



Institutions: Framework for creating and maintaining social capital in Vietnam

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Abstract

This paper argues that the institutions and decision making strategy within the Government of Vietnam creates and maintains social capital. Originally rooted in the culture and historical experience of Vietnam these structures and processes formed the methods used by the Communist Party in its struggle to unify and stabilize the country. Highly effective at mobilizing individuals to oppose outsiders, these processes are not effective to deal with Vietnam's current challenge—managing financial capital for internal economic growth. The paper will begin first with a discussion of institutions and develop a model contrasting Vietnam with Western models. Ostram's model of social capital is then introduced and applied to Vietnam.

Keywords: Social Capital, Institutions, Governance, Economic Growth.



1. Introduction

Since Renovation (*Doi Moi*) in 1986, the 6th Party Congress officially launched the socio-economic reform recognizing the multi-sectoral market economy and creating the legal framework for private sector development. The Vietnamese economic reform consisted of gradually introducing market principles (marketization), and at the same time reducing the dominance of central planning of the state in the economy (economic decentralization). The national economic system started to move rapidly from a command economy with a dominance of state centralized planning to a more decentralized and transitional economy, where market forces coexist with central state control in macro-economic management (Vu 2003).

Reform of the legal and public institutions is recognized as an essential element in support of economic reform. The new Civil Code enacted in 1995 provided an important legal foundation for the function of the market economy. The earlier Land Law 1987 and its 1993 revision established the legal basis for land ownership, securing land use rights of landholders including the rights for the long-term use, transfer, inheritance, mortgage and compensation for expropriation. This new land policy stimulated the formation of a nascent real estate market in Vietnam's larger urban areas. Unfortunately, this market remains partly informal since the necessary systems and procedures have not yet been adopted to carry state policy fully through to fruition.

The Government has begun a lengthy and deliberate process to design and build political consensus for a major structural reform program. A number of reform programs have been implementing such as banking and state enterprise reform, trade liberalization, public expenditure management, and policies for private sector development. As a result, a series of new policy announcements and law revisions have been put in place. One of the remarkable results is a major Poverty Reduction and Economic Management/Poverty Reduction Support Credit (PREM/PRSC) agreement that was reached with the IMF and the World Bank during 2001 (Swinkels & Turk 2003).

Reform in governance has lagged behind and building modern governance has required a greater attention and become urgent (Swinkels & Turk 2003). Although the Government has recently put governance reform in a priority position such as in its launching a five year Master Program for Public Administration Reform for 2001-2005, the executive mode or a detail strategy for implementation was yet to be formulated (Swinkels & Turk 2003) and has not yet to be formulated recently (the Vietnamese Communist Party 2007). Moreover, the Worldwide Governance Indicators (World Bank 2006b) has shown that the voice and accountability indicator of Vietnamese governance is low compared with other indicators and this was getting worse in 2005. The voice of citizens has not yet been fully represented and recognized in the politico-economic system.

Numbers of challenges that the Government needs to address, which wishes to have improvement, include (1) the unsustainable economic development that is underpinned through increasing state budget over-expenditure and government debt, a problematic domestic savings, inefficient state investment and inefficient developments in the SOE sector; (2) the increasing geographical inequality and widening gap between the richer and poorer, a widening gap in household expenditure between rural and urban families, and gender inequality; (3) low voice of and accountability to the community in terms of governance aspect and a limited progress in reforming and building government. These require more attention from the national and local authorities to review their reform programs again, especially institutions in order to respond to the challenges.



2. Method

This research was preceded by consistent and rigorous collection and analysis of data using intensive qualitative case study methodology. The main data gathering tools were key informant interviews, focus groups discussions, participation observation, documentation and my own experiences as researcher, which were related to the research subject and developed through the World Bank and ADB related projects in Vietnam. The study used both purposive sampling and snowball sampling to collect data. This combination can be possible to provide the broadest range of information. The more information that can be obtained, the better the chance of a complete picture of the cases being studied. Selection of interviewees began with a purposive sample of individuals known to be expertise and practices in planning and/or to be in positions of particular influence within the local government.

Sixteen interviewees from across different organizations/departments and government levels including central government, provincial government, three district-level governments, commune governments, donors and expert consultants were interviewed. Interviewees were either the Chief Executive Officer (CEO) (or equivalent), Mayors and elected members or department managers and senior service officers in the organizations.

In this study, transcripts of interviews and focus groups, notes of observations and direct experiences and documents (plans, decrees, guidelines, instructions, websites, journals, and other public documents produced and provided by the organizations involved) were analysed. These were managed and analysed by using computers, particularly software package Nvivo.

3. Results

3.1 Institutions: rules for behaviour

The most commonly cited definition of ‘institutions’ is Douglas C. North’s formulation of its composition: “Institutions... consist of formal rules, informal constraints—norms of behaviour, conventions, and self-imposed codes of conduct—and their enforcement mechanisms.”¹ The writing in development on the topic of institutions has tended to interpret ‘enforcement mechanism’ as including organizations thereby greatly expanding the definition. For example, “*Assessing Aid; What Works, What doesn’t and Why*” refers regularly to ‘efficient public institutions’ when it appears most often to mean efficient administration done by public organizations.² More recent examples of revisions to North’s definition can be seen in the World Development Reports of 2002 and 2003. The former offers “Institutions are rules, enforcement mechanisms, and organizations; ” and the latter moves organizations further up the list: “Institutions are the rules, organizations, and social norms that facilitate coordination of human

¹ North, Douglas C. (1991) “Institutions” *Journal of Economic Perspectives* 5(1): 97-112.

² World bank (1997); Operations Evaluation Department, Wash. D.C. pg. 15.



action.”³This revision may serve as a convenient strategy to frame the behaviour of those development organizations which need partners within the newest development fad but it is highly misleading and eventually problematic for achieving the development objectives desired by the same organizations.⁴

Blurring of the distinction between institutions and organization obscures the fact that institutions are what exists *between* organizations and individuals to govern the behaviour of those agents. In development this is crucial because an official assistance relationship is almost always with one organization and therefore *distorts* the prior relationships that exist between that organization or individual and others within the institutional framework. Secondly, this space between organizations and individuals is also the domain within which culture is expressed as a consequence of a society’s history and which gives rise to those institutions.⁵ Culture and institutions are not the same, but the boundaries between are not distinct and the elements they share are many. Remembering this helps to understand why institutions change so slowly as they are embedded within a network of other social values. Lastly, a expansive model of institutions tends to ignore the role of history and culture in explaining the origins of those institutions as well as the values and culture with which they coexist. A better strategy is to place institutions, as the relational rules for behaviour, in juxtaposition with the agents of behaviour it governs *and* the social and historical sources from whence it came. Such a model, given here, views institutions as a set of mediating relationships between agents—individuals and organizations—and the ‘structural features’ created by socio-cultural and historical forces.⁶ The model’s conceptual advantage for purposes herein is that it provides (1) a way to consider organizations as agents separate from the rules that govern them and (2) offers a way for history, politics, economics and socio-cultural characteristics to be considered in the context of development. More broadly it re-establishes the clarity of North’s original formulation and does so in a manner consistent with empirical work such as Ostrom’s Institutional Appraisal and Development framework.⁷

³ WDR (2002), pg 6, Box 1.2; and WDR (2003) *Sustainable Development in a dynamic World: Transforming Institutions, Growth and the Quality of Life*. World Bank Publications, Wash. DC pg. 38

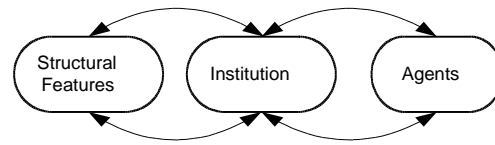
⁴ see See Adelman, Irma () “Fallacies in Development Theory and their Implications for Policy.” In Meier, G.M. & Stiglitz J.E. (eds.) *Frontiers of Development Economics*.

⁵ “Culture is the mother; institutions are the children,” says Daniel Etounga-Manguelle, (2000) *Does Africa Need a Cultural Adjustment Program*. In Harrison, L.E. and Huntington, S.P., (2000) *Culture Matters: How Values Shape Human Progress*. New York, Basic Books.

⁶ The model is borrowed from Oxford Policy Management as used in DFID’s *Drivers of Change* memorandum.

⁷ Ostrom, Elinor (1999). *An Assessment of the Institutional Analysis and Development Framework*. In Sabatier, P.A. (ed.) *Theories of the Policy Process*. Oxford, Westview Press.

3.2. Institutions in Vietnam: a Model with Contrasts



The model is applied to contrast Vietnam with a hypothetical Western nation in Table 1. By Western we mean largely Northern American, and European—the industrialized countries bordering the Atlantic who were influenced by the European Enlightenment. The grouping has problem in detail but at the level of analysis used here it has heuristic and practical value. An alternative might have been to look only at the Anglo speaking countries (England, America, Canada, Australia and New Zealand) who share language and a relatively homogenous set of values but that might have distracted from the importance of the historical experience which different cultures did respond to in similar ways encouraging the rise of a somewhat similar civilization.⁸

The column headings—*structure*, *institutions*, and *behaviour* of agents—come from the model; the rows are the dimensions of the structural elements themselves—history, politics, economics and socio-cultural characteristics. Where cells cross rows it is because the idea contained within the cell borrows features. Reading the table from outside inwardly illustrates the contrast between the different social and historical experiences of Vietnam and the West, shows the influence of structural antecedents on institutions, and then of institutions on agent behaviour. The content of the table is *not* exhaustive but illustrative.⁹ At the centre it contrast the different assumptions held by the partners to ODA within Vietnam.

Table 1: Vietnam-Western Comparison Using the Drivers of Change Model

Analytic Dimension	Vietnam			AA Nation		
	Structure	Institution	Behaviour	Behaviour	Institution	Structure
History	Historical Socialism	Overlapping Multiple Systems	Private Consensual Iterative &	Public Distributed & Empirical	Separate Bureaucratic Systems	Enlightenment and Industrial Revolution
Politics						Representation

⁸ See Huntington, S.P. (1996) *The Clash of Civilizations and the Remaking of the World Order*. New York, Touchstone Book.

⁹ For this reason it is also forces contrasts and likely sacrifices some subtlety for clarity.



Economic s	Resource Short	Patronage	Emotional		Professiona l	Resources larger than population
	Agricultura l		Acquire & Distribute Resources	Maximize Use of Resources	Technocrat s	Industrial
Socio- Culture	and Collective	Social Cohesion, Stability			Rational Efficiency	Urban and Individual
History	National Resistance		Expansion, IR, & Technology			

History and politics are probably more ‘immediate’ to Vietnamese than westerners due to its youth as an independent country. Vietnamese scholarly writing represents Socialism in the scientific and historical context it derives from Marx and Lenin, combining the two in its political ideology and in a composite of economy and polity. Vietnam’s historical experience impacts heavily on its culture through its prolonged struggle for national unification. That struggle has always occurred against a background of resource shortages. For Vietnam these historical elements are rich and present in the memory of persons living today. By contrast the historical basis of institutions in the West is more distant. It combines the Enlightenment, a period of expansion (sometime colonialism) which accessed resources, the urbanization of an industrial revolution (IR), and reaches its conclusion at the turn of the 20th century after a period of prolonged stability without major international conflict.¹⁰ Current status, as might be exemplified in economic development, is but the visible tip of an iceberg-like structure that is the history and experience that historical experience, culture and current institutions. Beneath the surface of visible behaviour are the cultural values, beliefs and assumptions which support all social behaviour and structures. Culture is not institutions. Culture is more enduring and stable, but as such it provides the foundation for institutions:

1. The institutions of Vietnamese and Western systems derive from these structural antecedents. By the early 1900s the Western industrial experience had created separate and clearly distinct bureaucratic systems for the public and private sectors along with professions to serve each. Vietnam has not had this experience; its agricultural economy is only now beginning to industrialize, its public and private sector remain interconnected, its leadership models are based in patriarchy not professionalism.

¹⁰ Polanyi, M. (1944) The Great Transformation: The political and economic origins of our time. Boston, Beacon Hill.



2. The institutions themselves differ dramatically. The Western system of separated structures managed by technocrats and professions fits with an industrial economy whose rules and values promote rational efficiency; this was Weber's insight and lament at the turn of the century. Vietnamese institutions are oriented toward stability and social cohesion. Such stability and cohesion is created through multiple overlapping systems of relationships managed emotionally as loyalty and trust in leaders. For Vietnam the changing nature of the instability has changed the nature of the leader. During resistance the leader was a patriarch who provided a vision; periods of deprivation in the 1980s have transformed leaders into patrons who provided access to resources.

To recap the above: some frustration with the language of institutions suggested need for a larger model that placed institutions within a context of cultural/historical background and also differentiated it from those agents that are subject to its influence. A model was applied to help understand the origins of Vietnam's institutions and lead us further toward elaborating the criteria for which they are organized in contrast to that of the West. We want, now, to understand how decisions are made *for* that criteria--social cohesion and stability.

4. Discussion and Conclusion

The managerial strategy within the Government of Vietnam is biased to create and maintain social capital. Ostrom's model treats social capital as a resource *for a group* which must take collective action to solve a problem. In Vietnam's case that group is the Communist Party of Vietnam which guides and leads government administration and the dilemma was solidarity, unification and stability.

"Broadly speaking, social capital is a set of values and relationships created by individuals in the past that can be drawn on in the present and future to facilitate overcoming social dilemmas. Those who directly benefit from their own or others' past efforts in building these patterns may be a small or large group. The externalities from the use of social capital may be positive (when a group of neighbours cleans up a neighbourhood) or negative (when a gang of youth protect their turf). Social capital reflects a way of conceptualizing how cultural, structural, and institutional aspects of small to large groups in a society interact and affect economic and political change. It is a core concept of a synthesizing framework that can be applied whenever collective endeavours of individuals are critical in achieving a collective goal."¹¹

In her research Ostrom has looked at nearly 5000 case studies of collective action, first in rural agricultural communities and more recently in urban communities. She has offered a simplified model, reproduced here, to describe how (1) *social capital* is used to mobilize (3)

¹¹Ahn, T.K. and Ostrom, E. (2002). *Social Capital and the Second-generation theories of collective action: An Analytical Approach to the Forms of Social Capital*. Paper presented at the 2002 Annual Meeting of the American Political Science Association. Boston.



collective action to (3) address a *social dilemma* (given here as political and economic performance).

Collective action, she argues is determined by the trust between the parties that, in turn is an appraisal of whether the ‘stock’ of past social capital is able to address the current dilemma. Problems beyond a group’s ability or problems which have no payoff do not mobilize social capital since to ‘spend’ on these would be to waste. Such collective action is grounded in trust and it is trust which accompanies behaviour and which is reciprocated in the decision to act collectively.

The ability to act collectively emerges from social capital and Ostrom’s model identifies three relatively independent elements to Social Capital--trustworthiness, networks, and institutions—that come together to create the beliefs and behaviour necessary to act collectively. I note here that these correspond well to the model developed above.

1. institutions are the same;
2. networks are networks of agents (individuals and organizations); and,
3. trustworthiness is an underlying socio-cultural character or value that emerges from antecedent structural conditions.

Ostrom offers 8 principles that facilitate effective collective action¹² The foremost of these is clear *group boundaries* to define the in-group of actors and the beneficiaries along with the out-group. Francis Fukayama, perhaps the best known proponent of the socio-cultural perspective which emphasizes trustworthiness has surveyed the work of Ostrom and others and argues that group formation and boundary maintenance may be the dominant forces which form social capital.¹³ He summarizes the following dominant influences:

1. *A relatively small group:* The number of interactions that a person can have effectively and can negotiate limits the development of interpersonal relations based on trust. Thus smaller communities, such as villages, can manage using trust because their networks are necessarily smaller. As groups or networks become large individuals must find smaller sub-systems within to engage their trust.
2. *That work together in repeated interaction:* Trust, is based in reputation and other’s memory of one’s past behaviour. The likelihood of future interaction increases the quality of a current interaction and the willingness of a person to ‘invest’ in appropriate behaviour to ensure that a future interaction goes well.

¹² These are: Established boundaries; Cost/benefit proportionality; Participation in collective choices; Monitoring; Graduated sanctions; Conflict-resolution mechanisms; Some autonomy at local level; Rules governing nested relationships with central government and external authorities.

¹³ See Fukayama *Trust*; and also *The Great Disruption: Human Nature and the Reconstruction of the Social Order*



3. *That can exclude others and protect its identity:* The degree to which the boundaries of a group are well defined, and defended, increases the likelihood of membership and trustworthy behaviour. If boundaries are tight, then internal interaction is increased, but if boundaries are ‘porous’ and one can come and go easily, there is little cost to negative behaviour in any one setting.
4. *And that has established a common [internal] culture.* This idea of culture could be with small ‘c’ as in organizations or group, or with a large ‘C’ as in ethnic groups or national identities (see Huntington’s *Clash of Civilizations*) depending upon the level of in-group and out-group comparison. What it important is that this culture have a history of some form that gives it values and identity to protect and to apply.

These conditions describe the experience of village life but apply, as well, to any relatively small group—an organization or unit within an organization—with regular interaction, closely guarded membership, and a common set of values. Such a group manages for trust, and measures that trust as behaviour in compliance to the common values of the group which address the social dilemma faced by the group. In a village that dilemma might be the use of public resources or mobilization to protect itself from outsiders. In the case of an organization or unit, the criteria would be its production or performance.

For Vietnam as a nation, the dominant social dilemma as far back as any decision maker now alive would know, has been national unification and political and social stability. Only the newest generations would have not experienced the former, and only those born since the mid eighties would have not have experienced the instability caused by food shortages and hyperinflation. Even then, these new generations grow within the experience and knowledge of the older ones: stability remains the dominant value for Vietnam.

The Government of Vietnam embodies the networks, institutions, and values-for-trustworthiness necessary to solve its social dilemma--unification and stability. For that project it had no dependable resources other than its people and for mobilizing them into action for that struggle it required a governance structure that fit with what they knew and valued. For this objective Communism had and continues to have a variety of advantages: *it fits with historical culture as it models the leadership processes and the overlapping social structures of a village, and, it can create and manage social capital.* Note that it reflects well the four (4) boundary characteristics noted above: it is relatively small (representing less than 5% of the population), works together in close interaction (in units or cells that parallel the social structure); its membership is granted by insiders to outsiders on criteria that the insiders access only; and, it is has formed an internal culture able to apply itself at a variety of levels. That governance strategy served Vietnam admirably well in solving the dilemma it faced.



The historical experience of industrialization, and the post *doi moi* experience suggests a new social dilemma has appeared: economic growth and with that a new criteria for collective action--efficient resource use. Strategies for maintaining group solidarity and cohesion are primarily emotional rather than analytic and so offer poor strategies for ensuring financial effectiveness and efficiency. This new criteria changes the information that is required for decisions and the strategies by which it is collected and evaluated.

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