it became clear that bottom-up practiced, systemic competition has won and state actors had moved along a path of learning and trial-and-error experiments in various regions so as to test individual initiatives that would be legally embedded in the formal institutional framework in 1986.

Seen through the lens of the methodological framework the *doi moi* reforms may be perceived as *the* only phase during which compromise and cooperation between state and non-state actors was achieved since the beginnings of the SRV. This analytical stance is especially true when we look at the events in agriculture during the 1990s and 2000s: Although meant in the sense of more market based coordination, the formal measures introduced did again feature characteristics of an enforced cooperation, e.g. the 1993 Land Law and the NSCs. Contrary to the expectations of state actors that the peasantry would automatically adhere to the new formal rule set after the reforms, the new Land Law was perceived as a menace as they could possibly face a deprivation of lands due to methods of privatisation that deviated from the communally practiced norms. With the initiation of the law, competition between the informal and the formal norm set remerged via the bottom-up induced refusal to follow the new rule set. Similarly, peasants refused to accept formal attempts to manage land via NSCs, which were installed as means to establish cooperation between the state and non-state actors for the improvement of agricultural output. As farmers realised that the tools of NSCs would not help them to pursue their needs, informal street

associations and IFGs emerged all over the country via bottom-up efforts. Their advantage was that they represented tailor made solutions to the challenges perceived by the non-state actors and were in fact built-up on a strong cooperative ideal. Again the impact of informal norms on formal rule structures becomes evident when looking at the NSCs that were actually performing well: These units imitated the IFGs in regard to their democratic, communal decision making mechanisms that had replaced the originally designed top-down control mechanism embedded in the NSC concept.

Overall the chapter on agriculture has shown that the dominating norm has indeed been cooperation, mostly used by non-state actors and in some cases by non-state actors. Competition occurred to be the second most frequently practiced norm, often being the result of the two competing systems set forth by state and non-state actors respectively. Compromise related norms did fill in the intermediary periods, which opened up as soon as the formal layer began to accept the bottom-up demanded norm sets. Here again it must be emphasised that the cases analysed in this chapter nearly exclusively exhibited the superiority of informal norms over the formal rule setting, which was thus forced to change according to non-state actors' needs. Agreement and cooperation between both sides only occurred in the cases of aligned goals, i.e. during the fight against the colonial regime and in the 1980s when the growth in agricultural output became the imperative in policy making. Regarding the assumptions on whether there was a shift towards more competitive norms in the formal framework, it could be shown that such a development has taken place since and after the 1986 reforms. Equally characteristics of economic goals have led to the adoption of respective norms, e.g. cooperation for the case of the reforms and competition in the cases of top-down enforced production systems in the pre-reform era. As for the hypothesis presuming that little or no changes occurred within the informal realm over time, it could be shown that cooperative norms still prevail especially when looking at institutions such as the IFG and street associations.

## **10.4 Norms Practiced in Business**

In the chapter on the practice of norms in business, the focus was set slightly more on interactions between non-state actors since *doi moi* and how this dynamic lead to the emergence and perpetuation of non-codified norms interacting with the formal institutional structure.

The initial relation between the state and private entrepreneurs from the onset of reforms was characterised by competition that shifted towards more compromise and

cooperation: While the central government attempted to maintain control over the industrial sector via strengthening the performance of SOEs through privatisation it had to acknowledge that private businesses were outdoing SOEs in respect to employed labour and generated profits. The subsequent response, which shifted the formal norm set towards cooperation, came via the codification of new business rules since 1986 that would give more leeway to private enterprises. Similar to agriculture, this step could be seen as a formal recognition of informal (business) norms. In fact entrepreneurship had never been fully abolished in Vietnam, but just submerged into the informal realm. The new stance in support of cooperation with non-state actors in business led to an increase in registered enterprises and could thus achieve a certain degree of success: Obviously the characteristics of economic goals were less rival and exclusive as they had been in previous decades. On the other hand, many of the measures aiming at the formalisation of private business activities did not prove effective, as they were merely transplanted from foreign countries without having fostered a respective institutional substructure in Vietnam. One visible problem in this respect has been exemplified in the judiciary, which was implemented via top-down means so regulate and mediate business conflicts. However in practice the judicial system featured various flaws thus leading private businesses to find compromises outside of the formal courts via their own informal mediation systems, e.g. by the inclusion of neutral enterprises and respective associations. Not only did these attempts of formalisation did not generate the necessary levels, it moreover appeared that executing state actors did in fact favour informal solutions. In this respect, it appears as if state and non-state actors informally cooperated ‘behind the back’ of the formal system.

Cooperation did indeed seem to dominate the further relationship between the state and domestic non-state actors in business, and this form of interaction was to some extent taking an informal shape before changes arrived at the formal institutional setting. Individual enterprises did in certain instances resort to informal conventions with local state actors, in which land, capital and licenses were exchanged for money or goods of value. On the other hand, the state engaged and furthered mutual dialogues and accepted lobbying from private enterprise associations, which in turn resulted in the establishment of those laws in the 1990s and 2000s that would in further consequence promote private business growth. In this instance cooperation between state and non-state actors led to a change in the formal institutional framework via – but not exclusively because of – bottom-up initiated efforts. Through this informally instituted form of cooperation the government also attempted to gain a degree of control over the private business segment, i.e. by influencing business associations to adopt norms that were in the interest of the state and these enterprises were hence rewarded



with more influence on the law-making process. Overall cooperation between state and non-state actors however took the form of bottom-up lobbying efforts, whereas cooperation as a means of solving conflicts among actors is mainly conducted within the involved enterprises themselves.

The subsequent parts of the chapter have been dedicated to the analysis of norm practices at the informal level practiced between private enterprises. One significant foundation for cooperation between private enterprises is the value of trust, which plays a decisive role when it comes to determining the provision of informal credits or the establishment of inter-firm contracts. Within this informal cooperation system information feedbacks provide the necessary tools for gauging the level of trust as well as the implementation of sanctions. Compromise on the other hand has been identified as the most commonly applied norm to resolve business conflicts and thus competition appears as a comparatively seldom adopted norm. In a broader sense this diverse use of norms can be explained by the characteristics of goals that private actors in business strived for: These economic goals in the first two decades after *doi moi* seem to have exhibited very low levels of rivalry, but were to some extent characterised by exclusiveness.

The communal realm of private enterprises in Vietnam has operated on a very high level of trust and well working information feedback systems. As the formal institutional system has been insufficient for the attainment of needs and wants of private enterprises respective functions had to be provided informally, which in turn seemed to have resulted in a predominance of cooperative and compromise patterns that were much more frequently practiced than competitive norms. The high degree of informal norm practices in the business world of Vietnam in fact hints to the weakly developed formal rule set, which appeared to be strongly influenced and enriched by the informal norm spectrum. This bottom-up influence was in turn accepted by state actors, as it also served the interests of state actors. This success of informal over formal economic norm structures may also have moved the state towards adopting an increasingly positive stance towards competition, which was exemplified in the continued progress of SOE privatisation and the pro-competition directed laws for enterprises. At the informal business level however cooperation related norms retained dominance and as it has been assumed in the methodology section of this thesis there was no visible shift away from cooperation towards more competition by private actors in business.

## 10.5 Survey on Norm Practices

The final chapter focussed on norm practices in Vietnam as they were documented by the WVS and the individual questionnaire. In the first section the WVS findings of cooperation and competition related norm practices were reviewed and the various survey items reflected a dominant use of cooperative norms among Vietnamese citizens in respect to work and business related matters. The adoption of cooperation was however not unconditionally chosen, but in certain instances dependent on the context of the working and business structure. Simultaneously it was however shown that the strong propensity towards cooperation did not exclude the approval of Vietnamese actors for competition related norms: The WVS results showed that there is quite some support of competition for business management, ownership and in regard to how wealth should be distributed within society.

The second part, which revolved around the findings of the private questionnaire survey on norm practices, also underlined that cooperation is the most favoured norm among Vietnamese actors, when it comes to work relevant matters. Nevertheless, compromise and competition were used in a frequency that ranged slightly above average levels if weighted along a five-point Likert scale. The necessary basis for cooperation in work related matters – trust – has equally received relative high levels, which seems to confirm the preference of cooperation for attaining individual needs and wants. It was thereupon tried to capture changes in the preferences related to the practice of the three norms over time, the designed question set on the evolution of norm practices indicated that cooperation has clearly received the strongest emphasis by the interviewees, whereas the preference for compromise was clearly decreasing over time. Competition on the other hand has exhibited slightly more emphasis over time, but still ranked low if compared to cooperation. Overall the chapter on the surveys seemed to confirm the results of the preceding chapters.

As for the conclusion of the entire thesis, it can be assessed that cooperation related norms did indeed represent the most frequently practiced norm among state and non-state actors in Vietnam. At the same time however it has become to some extent evident that results of gauging the dominance of certain norms over others have to be taken with care: Firstly, those chapters that are based on secondary literature findings may only provide an *overview* of norm practices and how general preferences have shifted over time. Secondly, the quantification of the three norms in the legislative pieces and constitutions have in most cases not shown a straight, linear development of formal preferences from one norm to another – the analysis rather showed a multifaceted picture on how the state began to change certain

norms in favour of more competition, without fully abandoning cooperation. Finally the survey chapter also hinted to a dominance of cooperation, and only slight changes towards more competition for the individual attainment of needs and wants.

So what does this strong preference for cooperative norms among state and non-state actors tell us about the reform process in Vietnam? On the one hand the findings in this thesis may indicate that norms that were fostered over a long time and are embedded in the informal realm did not simply vanish within the nearly 30 years of formal economic reform. This seems to confirm the relatively generalising picture depicted by Groenewegen and colleagues on the East-Asian economic model, which is described to feature a high degree of cooperation (Groenewegen et al., 2010, 83f). On the other hand the evaluation of norm practices could provide a very different picture, if applied to a context of another 30 years of post-*doi moi* developments in Vietnam. After all norms are ontological components of the informal institutional layer, which changes comparatively slower than its formal counterpart. Subsequent research that would aim at capturing a more extensive picture on the evolutionary change of norm practices would thus need to be based on a respectively longer time period.

# **11 Appendix**

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## 11.4 Sample of the Questionnaire Survey

### Questionnaire: Values in Vietnam

- Dear Interviewee! Thank you for taking the time to fill out the questionnaire! Please make sure that you don't miss any question. Please answer the questions according to your very personal perception!
- The questions relate only to the experiences you made in Vietnam.
- Definitions:
  - Cooperation: Work together with others to achieve your needs and wants
  - Compromise: Agreement not to obstruct each other for achieving your needs and wants
  - Competition: Work against others to achieve your needs and wants
- Tick the boxes [☐] to give your answers: For each value/norm/ habit, please only tick one box!
- Scale: 1= "least important", 5= "most important"

Age: 20-30 ☐, 31-40 ☐, 41-50 ☒, 51-60 ☐, 61-70 ☐

Sex: male ☐ female ☐

Region in Vietnam that you are from: North ☐, Central ☐, South ☐

Region in Vietnam that you are/ have been working: North ☐, Central ☐, South ☐

Profession: Student ☐, state employed ☐, non-state employed ☐, retired ☐

#### 1. In your experience, how important are/ were the following habits in your job?

Cooperation: 1 ☐ - 2 ☐ - 3 ☐ - 4 ☐ - 5 ☐

Compromise: 1 ☐ - 2 ☐ - 3 ☐ - 4 ☐ - 5 ☐

Competition: 1 ☐ - 2 ☐ - 3 ☐ - 4 ☐ - 5 ☐

#### 2. What did you learn from home (family) are the most important habits in life?

Cooperation: 1 ☐ - 2 ☐ - 3 ☐ - 4 ☐ - 5 ☐

Compromise: 1 ☐ - 2 ☐ - 3 ☐ - 4 ☐ - 5 ☐

Competition: 1 ☐ - 2 ☐ - 3 ☐ - 4 ☐ - 5 ☐

#### 3. What is your perception of how people conduct business in Vietnam?

Cooperation: 1 ☐ - 2 ☐ - 3 ☐ - 4 ☐ - 5 ☐

Compromise: 1 ☐ - 2 ☐ - 3 ☐ - 4 ☐ - 5 ☐

Competition: 1 ☐ - 2 ☐ - 3 ☐ - 4 ☐ - 5 ☐

**4. Which of the following norms do you think the government follows in regard to business?**

Cooperation: 1 ☐ - 2 ☐ - 3 ☐ - 4 ☐ - 5 ☐

Compromise: 1 ☐ - 2 ☐ - 3 ☐ - 4 ☐ - 5 ☐

Competition: 1 ☐ - 2 ☐ - 3 ☐ - 4 ☐ - 5 ☐

**5. Do you think trust is well developed in Vietnamese society, especially in business?**

Trust is well developed in Vietnamese society: 1 ☐ - 2 ☐ - 3 ☐ - 4 ☐ - 5 ☐

**6. With which attitude do your parents approach work/ business related matters?**

Cooperation: 1 ☐ - 2 ☐ - 3 ☐ - 4 ☐ - 5 ☐

Compromise: 1 ☐ - 2 ☐ - 3 ☐ - 4 ☐ - 5 ☐

Competition: 1 ☐ - 2 ☐ - 3 ☐ - 4 ☐ - 5 ☐

**7. Which of the following norms do you think the government wants people in Vietnam to adopt?**

Cooperation: 1 ☐ - 2 ☐ - 3 ☐ - 4 ☐ - 5 ☐

Compromise: 1 ☐ - 2 ☐ - 3 ☐ - 4 ☐ - 5 ☐

Competition: 1 ☐ - 2 ☐ - 3 ☐ - 4 ☐ - 5 ☐

**8. According to your experience, what are the best ways to achieve what you want in your job?**

Cooperation: 1 ☐ - 2 ☐ - 3 ☐ - 4 ☐ - 5 ☐

Compromise: 1 ☐ - 2 ☐ - 3 ☐ - 4 ☐ - 5 ☐

Competition: 1 ☐ - 2 ☐ - 3 ☐ - 4 ☐ - 5 ☐

**9. What would you tell your children/ the younger generation/ your employee to be most important?**

Cooperation: 1 ☐ - 2 ☐ - 3 ☐ - 4 ☐ - 5 ☐

Compromise: 1 ☐ - 2 ☐ - 3 ☐ - 4 ☐ - 5 ☐

Competition: 1 ☐ - 2 ☐ - 3 ☐ - 4 ☐ - 5 ☐

**10. Do you have a high degree of trust towards your job environment?**

I have a high degree of trust towards my job environment: 1 ☐ - 2 ☐ - 3 ☐ - 4 ☐ - 5 ☐

**11. Have you changed your preference for the following working norms in the last 10 years?**

Cooperation: 1 ☐ - 2 ☐ - 3 ☐ - 4 ☐ - 5 ☐

Compromise: 1 ☐ - 2 ☐ - 3 ☐ - 4 ☐ - 5 ☐

Competition: 1 ☐ - 2 ☐ - 3 ☐ - 4 ☐ - 5 ☐

**12. Which norm would you think to be most ideal for the business environment in Vietnam?**

Cooperation: 1 ☐ - 2 ☐ - 3 ☐ - 4 ☐ - 5 ☐

Compromise: 1 ☐ - 2 ☐ - 3 ☐ - 4 ☐ - 5 ☐

Competition: 1 ☐ - 2 ☐ - 3 ☐ - 4 ☐ - 5 ☐

**Thank you very much for your cooperation!**

## 11.5 Sample of the Institutional Evaluation

No	found term	norm	social field	context	value correlation with national ideals	phrase	found in Article	const. 1948	const.1959	const.1992	const.1992 amend.2001	const.2013
1	Vice-Chairman of the National Assembly shall assist the Chairman	cooperation	political	national assembly - duties of the chairman	positive	The Chairman of the National Assembly presides over sessions of the National Assembly; certifies laws and resolutions of the National Assembly; organises the conduct of external relations of the National Assembly; Maintains relations with representatives to the National Assembly. The Vice-Chairman of the National Assembly shall assist the Chairman in the discharge of his duties as assigned by him.	92	no	no	yes	no	no
2	jurist organisation to assist defendants	cooperation	judicial	defence of people in court	positive	The defendant's right to plead his case is guaranteed. He may plead his case himself or ask for someone to plead for him. A jurist organisation is to be formed to assist defendants and other persons concerned in defending their legal rights and interests and to contribute to the defence of socialist legislation.	132	no	no	yes	no	no
3	to fight against bureaucracy and corruption within the State apparatus	competition	economic	duties of the government	negative	To organise and administer the compilation of national inventories and statistics; the inspection and control work of the State; to fight against bureaucracy and corruption within the State apparatus; to address citizens complaints and denunciations.	112	no	no	yes	yes	no
4	guidance and assistance to citizens in the exercise of such rights	cooperation	socio-political	national assembly representatives guiding the people	positive	National Assembly representatives must maintain close contacts with voters, accept their supervision; collect and truthfully reflect their opinions and wishes to the National Assembly and concerned State offices, hold periodic meetings with voters and report to them about their activities and those of the National Assembly; answer requests and petitions made by voters; examine, activate and monitor the handling of complaints and denunciation made by voters and provide guidance and assistance to citizens in the exercise of such rights.	97	no	no	yes		
5	pay taxes according to the law	cooperation	economic	duty to pay taxes	positive	The citizen has the duty to pay taxes according to the provisions of the statute	47	no	no	no	no	yes

## 11.6 Summary of the Thesis

The present master thesis treats the aspect of norms that are practiced in transformational Vietnam by socioeconomic actors for the purpose of realising their individual economic needs and wants. In order to conduct the analysis within a reasonable frame, the norms cooperation, compromise and competition have been chosen so as to conflate the multitude of economic norms under the umbrella of three properly delineated proxy norms. Based on theoretical inputs from the New and Old Institutional Economics and with specific focus on Evolutionary Institutional Economic concepts a methodological tool has been developed with the aim of identifying norm practices and norm changes over time, as these occur in legal economic texts and state and non-state actor based interaction. The guiding research question addressed the aspect of whether there is a specific dominance and a respective change of it in the use of norms among state and non-state actors. Above that the thesis attempted to identify how the mutually constitutive formal and informal norm sets are moulded by socio-economic actors and whether there has been a change from more cooperation in pre-reform periods to more competition in the economy once the *doi moi* process had begun.

With the guiding methods and theories behind the query being laid out in the initial chapters the first part aims at depicting norm practice and change over Vietnam's recent history. The next chapter focusses on the formal institutional framework, i.e. on the use of cooperation, compromise and competition related norms in the SRV's constitution and laws on enterprises, cooperatives and investment. After that, the norm practices and changes of actors in agriculture and business are discussed. The subsequent final chapter is based on the results of two different surveys: Firstly, some survey items presented by the standardised Wold Values Survey on Vietnam were discussed in regard to how Vietnamese actors perceive the norms cooperation and competition within the business/ work context. The second part builds up on a private survey conducted by the author among Vietnamese actors regarding their practice of the three norms. The conclusion reviews the findings of the preceding chapters in regard to the research questions and the hypothesis set forth in the initial chapters. In summary, it has been shown that cooperation has been predominantly practiced by state and non-state actors, whereas the practice of compromise and competition has steadily increased overtime although at a relatively low level.

## **11.7 Zusammenfassung der Masterarbeit**

Die hier vorliegende Masterarbeit analysiert die Nutzung von Normen seitens sozioökonomischer Akteure in Vietnam zur Realisierung deren individueller ökonomischer Ziele. Hierbei wurden die Normen Kooperation, Kompromiss und Wettbewerb als übergreifende Normblöcke herangezogen, die in sich die Vielzahl der in Vietnam praktizierenden Normen getrennt umfassen. Ausgehend von den Theoriegebäuden der neuen und alten Institutionenökonomik wurden entsprechende methodische Konzepte entwickelt, um innerhalb von Akteursinteraktionen und gesetzlichen Texten die Anwendung der drei Normen, die Dominanz einer über die anderen sowie entsprechende Veränderungen zu erfassen. In diesem Kontext richtet sich Hauptforschungsfrage nach einer Dominanz in der Anwendung von einer der drei Normen in Interaktionen zwischen staatlichen und nicht staatlichen Akteuren. Darüber hinaus wurde zu zeigen versucht, ob und wie formelle und informelle institutionelle Strukturen durch diese Normpraxis beeinflusst wurden. Darin eingeschlossen galt es den Wandel einer Normpräferenz seitens staatlicher und nicht staatlicher Akteure über die Zeit des Transformationsprozesses zu erfassen.

Die ersten Kapitel bilden den methodisch-theoretischen Komplex der Arbeit, der die Analysewerkzeuge für die Folgeabschnitte aufbereitet. Daran anschließend folgt ein historisches Kapitel, welches die wichtigsten Entwicklungen in der Verwendung von ökonomischen Normen seit der Kolonialzeit bis hin zu Post-Reformperiode diskutiert. Das nächste Kapitel ist eine Analyse zur Verwendung ökonomischer Normen in rechtlichen Texten, wofür die Verfassungen Vietnams sowie Gesetze zu Unternehmen, Kooperativen und Investitionen herangezogen wurden. In weiterer Folge wurden die Praktiken und Anwendungsveränderungen von Kooperation, Kompromiss und Wettbewerb im Kontext der Landwirtschaft und der Unternehmensbereiche untersucht. Der letzte Analyseabschnitt baut auf den Ergebnissen zweier Umfragen auf: Zum einen wurden Fragekomplexe der World Values Survey zu Vietnam herangezogen, die sich auf die Perzeption vietnamesischer Akteure zu Wettbewerb und Kooperation in der Arbeitswelt konzentrieren. Der zweite Teil baut auf einer individuell vom Autor durchgeführten Umfrage auf, in der vietnamesische Akteure zu ihren Gewohnheiten und Ansichten bezüglich der drei Normen befragt wurden. Die abschließende Konklusion unterzieht die in den vorhergehenden Kapiteln herausgearbeiteten Fakten der Forschungs- und der Nebenfragen sowie den zu Anfangs gestellten Hypothesen. Abschließend kann festgestellt werden, dass Kooperation die dominierende Norm ist, wobei Kompromiss und Wettbewerb seit den Reformen zunehmend mehr Anwendung finden.

## 11.8 Curriculum Vitae of the Author

### **Personal Data/ Persönliche Daten**

MA Benjamin STEUER, Bakk.

Address/ Adresse: Rueppgasse 19/21, 1020 Vienna, Austria

E-Mail: [benjamin.steuer@univie.ac.at](mailto:benjamin.steuer@univie.ac.at), [benjamin.steuer@boku.ac.at](mailto:benjamin.steuer@boku.ac.at)

### **Selected Academic Publications/ Ausgewählte Wissenschaftliche Publikationen**

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### **Short Bio/ Kurzbiographie**

Benjamin Steuer is a MA candidate (East Asian Economy and Society) and a PhD candidate (Sinology) at the University of Vienna. Since 2012 Mr Steuer is working at the Institute of Waste Management at the University of Natural Resources and Life Sciences, Vienna as junior researcher on China related waste management research projects. More recently, he has been a founding member of the *China in the Environment and Social Sciences* (CHESS)

research group in 2015 and is a reviewer for *Waste Management - International Journal of Integrated Waste Management, Science and Technology* (ISSN: 0956-053X). His current research focus is set on the greater China area, specifically on Circular Economy and Cleaner Production initiatives.

Benjamin Steuer ist Masterstudent (Wirtschaft und Gesellschaft Ostasiens) und Doktorand (Sinologie) an der Universität Wien. Seit 2012 arbeitet er als Jungwissenschaftler an der Universität für Bodenkultur, Wien an China bezogenen Forschungsprojekten. Er ist Gründungsmitglied der Forschungsgruppe *China in the Environment and Social Sciences* (CHESS) und Reviewer der Zeitschrift *Waste Management - International Journal of Integrated Waste Management, Science and Technology* (ISSN: 0956-053X). Sein gegenwärtiger Forschungsfokus ist auf kreislaufwirtschaftliche und Cleaner Production Initiativen in der VR China, Taiwan und Singapur gerichtet.