Urban Studies, Vol. 42, No. 10, 1693–1710, September 2005

Routledge
Taylor & Francis Group

Young Entrepreneurs, Social Capital and *Doi Moi* in Hanoi, Vietnam

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[Paper first received, April 2004; in final form, March 2005]

Summary. Young entrepreneurs establishing enterprises in Hanoi, Vietnam, are faced with an economic environment very different from that of their parents' generation, as *doi moi* (renovation) introduced in 1986 creates an increasingly capitalist market economy. Drawing on field studies in Hanoi we consider whether such entrepreneurs are able to take advantage of social capital networks—namely, bonding, bridging or linking, or indeed if they are disadvantaged by them in the establishment and operations of their enterprises. Our findings show that whilst bonding capital is an essential tool for 'getting by', albeit with negative consequences at times, bridging and linking social capital are not nearly as well formed.

Introduction

In recent times, Vietnam and its people have experienced dramatic social, economic and political changes, from the French war of independence (1946–54) and the American war (1963–75), to the reunification of North and South Vietnam in 1975. Since then, the country has come under the continuous rule of the Vietnamese Communist Party (VCP). Following reunification, the VCP introduced to the South the socialist model of central planning that had been adopted in 1954 by North Vietnam (the then Democratic Republic of Vietnam). This socialist development strategy featured central economic planning, with state ownership of the means of production, agriculture organised into state farms and collectives that served both as production and social units, and economic development based on large heavy industry (Ronnås and Sjöberg, 1991). However, combined with a staunch American embargo, border conflicts with China in 1979, the occupation of Cambodia from 1979 to 1989 and a gradual weakening of the USSR's economy, it soon led to "very serious macroeconomic imbalances" (Irvin, 1995, p. 726), causing macroeconomic instability, hyperinflation and budget deficits, together with chronic food shortages and widespread poverty. By the mid 1980s, Vietnam was literally on the verge of bankruptcy, forcing the Communist Party to admit its 'errors and illusions' and subsequently, in 1986, to introduce a range of reform measures known as *doi moi.* The reforms—a process of moving away from central control towards a market economy—allowed for a multisector economy, decollectivisation, private ownership and liberalised foreign trade and investment. The political sphere, nevertheless, remained firmly socialist in the hands of the VCP (Ronnås and Ramamurthy, 2001).

One result of the switch to a market economy has been higher unemployment. The Vietnamese state no longer provides

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0042-0980 Print/1360-063X Online/05/101693–18
DOI: 10.1080/00420980500231563

jobs for all, so young people are being encouraged to create employment opportunities for themselves and for others (Boothroyd and Pham, 2000). At the same time, they are now operating in a highly competitive market, especially in the larger cities of Hanoi and Ho Chi Minh City. Indeed, Vietnam's private sector is limited geographically, being heavily concentrated in urban centres, with Ho Chi Minh City and Hanoi together making up 40 per cent of all Vietnamese private companies (Steer and Taussig, 2002).

In one of these urban centres, young adults in Hanoi are increasingly showing their entrepreneurial spirit by establishing enterprises, running export and import companies and managing service-sector industries, amongst other ventures. Yet, whilst such actions are important for the country's development, to date virtually no research has been undertaken regarding the entrepreneurial decisions these young individuals make, the challenges they face and the modes of operation their enterprises use. The aim of this paper is to examine these features within the framework of social capital, to illuminate how non-monetary forms of support via networks, trust and linkages might be helping these entrepreneurs to get ahead, perhaps counterbalancing obstacles in the economic sphere, or indeed if specific elements of social capital might actually be hindering their success. We focus upon the social structures and social relations that facilitate the establishment and growth of these enterprises, especially the informal relationships upon which the enterprises are formed, in the context of a country moving from a socialist to an increasingly capitalist economic framework. Whilst studies concentrating upon recent industrial change in Vietnam are growing (amongst others, see Ronnås, 1998; Vo and Baumgarte, 2000; Ronnås and Ramamurthy, 2001; Nguyen *et al.*, 2001; Steer and Taussig, 2002; Malesky, 2004), as well as literature situated in the North on itinerant traders (such as DiGregorio, 1994; Li, 1996; Abrami, 2002; Higgs, 1999, 2003), only a handful of studies focusing specifically on 'permanent' small and medium-scale enterprises and small traders have emerged (for example, see Freeman, 1996; Le and Rondinelli, 1993; Appold *et al.*, 1996; Hansen *et al.*, 2004), whilst even less attention has been directed to the internal dynamics of these enterprises and to the numerous young adults establishing such enterprises.

Framework: Social Capital, Small Enterprises and Vietnam

The framework for this study draws upon three strands of thought. The first involves a consideration of the principal foundations of social capital, as well as a critique of the concept's use, especially in developing countries. The second highlights the connections between social capital and small enterprise development and economic success, and the third considers how, to date, social capital arguments have been analysed in the Vietnamese context.

The Foundations of Social Capital

There is a growing consensus that the seminal contributions to the conceptualisation of social capital emerged in the work of three figures—namely, Pierre Bourdieu (1986) writing on forms of capital, James Coleman (1987, 1988, 1990) writing on education and Robert Putnam (1993, 1995) on civic participation. Although the recent upsurge in studies of the concept appears to owe more to the work of Coleman and Putnam, it was French socio-anthropologist Bourdieu who first produced a systematic analysis of social capital (Portes, 1998).[1] Social capital has been argued to incorporate key aspects of social organisation such as "trust, norms, and networks" which result in—amongst other possible outcomes—enhanced economic performance and the ability to adapt to a specific economic environment (Putnam, 1993, p. 167). Or, as Lin puts it

> Social capital focuses on the resources embedded in one's social network and how access to and use of such resources

benefit the individual's actions (Lin, 2001, p. 55).

Many academics, international organisations and non-government organisations are enthusiastically embracing this concept and it has become a key term in development literature since the early 1990s to consider the resources available to individuals and groups through social connections and social relations with others.

Within this wealth of studies emerging in recent years, the definition of social capital has been the subject of much debate. Several authors have attempted to review the definitional trends in the literature, such as Woolcock and Narayan (2000) who have identified four categorisations of social capital. These are: the communitarian view, which equates social capital with local organisations such as clubs and associations and which puts a positive 'spin' on social capital, tending to ignore its negative effects; the networks view, which examines both the positive and negative sides of social capital through different combinations such as bonding and bridging social capital (described below); the institutional view, which argues that the political, legal and institutional environment creates a certain vitality within community networks and civil society; and, finally, the synergy view. The latter, which the authors prefer, brings together ideas from both the networks and institutional categories, the latter focusing upon "professional alliances and relationships between and within state bureaucracies and various actors in civil society" (Woolcock and Narayan, 2000, p. 236).

Others, such as Beugelsdijk and Smulders (2003) have utilised two broader categories to define social capital. First, the micro scale or individual level refers to the networks an individual belongs to; secondly, at the macro scale, it is argued that nations or regions can hold different levels of social capital that affect levels of democracy and economic growth. In a somewhat similar fashion, others have found three alignments in the literature. Adler and Kwon (2002) maintain that, whilst some authors focus on actor relations, a second group examines the relationships amongst a number of actors within a collectivity, whilst yet a third group focuses on both types of linkages.

Applying Social Capital to Small Enterprises

In 2000, Putnam made further clarifications to his earlier work, introducing distinctions between bonding and bridging social capital. Bonding social capital refers to closed networks of family and friends. This can be extended to include networks that rely upon relations within homogeneous groups such as within certain business organisations or among ethnic enclaves. Putnam suggested that these types of social capital help people to 'get by' on a day-to-day basis. In contrast, bridging social capital refers to open networks that bridge different communities and thus, is much more heterogeneous. In some cases, bridging capital may be more important than bonding capital, such as when an individual is looking for employment, as ties to diverse sources may prove more helpful than ties to relatives and close friends. When considered in terms of entrepreneurs in developing countries, it can be argued that those who are economically 'poor', operating small enterprises, tend to form bonding social capital networks to reduce risk and uncertainty. Such entrepreneurs are usually dependent on their immediate neighbours and friends for credit and support. Economically 'richer' individuals form bridging social networks to improve innovation and share knowledge with the aim of improving profits, productivity and their market share (Woolcock and Narayan, 2000).

In addition to Putnam's bonding and bridging social capital, a number of scholars have started to utilise the term 'linking' social capital, referring to ties between different economic classes and those of different social status (Woolcock, 2001). Woolcock argues that bridging social capital still refers to a horizontal category of relationships, whereas linking social capital better captures an important vertical dimension. Such linking networks can be a means by which resources, ideas and information are gained from formal institutions beyond the immediate community, particularly important for economic development (Policy Research Initiative, 2003).

Studies of social capital have been divided into two camps with regard to how social networks should be considered. Some emphasise only formal structures of ties that make up a network, while others also consider the content and quality of those ties. Whilst the structural patterns of relations are clearly important, we argue that the form and quality of these ties cannot be disregarded and the norms and attitudes associated with network relations are a fundamental element (Policy Research Initiative, 2003). Measuring the patterns and structures of such norms as trust and reciprocity is clearly a daunting task, which has led to a number of methodological problems, especially for the body of social capital research dependant on quantitative data analysis.

A common criticism of the work of Bourdieu, Coleman and Putnam is that all three suggest outcomes of social capital that do not consider negative possibilities in adequate detail. Yet as further research is undertaken in this field, a more balanced view has emerged, with increasing recognition that social capital can indeed have costs, with social ties sometimes being far more of a liability than an asset. Social capital is thus not "as benign a phenomenon as its advocates assume" (Durlauf, 1999, p. 2). Reviewing recent literature, Portes and Landolt (2000, p. 532) have identified four negative consequences—namely, "exclusion of outsiders, excess claims on group members, restrictions on individual freedoms, and downward levelling norms" (see also Harriss and de Renzio, 1997). Certainly, social networks can isolate non-members, with members of one social group benefiting at the expense of another, whilst some individuals within social networks can undoubtedly place significant demands on other members' time, commitment and loyalty with negative consequences (Durlauf, 1999; Woolcock and Narayan, 2000; Turner, 2003). Hence, researchers are becoming increasingly aware that they must examine issues of power and inequality in relation to social capital, as well as focusing on the more recognised positive virtues (Harriss and de Renzio, 1997; Silvey and Elmhirst, 2003). In this paper, we pay close regard to such potential negative outcomes.

Social Capital in Vietnam

Although social capital has been embraced with enthusiasm in much recent development literature, to date it has not been widely used in writing on development and socioeconomic change in Vietnam, two important exceptions being Dalton *et al.* (2002) and Norlund (2003). In their article, Dalton *et al.* (2002) used findings from the *2001 World Values Survey* to reveal that the family in Vietnam continues to be the central focal point of social life (already suggesting that bonding social capital may be more important in this context than bridging or linking). Differences were noted between the North and South of the country, with those in the North more likely to engage in family or friendship network activities than their neighbours in the South. Comparing their results with research from China, the Philippines and Japan, it was found that the gap between family networks and other networks was greater in Vietnam than in the three other countries and that friendship networks were noticeably less important in Vietnam. Norlund (2003), in comparison, provides a micro-level analysis of a series of rural households in four provinces, exploring how social capital can be used to cope with the daily problems of livelihoods amongst the poor. She concludes that the integration of households into the market and modernisation have tended to weaken traditional networks, although these are being supplemented and in some cases replaced by new networks, some of which are organised and linked to the government. In this case, it could thus be argued that forms of bonding and bridging social capital may be being replaced by forms more in line with linking social capital. In another vein, writing on how social capital can be mobilised to improve environmental conditions and increase public participation to address urban concerns, Carpenter *et al.* (2004a, 2004b) have studied low-income communities in Ho Chi Minh City and Bangkok, beginning to decipher constraints in the relationships between participation and empowerment.

Together, the key factors from these strands of thought form a conceptual framework that allows us to undertake a micro-level analysis of the types of social capital deployed amongst young, small-scale entrepreneurs in an urban, developing country context. We aim to discover to what extent, if any, social capital in its bonding, bridging or linking forms is being utilised; the form and quality of these ties as well as the norms and attitudes associated with such network relations; and whether the entrepreneurs are experiencing negative as well as positive outcomes from the use of such capital.

Methodology

Empirically, this paper draws from 75 in-depth interviews with young adults, aged from 25 to 35, in Hanoi, Vietnam. There was a near-equal gender split amongst interviewees with just one more male respondent than female. We chose this age category because such individuals are in the period of their life during which a range of lifestyle choices, employment opportunities and decisions regarding careers are being made and solidified.[2] Hence, this study focuses upon the first generation of post-*doi moi* youth who are living and competing in an economic context completely different from that which their parents faced during socialist times—namely, a post-*doi moi* economy moving rapidly towards capitalism.

The 75 interviews, undertaken between 2000 and 2003, were qualitative and exploratory in nature, with the sample collected through a snowball strategy. The conversations, undertaken in a public space of the interviewee's choice, and lasting between one to one and a half hours, were structured around a series of *a priori* themes exploring decisions regarding lifestyle choices, employment considerations and aspirations and expectations for the future. Interviews were transcribed verbatim and then translated, at which stage pseudonyms were introduced. Supported by our conceptual framework outlined above, our subsequent investigation of the entrepreneurial endeavours of some of these young adults in Hanoi in the post-*doi moi* era draws on a thematic analysis of the transcribed interviews. This allows us to explore whether those young entrepreneurs we interviewed were able to take advantage of social capital networks—bonding, bridging or linking—or, indeed, if they were disadvantaged by them, in the establishment and operation of their enterprises. In this paper, through the voices of six young adult entrepreneurs, we illustrate the variety of small enterprises young adults have established and the array of networks that they have used to do so. The intention is not to provide a representative sample with these six, but instead to demonstrate the *diversity* of the social capital forms we found being used amongst young adults establishing and operating small enterprises in Hanoi. Our six case study interviewees were re-interviewed in 2003 and 2004 to elucidate and verify previous findings and to continue to track the evolution of their businesses.

Setting the Scene

Doi Moi *and Small Enterprises in Vietnam*

As alluded to earlier, from 1986 the Vietnamese government initiated a programme of economic renovation called *doi moi*, although the country's economic reforms had been undergoing an evolutionary process starting as early as the late 1970s (Beresford and McFarlane, 1995; Irvin, 1995; Le, 1997; Higgs, 1999). The purpose of *doi moi* was to create, under the political umbrella of the socialist state, a market-orientated economy, whilst undertaking a series of structural reforms to end Vietnam's economic stagnation (Nguyen, 2002).[3] *Doi moi* has effectively brought about economic development, social and cultural liberalisation, and opened the country to globalisation.

Nevertheless, at the same time, the *doi moi* reforms changed the previous lifetime employment security of many Vietnamese, with major retrenchments in the state sector. Simultaneously, however, opportunities for new income-generating activities rose, with the private sector becoming legally recognised and, from 1988, entrepreneurs being allowed to hire employees and expand their businesses (Le and Rondinelli, 1993; Appold *et al.*, 1996). Private-sector development was further enhanced in Vietnam by the 1992 revision of the Constitution of Vietnam, which legalised the market economy concept, ensuring that any Vietnamese had the right to engage in entrepreneurial activities (Socialist Republic of Vietnam, 1995). It is estimated that

> more than 70 per cent of those people who left the state-owned sector because of reorganisation started working in the non-state sector by creating small enterprises or being employed by small business owners (Le and Rondinelli, 1993, p. 9).

At least in theory, the Vietnamese government is now strongly supporting the promotion of small and medium enterprises (Hansen *et al.*, 2004), with previous difficulties in registering an enterprise partly overcome with the enactment in 2000 of the 1999 Enterprise Law. The Enterprise Law abolished 150 types of business licences, shortened the legal process of establishing an enterprise from an average of 90 days to about 15 and significantly reduced registration costs (Tenev *et al.*, 2003). In 2001, Decree No. 90/2001/CP-ND was passed supporting small and medium-sized enterprises and introducing substantial legal reforms allowing for important restructuring in business licensing procedures, that in turn helped many new enterprises to become established (sme.com.vn, 2003). This decree provided a revised formal definition from previous Documents and Decrees regarding small and medium enterprises in Vietnam's legal context—namely

> small and medium enterprises are those independent business and production establishments that have registered their business under the current legislation, have the registered capital of less than VND 10 billion [approximately US$670 000] or the average number of annual employees of less than 300 (Socialist Republic of Vietnam, 2001, p. 2).

However, despite expansion of the legal system to be more inclusive, some reversal in the liberalisation of this framework appears to have occurred, the government having issued more than 70 legal documents since 2000, some seeming to contradict the spirit of the Enterprise Law through the reintroduction of licences, capital requirements and other limits to marketplace entry (Tenev *et al.*, 2003). Indeed, in comparison with state-owned enterprises, Steer and Taussig (2002, p. 30) argue that there is still unequal treatment of small and medium enterprises, citing common institutional barriers for the latter to include "complicated entry and exit procedures, tax regulations, trade barriers, regulations on land markets".

Despite a continuing lack of distinction as to what constitutes a *small* in comparison with a *medium* enterprise, Freeman identifies some common characteristics of small enterprises operating in the Vietnamese context, including

> their small scale, individual or family operation, lack of standardized production, failure to conform with government labour, licensing or taxation laws, strongly competitive nature and impermanence (Freeman, 1996, p. 180).

All of the enterprises included in this study certainly showed a range of these characteristics and, in comparison with Decree No. 90/2001/CP-ND, employed no more than 50 employees each; hence we have categorised them as being small, rather than medium-sized enterprises.[4]

Business Opportunities for Young Adults

During the early 1990s, the exodus of employees from the state sector continued throughout Vietnam. This exodus was partly due to 'managerial apparatus streamlining' (*tinh giam bo may quan ly*) during the late 1980s and partly because many people chose to leave an inefficient bureaucracy in search of new entrepreneurial opportunities not permitted before the reforms. In addition, during the late 1990s, as a result of further "production chain overhauling" a further 700 000 people were made redundant (Boothroyd and Pham, 2000, p. 23).

By promoting the slogan of 'prosperous people, strong nation' (*dan giau nuoc manh*),[5] the Vietnamese government is now actively encouraging young people to embrace opportunities provided by the market reforms and establish their own businesses. The rationale is that one can contribute to the welfare of the nation by becoming rich individually. This radical change in the discourse of the socialist state is evident in the spate of news stories on the state-controlled media featuring young men and women achieving business success launching their own private enterprises (see Duong, 2002; Cac, 2003; Song, 2003). Together with a prolific number of media stories, the government has even gone so far as to articulate specifically its intention to "place young entrepreneurs in the forefront of socioeconomic development" (*Vietnam Economic Times*, 2002).

Nonetheless, it must be kept in mind that, in Vietnam, self-employment is still a new concept and practice, one that has only been made possible since *doi moi* with the implementation of *mo cua* (open-door policy) and the multisector market economy. As Duong (2002) states, "historically, business was seen in a very low regard. It was often branded as cheating [under the socialist system]. This kind of perception still exists". Although there are opportunities for individuals to 'get rich' by setting up their own businesses, and despite the government's encouragement, recent studies suggest that many young people are, for a number of reasons, still somewhat hesitant to set up businesses (Thai, 1995; Trinh, 2000; Nguyen, 2003). In addition to traditional factors, this hesitation is explained by the prevailing perception among young people that economic capital, a usual prerequisite for success in self-employment, is going to be difficult to obtain. In fact, when asked to identify "factors that determine the failure or success of business", 62 per cent of respondents in the 'Studying the Vietnamese People' survey considered 'capital' as the decisive factor, ahead of other factors such as experience (35 per cent), occupational skills (33 per cent), education (30 per cent), and opportunity (24 per cent) (Thai, 1995, p. 121). Trinh (2000, p. 42) further remarks that "in today's society, only the advantaged groups and individuals possess these prerequisites to be able to become affluent". These 'prerequisites' were identified by Trinh to include economic capital, together with knowledge, experience, and social connections, the latter pointing towards a recognition of the need for social capital.

Such concerns have led to observations that there are only a limited number of young entrepreneurs in Hanoi, with the *Vietnam Economic Times* (2002) reporting that the number of *cac nha doanh nghiep tre* (young entrepreneurs) in the capital had only reached the modest number of 100 by 2002. Nation-wide, the Vietnam Young Entrepreneurs Association (VNYEA) has only 1600 members across its network of 31 branches—an average of 51 young entrepreneurs in each city or province (*Vietnam News*, 2002). Nevertheless, it must be appreciated that a number of young entrepreneurs may have decided not to join such associations, or may not be aware of their existence, pointing to the fact that possible channels for networking, and bridging and linking social capital development are not being fully exploited by those for whom they were established.

The Diversity of Social Capital amongst Young Entrepreneurs in Hanoi

> Information, however, contentious, on the broad outlines of the changes in the Vietnamese economy [since the 1980s] is widely available, but *very little is known* about the origin of new business owners, their methods of operation, or their ability to adapt to the changing economic environment (Appold *et al.*, 1996, p. 6; emphasis added).

In the six young entrepreneur cases that follow, different forms of reliance upon social capital are illustrated and a range of opportunities and constraints are shown to have emerged through such networking endeavours. In particular, the studies highlight the bonding social capital being used amongst a number of new entrepreneurs and the lack of bridging and linking social capital. In addition, a number of the potential downsides of utilising social capital and social networks begin to be illuminated. Our aim is not to present statistical evidence here, but to draw out, through these stories, the range of the complex and interwoven social networks and relationships being replied upon.

Duc and Tuan

Duc and Tuan, both born in 1973, came to Hanoi from villages nearby. They both attended universities in Hanoi, Duc graduating from engineering at Hanoi Polytechnics and Tuan gaining a degree in French language from Hanoi Foreign Language Teachers Training University.[6] Duc, from an economically poor family of four children, was the only son. His father died when he was a child and his mother worked long hours to support the family. Upon graduation, he stayed in Hanoi and worked for a French lacquerware manufacturer for three years, gaining the position by a 'word of mouth' recommendation as is often the case when finding employment in Vietnam. It was at this company that he made friends with Tuan, also from an economically poor family, whose father was a schoolteacher and whose mother was a farmer. Together, Duc and Tuan decided to leave their positions and, after turning to extended family members (Duc turned to two cousins, whilst Tuan turned to a cousin and an uncle) and three close, long-term friends for loans for capital, set up a company of their own manufacturing bamboo and lacquerware products in 1999.

Duc and Tuan began their operation by contracting-out most of the production to workers in craft villages now located in suburban Hanoi. They used their own motorscooters to deliver products from the village producers to buyers—namely, trading companies and souvenir shops in Hanoi. Both explained that they left the French company as they did not see the potential for career advancement after the three years working there. They also believed that working for themselves was better than "working for foreigners" as they had gained a "feeling of ownership" (Duc, interview, 2001).

After two years in business, in 2001 they were prosperous enough to lease a modern production workshop in an industrial park adjacent to Hanoi and, in 2003, had 40 employees on site. Duc and Tuan's products are now exported to Germany and the US through an intermediary trading company and they are planning to market their products on the Internet to reach more clients directly. Their goods, they argued, were of the same quality as their former French employer, but were offered at lower prices (Tuan, interview, 2003).

Whilst the economic capital used to establish the enterprise initially came from relatives and friends, in the course of expanding the business in 2001 they needed to generate more capital, which again they did through informal credit channels rather than turning to a bank. Amongst the people they approached was a female acquaintance Thuy, in her late 30s and "a friend of a friend", who lent Duc and Tuan substantial amounts of money on which they paid interest. She also allowed them to use a sizeable street-fronted house which she owned as the company's showroom and contact address. Thuy consequently demanded to be actively involved in their business, a demand not expected by Duc and Tuan from such an informal connection (Duc, interview, 2001). In 2003, when Duc and Tuan were reinterviewed, some strains in the relationship between Thuy on the one hand and Duc and Tuan on the other were emerging. Thuy maintained a daily presence at the main office and was directly involved in taking production orders, meeting clients and negotiating prices. Duc and Tuan commented that, although it was their business, they were beginning to feel they were working for Thuy, as they had not maintained complete business control.

This case illustrates the tensions that can emerge when informal credit linkages become much more than informally agreed upon economic transactions, and when those lending money wish to become more fully integrated into enterprise management. Whilst informal social networks with close friends had worked well for these two entrepreneurs, those with an acquaintance who was not a close friend, had resulted in more negative outcomes with Duc and Tuan feeling increasingly uneasy in their relationship with Thuy and her expectations of involvement. The use of such social capital networks had thus resulted in heightened control by Thuy over the enterprise and a reduction of freedom for Duc and Tuan to operate their enterprise as they wished.

Anh

Anh, born in 1972, established his own public relations and advertising firm in 1999. He began this enterprise after breaking away from a joint business venture he and a friend set up a couple of years beforehand, which had also been a public relations and advertising firm. The pair had had disagreements and distrust had grown regarding profit-sharing, a problem that was noted as “unavoidable” in the market economy (Anh, interview, 2001). At the time of the split, Anh took with him a number of business contacts and started his own firm with a different name, now a rival of his former partner’s business.

Anh graduated from Hanoi Foreign Language Teachers Training University with a degree in Russian language, but explained that creative design and advertising had always been his passion. Previously when working as a sales representative for an English-language newspaper and then as a marketing representative for Shell, he had focused upon learning the skills, expertise, “the business” and had “kept an eye out for contacts”, with a view to setting up his own public relations firm one day (Anh, interview, 2001).

After splitting from his friend, Anh borrowed money from his cousins to establish his own business. His clients now range from Motorola to Colgate, with business activities revolving around designing television commercials and billboards, and organising events such as music concerts with a range of company sponsorship. In 2001, his eight-person agency was also expanding to the country’s business hub in the South.

Social capital is a fluid concept when examining any business operation. In this case, there was a gradual decline of social capital, most notably the trust between Anh and his previous friend, severed when he left to establish his own enterprise in the same line of business. Yet, Anh then utilised other social networks, calling upon informal ties with his cousins to borrow the capital he required to branch out on his own. Thus, whilst Anh had a circle of trust incorporating his family, this was clearly not large enough to include his previous business partner and he commented that he did not want to become part of a joint enterprise again in the future, preferring to remain in sole control.

Thang

Thang, born in 1972, was a graduate of economics in 1995. After graduation, he worked in media sales for three years, then as a sales representative for an Israeli trading firm. In late 1999, he left to set up his own business, engaged in import–export. Thang explained that he established his business because his elder sister and brother-in-law had an instant-noodle and food-processing factory in Moscow. They required a reliable source of raw materials from Vietnam for their production line in Russia and therefore Thang decided to establish a trading company and "become my own boss" (Thang, interview, 2002). The capital that he required was generated by asking for loans from friends and relatives, most of it coming from his sister, as well as from drawing on his own savings.

Thang's business involved buying food products such as soy sauce, fish sauce, rice vermicelli, peanuts and flour, and exporting them to his sister's factory in Russia. In 2003, he had also become directly involved in production himself, producing fruit and coconut jellies to sell in supermarkets in Hanoi and Ho Chi Minh City. Seven people were directly employed in Thang's head office, including an older male cousin. The presence of this cousin, whom Thang trusted without a doubt, enabled him to be absent from the office when needed, such as when abroad or in Ho Chi Minh City. As a result, although it was regarded as Thang's business, he relied upon a strong family support network. Thang elaborated

> In general, employees involved in important areas of business need to be people who are trustworthy, loyal to the company, and more willing to help me out in times of difficulties. Therefore, in this regard family members and relatives can offer an advantage over outsiders, provided that family members can actually do the job. Family members who are honest but slow are not really good (Thang, interview, 2003).

The most important factor, Thang continued, was the personality of the employee. He speculated that there could indeed be cases when a family member might be dishonest and hence less trustworthy than an outsider. Nevertheless, he did not think that would ever happen in his company because he understood the personality of family members and therefore trusted those whom he hired, but he explained that he knew of cases where extended family members had been "disowned". He had thus become extra-prudent in his hiring practices, yet lamented that entrepreneurs often have "unemployed family members" and therefore it was seen as "natural" to give priority to such family members and relatives when it came to hiring (Thang, interview, 2003).

There was a strong sense of trust between Thang's older sister and her husband, and Thang. Thang explained that concerns were never raised regarding the quality of goods exported to his sister's company and no unease was felt if there were late payments; indeed, if necessary, late payments were amicably negotiated between brother and sister. The cash flow of the businesses also benefited from these informal linkages, as monetary channels between the two companies were "more fluid and discreet" often based upon other members of the family such as Thang's parents and an uncle carrying cash between the two countries (Thang, interview, 2003).

Thang clearly relied upon family networks and bonding social capital to a significant degree in the establishment and continuing operations of his enterprise. As well as borrowing funds from family members and friends, he relied upon his elder cousin to oversee workers who were not family members, he had strong business ties with his sister and he relied upon his parents and an uncle at times to carry funds. In discussions, Thang also pointed to some of the less positive aspects of social network obligations—the pressure to employ unemployed family members regardless of their skill levels who might thus become a liability for the firm, and that extended family members might not always be as trustworthy as one would hope.

Toan

Born in 1969, Toan graduated from Hanoi National University with a degree in journalism. He worked for a joint-venture English-language newspaper for three years and, due to internal office politics, decided to leave and establish his own company. Begun in 2000, Toan's company specialised in advertising, designing billboards and producing television commercials for local and foreign products such as Carlsberg beer.

Toan owned the company with his wife Nga and a male business partner and friend Lam. They hired 10 people who worked in an open-plan office. Apart from Toan and Lam who had their own offices, everyone else worked in the open-plan section. This was repeatedly highlighted during interviews as a way to "make it visible as to whether or not they are hard at work" (Toan, interview, 2001). In addition to keeping all their employees 'exposed' and hence supervised easily, Toan had also implemented a system of swipe cards issued to every employee to enter or exit the office. In combination, the open-plan environment and swipe cards meant that a high degree of control and surveillance was imposed upon the employees to make sure they worked their full hours and maintained a high degree of productivity.

Toan highlighted throughout interviews the lack of trust he felt was apparent between his employees on the one hand and himself, his wife and Lam on the other. He explained how he and Lam worked late every day because "when running your own business it is essential you have to be with it all the time to make sure nothing is overlooked". Toan's wife Nga maintained a presence at the reception desk so that she could make sure that all the clients were looked after effectively and efficiently. It was argued by Toan, that his wife's position was essential as an employee who was not part of the family or a close friend might not be "whole-hearted with the business" (Toan, interview, 2003).

Toan and Lam had a number of controls in place based on the assumption that there was little trust in a workplace full of non-family and non-close-friend workers. Indeed, in some ways Toan and Lam appeared to be doing everything in their power to prevent any assemblage of social capital emerging outside an immediate circle of close friends and family, by reinforcing the perception of distrust with regard to their workers.

Khac

Khac, born in the late 1960s, started his business in the late 1990s. Initially, this was a small shop in Hanoi from which he sold ceramic products made in his workshop in Bat Trang village. Gradually he expanded by opening larger showrooms and contracted-out the production to other workshops in the village. Khac gained a sizeable amount of his credit for the continued expansion of his enterprise through informal credit systems. A number of Hanoi residents with the financial means had, through word-of-mouth—initially from Khac's friends and then from each other—decided to support this business over a period of five years. Khac paid them interest on their loans, a practice that he explained was not uncommon amongst enterprises that required more capital and credit than that which was available from friends and family. Partly due to these networks and loans, Khac was considered to have become a "big name" in the Hanoi business scene (Khac, interview 2001).

In contrast to the other case studies, Khac had decided to look much further afield than family and friends to gain credit. The development of his firm had led Khac to have far greater participation in social networks than was the case for the other entrepreneurs discussed, utilising social capital that could be seen to be more in line with Putnam's (2000) bridging social capital.

Trust, Networks, Social Capital and Beyond

The Importance of Bonding Social Capital

Relationships amongst economic actors are closely related to the socio-cultural context within which such networks are operationalised. This context includes habits, attitudes, customs and local business knowledge. In Vietnam, it has been argued that traditional agrarian and Confucian traditions often encourage trust amongst only a limited number of acquaintances, as found in our conceptual framework (Dalton *et al.*, 2002).

As a Vietnamese saying puts it: 'A drop of blood is worth more than a pond of water' (*mot giot mau dao hon ao nuoc la*). Indeed, the illustrations above suggest that trust is occurring only amongst a relatively narrow circle of family and close friends, whilst there is considerable distrust of outsiders.[7] Traditional family or kinship networks are still being heavily relied upon for the establishment and growth of an enterprise.

Interview findings showed that this reliance was usually for economic capital and sometimes employees, but on one occasion even extended to moving money from country to country in the case of Thang. It should be noted that Duc and Tuan, Anh, and Thang received economic capital from extended family, not from their parents. An interesting feature, this is also in line with Bourdieu's divide between parental support which he suggests is a source of cultural capital, rather than social capital (Bourdieu, 1980; Portes, 1998). At the same time, a slightly broader social network comprised of close friends was also important for support for some of the entrepreneurs such as Duc and Tuan who nevertheless, when trying to find further support via informal channels, had had to move beyond these contacts due to expanding economic capital needs.

Duc and Tuan borrowed money from family and friends to establish their enterprise but were now confronted with a 'hands-on' business partner they had not envisaged when they had asked more distant acquaintances for help. Anh had previously had a close working relationship with his non-family business partner, but was now far more comfortable being reliant upon his cousins, whilst Thang worked most closely with his sister and parents, as well as drawing on the support of his cousin to 'keep an eye' on his non-family workers. Toan, Lam and Toan's wife Nga, appeared to distrust totally their workers whilst remaining dependent on one another to oversee their business.

In all the cases except Khac, capital and credit were only gained from family, friends and acquaintances and, as the enterprises increased in size, these remained the most favoured sources of support. Thus, it was bonding social capital, the reliance upon strong loyalty from within an homogeneous group, rather than bridging social capital, that was of importance to these entrepreneurs, with only Khac's case suggesting a form of bridging social capital being utilised in regard to economic capital and credit.

Furthermore, when queried about their membership of associations, either professional or sports, to gain an understanding of whether other forms of bridging social capital were at play, none of the interviewees was a member of the Vietnam Young Entrepreneurs Association, or of any other business associations. The Vietnam Young Entrepreneurs Association, perhaps a channel through which bridging or indeed linking social capital could emerge, was seen by the entrepreneurs as only being worthwhile joining if you had political aspirations and was deemed to be an association that focused on enterprises that were already quite large. In sum, these attitudes appear to support Fukuyama's claim that "the strength of the family bond implies a certain weakness in ties between individuals not related to one another" (Fukuyama, 1996, p. 56).

Nevertheless, during our follow-up interviews, Anh and Thang informed us that they now played tennis at sports clubs and that these social institutions had become increasingly useful for networking and establishing new business contacts. Although we cannot draw broad conclusions from this limited information regarding the role of bridging social capital in the future—and the possibility that such capital might play an increasingly more important role for the enterprises at some point—certainly in terms of the establishment and initial years of operation it had not been a strong factor in comparison with bonding social capital.

The Negative Side of Social Capital

The nature of a network reflects the different power structures involved and not all networks are purely harmonious, with each contact also a source of potential conflict. Within and outside close kin, economic transactions often occur within a context of expected reciprocity, implying future obligations and rewards for actions undertaken (Powell, 1991). These norms of obligations and co-operation are often implicit rather than explicit and suggest the existence of a community of shared values (Bradach and Eccles, 1991; Grabher, 1993). If these shared values are not understood by all, or are ignored, then conflicts can arise. In the case studies, it was possible to see how these shared values were being tested especially in the case of Duc and Tuan and their increasingly uneasy relationship with Thuy. In a move to broader-based social networks for support, expectations had become more inconsistent, leading to an unpleasant co-owner situation, over which Duc and Tuan had little control. Excessive claims were being placed on Duc and Tuan who had not expected to have a third business partner so heavily involved in their enterprise. Furthermore, Thang illuminated how one could sometimes be pressured due to family obligations to employ unskilled family members who were not going to be an asset to the enterprise, or to end up with extended family employees who were perhaps not trustworthy. These pressures reduced the freedom of entrepreneurs to hire who they wished, and could, if workers had inadequate skills, lead to a downward movement of productivity and output.

Linking Social Capital

Linking social capital, believed to be a key means by which to gain resources, ideas and information from formal institutions beyond the community (Policy Research Initiative, 2003), was not an apparent feature of the 6 entrepreneurs above, nor of any of the 75 young adults in the broader survey. This was especially the case when examining economic capital, in part due to lending conditions and collateral requirements.

Capturing the vertical dimension of social capital, if linking social capital could include improved information regarding bank capital and credit channels as well as other sources of loans, then clear benefits might accrue to small enterprises. In this regard, it is interesting to note a section of Article 18 of Decree No. 90/2001/CP-ND which states that

> The Government shall encourage and facilitate small and medium enterprises to participate in the existing business associations and establish business associations and clubs to implement activities including attraction of external resources for providing support effectively and directly for small and medium enterprises in terms of information, marketing, training, and technology services . . ., so as to enhance the business and production efficiency of small and medium enterprises (Socialist Republic of Vietnam, 2001, p. 8).

Accordingly, there does appear to be an understanding of the importance of such linking social capital at the governmental level—at least on paper—but its implementation has yet to be felt ‘on the ground’ and, despite such statements, it has been suggested that discrimination against privately owned companies remains one of the most significant issues in Vietnam, with privately owned businesses being routinely denied bank credit and deemed ineligible for tenders, often with feeble excuses (Russell, 2001). Le Binh Hung, director of the Small and Medium Enterprise Promotion Centre in Ho Chi Minh City has reported that business people bemoan the fact that banking procedures are so complicated, with very strict rules regarding collateral requirements, emphasising that

> state-owned firms enjoy collateral-free loans and links to state banks, but many private firms must get capital from relatives, or from moneylenders with exorbitant interest rates (Cohen, 2002, p. 44).

There has been an increasing number of articles in local newspapers highlighting the problems for small enterprises of accessing bank loans and that a lack of information regarding credit sources and procedures is leading to further confusion (see *Tuoi tre*, 2001; *Dien dan Doanh nghiep*, 2002; Han, 2003). Even working papers presented at a 2002 seminar organised by the Institute of Finance and Accounting, and reports released by the Vietnam Ministry of Finance in 2003, acknowledge that “stringent lending conditions and complex application procedures” are preventing small enterprises from accessing bank loans, consequently forcing them to “rely heavily” on informal credit channels such as loans from family members and friends (Cao, 2002; *Vietnam Investment Review*, 2003).

A survey undertaken in Vietnam in 1997 found that, amongst urban enterprises in Hanoi, Hai Phong and Ho Chi Minh City, 95 per cent of entrepreneurs operating private and household enterprises used their own capital and interest-free loans from friends and relatives, with less than 1 per cent using a bank loan (Ronnås, 2001). These findings have been further substantiated by a survey of 292 newly registered company operators in Hanoi and Ho Chi Minh City in 2000, in which 84 per cent of respondents stated they would go to friends and family for capital, a bank loan being considered “nothing more than a dream” for many small enterprises (Nguyen *et al.*, 2001, p. 16; see also Malesky, 2004). In another survey of 200 small enterprises and traders in Hanoi undertaken by one of the authors, Turner, when asked where they would consider going in the future to borrow money for their enterprises, three-quarters of the entrepreneurs responded that they would approach family or friends and none reported that they would approach a government institution or co-operative for support. Such findings are clearly reflected in the decisions made by the 6 entrepreneurs discussed above and reflect our findings amongst all of the 75 young adults interviewed.

Conclusion

Three key concepts are at the foundation of this study—namely, social capital, small enterprises and the operationalisation of these by Vietnamese young adults in a post-*doi moi* context. This study highlights the new challenges being faced by young adults in the country as they come to terms with operating within an increasingly market-based economy, instead of gaining a position in the socialist state sector through powerful patron–client connections as was the case for their parents. By drawing upon available research examining the constraints faced by entrepreneurs in Vietnam, by highlighting the complexities of gaining access to formal credit and capital loans, and by discussing the intersection of these concerns with the concept of social capital whilst making use of illustrations from the field, we have undertaken an investigation into the social capital networks young entrepreneurs in Hanoi operationalise to gain advantages in this emerging market-economy environment.

The studies presented here, selected from a larger group of 75 interviews with urban Vietnamese young adults, illustrate that, whilst there were strong social capital networks in operation amongst immediate family and friends to help with the establishment and expansion of an enterprise, that is, the bonding social capital required to establish a firm and ‘get by’; the networks that may then transcend a community, namely, bridging and linking forms of social capital, deployed to ‘get ahead’ were notably rare or, at best, germinal (Woolcock and Narayan, 2000). This matches the broader findings of Dalton *et al.* (2002), stressing the fact that the family remains the focus of social and economic life in Vietnam, with trust being apparent amongst only a limited number of acquaintances. In addition, this close-knit bonding capital did not always only bring about positive outcomes, emphasising the validity of more recent social capital literature acknowledging the negative sides of social capital as well (Portes and Landolt, 2000).

This leads to important implications for development policy, or more specifically in the case of the young entrepreneurs discussed here, implications regarding channels for gaining economic capital (Woolcock and Narayan, 2000). Since formal channels to gain economic capital are still—and may remain—difficult to access in Vietnam, this predicament points to the continuing need and importance of maintaining and nurturing bonding social capital. However, a continuing reliance on family and friends for economic capital may not help to improve the growth of small enterprises beyond a certain threshold due to the limited levels of such capital available. Yet banks are not reaching out to young entrepreneurs who, in turn, do not trust or understand the procedures to gain bank loans. It thus becomes clear that most of these entrepreneurs, to increase the magnitude and economic success of their operations, require easier access to more formal institutions and a more diverse range of bridging and linking social capital.

Whilst it has been argued that trying to help create social capital in a community is "fraught with multiple dilemmas" because it can entail altering social systems "that are the product of longstanding cultural traditions or of powerful vested interests" (Woolcock and Narayan, 2000, p. 233), in this case, the fact that the young entrepreneurs are operating in a rapidly changing economic environment means that perhaps new vestiges of social capital, especially bridging and linking forms, can emerge without creating adverse conditions. At the same time, studying the imperial and colonial eras in Vietnam could help to identify ancient sectors of social solidarity that could be reactivated in the new post-*doi moi* era. Only then perhaps will some of the negative sides of social capital at the bonding level be able to be overcome with support to facilitate relevant and appropriate bridging and linking social capital.

Nevertheless, Durlauf and Fafchamps have also argued that

> clubs, networks and community based voluntary organsiations can improve efficiency in economic exchange and public good delivery. But these are typically second-best solutions. The first-best approach is generally to develop well-functioning legal institutions and state organisations (Durlauf and Fafchamps, 2004, p. 13).

In the context of Vietnam, perhaps a two-tier approach is therefore needed, one that in the immediate future supports the 'second-best solution' of building bridging and linking social capital networks to help small entrepreneurs to succeed—potentially the less expensive and more straightforward solution—whilst in the long term working towards the creation of a more level institutional and legal playing-field for these entrepreneurs as well.

Notes

1. Bourdieu's earliest discussion of forms of capital, particularly symbolic capital, dates back to 1972 with his *Esquisse d'une théorie de la pratique*, translated in English as *Outline of a Theory of Practice* (Bourdieu, 1972/1977).
2. There is no one definition of young adults that is constantly utilised by social science or indeed medical researchers, a similar predicament faced by those researching 'youth'. There is also no specific Vietnamese term that can be adopted to overcome this definitional dilemma.
3. It is not the aim here to enter the debate as to whether this transition took place rapidly, or if it was more gradual in nature, due to differing views regarding state and society relations (see Fahey, 1997; Kerkvliet, 1995). What is important in the context of this study, is that these reforms brought new opportunities for some, albeit whilst also resulting in increased hardship for others.
4. Our use of 50 employees to refer to small enterprises also parallels the World Bank SME Department that currently operates with three groups of small and medium-sized enterprises—namely, micro-enterprises (up to 10 employees), small enterprises (up to 50 employees) and medium enterprises (up to 300 employees) (Hansen *et al.*, 2004).
5. This slogan brings to mind its Chinese equivalent of recent years: 'It is glorious to be rich'.
6. It is interesting to note that education levels are often relatively high amongst small

entrepreneurs in urban Vietnam. Reporting on the Vietnamese private sector, Steer and Taussig (2002) found that entrepreneurs operating small and medium-sized enterprises tended to be well educated, often having graduated from university. All six of the case studies presented here reflected this trend.

7. Trust is defined here as "the expectation that arises within a community of regular, honest, and co-operative behaviour, based on commonly shared norms, on the part of other members of that community" (Fukuyama, 1996, p. 26). Trust can be personalised, stemming from repeated interpersonal interactions, or generalised, developing from a general understanding of a specific population, their background and knowledge of the incentives they face (Durlauf and Fafchamps, 2004).

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