

The connected and the bereft, or the politics of business in Phnom Penh

Phnom Penh's private sector comprises a relatively small number of wealthy tycoons, who run large and diversified business conglomerates, and a majority of small-scale shopkeepers and manufacturers. This dividing line between big and small business parallels a dividing line between the politically connected and bereft. The Cambodian People's Party (CPP) has co-opted the country's most lucrative economic sectors, and provides privileges and protection to tycoons active in these sectors in exchange for loyalty and financial contributions to the CPP. The majority of business owners, meanwhile, are deprived of political backing and instead cope with rent-seeking officials and other impediments to develop their businesses beyond the status of small and medium-sized enterprise (SME). This essay explores the nature of political interference in Phnom Penh's private sector, revealing contrasting experiences between tycoons and SME owners in the context of Hun Sen's highly exclusive development agenda.¹

Michiel Verwer

The politically connected

Mong Reththy is one of Cambodia's foremost celebrity tycoons. His Mong Reththy Group holds a portfolio including rubber, palm oil and sugar cane plantations, a pig farm, a seaport, an import-export company and a construction firm. Although Mong Reththy claims he has never bought favours,² he has been implicated in numerous business activities that suggest otherwise. In 1997, six tonnes of marijuana was found in a container at his port, after which officials affiliated with FUNCINPEC – Prince Ranariddh's party with whom the CPP formed an unstable coalition at the time – planned to arrest Mong Reththy. The tycoon denied the allegations, and Hun Sen recommended anyone trying to arrest Mong Reththy to better wear "steel on your head".³ According to a 2007 report by international watchdog Global Witness, the seaport – also known in Phnom Penh as Cambodia's 'official unofficial port' – has indeed been used for smuggling. The report claims that Brigade 70, an elite military unit that is essentially Hun Sen's private army, exports illegally logged timber via Mong Reththy's port.⁴ In response to the report Mong Reththy lamented: "It's like the other allegations against me. All false. The people who make noise are against development. For me, the schools and the hospitals I leave behind are evidence of the good I have done. [...] They said I was conducting illegal logging through my Koh Kong port. But there are police and customs officials there, so how can I use it for illegal logging?"⁵ Global Witness instead asserts that officials stationed at the port are answerable to Mong Reththy, rather than their head office in Phnom Penh.

Two more arrangements that suggest a tight link between Mong Reththy and the CPP also merit brief attention. He holds numerous Economic Land Concessions (ELCs), which are allocated to business people for a period

of up to 99 years to develop plantations. In addition to many smaller ELCs, Mong Reththy holds a 100,000 hectares concession in northern Cambodia. This is ten times the legal maximum. Even though agriculture minister Chan Sarun signed off the concession after the 2001 Land Law limiting concessions to 10,000 hectares was ratified, so argued the minister, he approved it still because Mong Reththy had asked for it before the law came into effect.⁶ Lastly, Mong Reththy has been involved in numerous land-swaps; he acquires a contract for the construction of a particular government building, builds it on his own land outside Phnom Penh's city centre, and is allowed to swap his land with more valuable property downtown that houses the old government building.

It may come as no surprise that Mong Reththy and Hun Sen spent their teenage years together in Wat Neakavorn, a pagoda in Phnom Penh. Tellingly, the name of Mong Reththy's construction company, Samnang Khmeng Wat, translates into "luck of the pagoda boy". He serves as an advisor of Hun Sen and as senator for the CPP. In 2001, Mong Reththy claimed to have contributed some \$3.8 million to development projects, including the construction of schools and roads.⁷ Especially in the run-up to elections, Hun Sen 'invites' prominent tycoons to finance such projects in his name, thereby aiming to establish his legitimacy in rural areas. Mong Reththy also sits on the board of the Cambodian Red Cross, which is headed by Hun Sen's wife, Bun Rany, and serves a similar function: to round up capital from wealthy locals and foreign investors, and distribute it among the rural population to make it appear as if benevolence flows directly from the Hun family. In 1996, Mong Reththy was one of the first to acquire the title of *oknha*. This honorary title has traditionally been bestowed upon senior mandarins surrounding the King.

Below:
Family members of Sok Kong, a prominent tycoon with long-standing ties to the CPP, hand out monetary donations to police officers, a tradition in the run-up to Chinese New Year. Photo by Heng Chivoan/The Phnom Penh Post.

In 1994, the title was re-introduced to honour business people making contributions in excess of \$100,000 to development projects. Formally, the King awards the title. In practice, however, the CPP leadership identifies candidates, while the King rubber-stamps the CPP's requests.

There are competing narratives of how the *oknha* went from rags to riches. Asked about their lives, tycoons of Mong Reththy's generation typically argue that the hardship of the 1970s taught them diligence and humbleness. Mong Reththy cherishes his worn-out sandals from the Khmer Rouge era as a reminder of past hardship,⁸ while another *oknha* tycoon recalls: "We were lucky to survive, and when we came to Phnom Penh everyone was the same, we had nothing, so everyone helped each other and worked hard". They claim to have struggled through the 1980s, inhibited by Vietnamese-backed communism, until Hun Sen's 'open sea and open sky' policy of the early 1990s allowed them to develop their businesses in conjunction with the influx of foreign goods, aid and investment. Outside the elite, however, a different narrative circulates. Allegedly, in the 1980s the current-day *oknha* operated casinos at the Thai and Vietnamese borders, ran brothels and smuggled drugs, cigarettes and liquor. According to some, former CPP President Chea Sim made an informal deal with the emerging business elite in the early 1990s, promising them access to Cambodia's riches in exchange for allegiance to the CPP. Ever since, it seems that once the *oknha* have attained a favourable position vis-à-vis the CPP, and especially when they manage to forge a direct link to Hun Sen, they are given *carte blanche* to venture into all kinds of economic sectors. Mong Reththy's company did not skyrocket in the early 1990s because he managed to create a thriving import-export company from a mere \$1000 in savings, as he claims,⁹ but because he acquired public contracts to build government buildings, schools and hospitals, a license to establish a port, and land concessions to develop plantations. This led one critical interviewee, himself a small-scale business owner, to mock Mong Reththy's official biography titled *The Golden Path of Mong Reththy*: "This path was laid by others, he didn't make it golden himself. He may have struggled when he was young, but his struggle is not his business success. The *oknha* are not brilliant business people. Connections are more important for success than any good idea or business plan. It's about business people and politicians together deciding how they are going to make the money".

The *oknha* title has become the most tangible manifestation of the reciprocal "elite pact".¹⁰ The *oknha* receive ELCs, valuable urban property, import monopolies for foreign brands, public contracts and licences to operate Special Economic Zones, all of which require the favour of particular ministers, majors, governors or other CPP officials. Moreover, CPP protection facilitates illicit activities such as logging, sand dredging and tax evasion, and military connections are employed to chase the poor – many of whom do not have land titles because the Khmer Rouge destroyed documents – off concessionary land. In return, the *oknha* bankroll the CPP coffers and provide company shares and under-the-table money to individual top-officials. This collusion of business and state interests and the exclusive regime it has brought about, as the next section suggests, goes hand in hand with impediments for small businesses.

The politically bereft

While the likes of Mong Reththy have amassed wealth by virtue of their CPP patrons, the politically bereft create opportunities outside those niches co-opted by the elite, and hence venture into small-scale production, retail and services. SMEs producing foodstuff or other consumer goods, for example, are relatively free from state interference. One interviewee, who manages a mattress production firm set up by his parents, explains:



"In production you don't need connections much. We pay tax and it matters in importing [of raw materials], but we have an agent arrange it, an import-export company. They are huge and have the connections to deal with it". Indeed, import-export is hazardous for entrepreneurs that go at it alone because it involves the Department of Customs and Excise, the Economic Police and the Ministry of Commerce's quality control body, all of which are notorious for their rent-seeking officials. The mattress firm has been expanding and the family is considering re-investing profits in real estate, but they are hampered by their lack of connections: "In real estate you have to have connections, but my parents don't like dealing with the government. If you reach a certain level you will have to, otherwise people keep coming in trying to extort money from you, but my parents haven't reached that level yet. They tell me 'why would I want to know them? They don't do anything for us.' But I'm trying, just in case. In Cambodia everything is so unpredictable, it works if you know at least one guy in the different ministries, if only for licenses and documents. You pay them \$200 and you don't have to deal with anything else. It's easier that way".

While most SME sector entrepreneurs recognise the benefits of political connections, few aspire to be part of the elite, if only because "there is no free lunch". Two younger generation entrepreneurs, who together own and manage a range of businesses in the catering industry, steer clear of politics as much as possible. One of them recalls how *oknha* have approached them in the past, saying, "hey buddy, I have one million dollar. You want to do business? Here it is, a free loan, you can give it back later". However, he continues: "We don't need them. We have our one thousand dollar; we do it ourselves. If you take that money, after you start the business they come in and interfere. We don't like this. Why do we have to make money for someone else?" They similarly aim to keep politicians at arm's length. As his business partner puts it, their decision to "try to be on the legitimate side" has implied that they "struggle sometimes in terms of connections". Yet, they have managed to minimise the damage: "We don't want to be involved in politics. Sometimes things cannot be resolved, and sometimes we have to play soft with them. We have connections with government people, we need to get things from them, but we just do it case by case. When we open a project we do invite the governor to do the ceremony".

The elite patron-client network not only excludes those outside the elite, but also weakens the regulatory state. In the words of Boissevain, the informal nature of patron-client ties undercuts formal state institutions like "a parasitic vine clinging to the trunk of a tree".¹¹ Cambodian law, for example, is phrased ambiguously and enforced arbitrarily. A legal expert explains: "The law is very shallow; specific laws are often absent. Defending business conduct therefore comes down to bending the law to your own benefit, which only those with connections are able to do". Indeed, the average business owner would not even consider filing a lawsuit in case of a dispute. Moreover, laws and regulations are introduced only if these serve or at least do not jeopardise elite interests: "If it has a small effect on powerful people, they will set the new policy. If it has a big effect, they will not". The telecommunications law, for example, was stalled for years, to the frustration of Internet Service Providers (ISPs). ISPs ran into trouble because the Ministry of Post and Telecommunications issued the same operating frequencies to different companies, thereby obstructing their wireless Internet services.¹² One ISP owner, who also met this fate, said that someone made a lot of money issuing the frequencies while pointing to the sky, which Cambodians sometimes do when referring to the highest echelons of government.

An incident that involved gaming centres – Internet cafés that host Cambodian youth playing online games – similarly illustrates how weak regulations in fact provide considerable leverage to state officials looking for ways to extract money from the private sector. Cambodian lexicon does not distinguish between gaming and gambling, both of which are referred to as *tow leng game*. This created confusion when, in 2010, Hun Sen urged authorities to crack down on gambling. Although gambling is illegal for Cambodian citizens and most casinos are located at the border, catering to a Thai and Vietnamese clientele, the law is loosely enforced. Hun Sen lamented the culture of impunity kept in place by rent-seeking senior officials, and said: "I beg everyone to close their gambling operations, even the cockfighting arena of Deputy Prime Minister Sok An".¹³ Local police, however, initiated a crackdown on Internet cafés, even if these offered online gaming and not gambling. One gaming industry insider argued: "The police mixed up gaming and gambling because they call it both 'game', but there is a difference between a video game and gambling. Actually, I don't think they are that stupid. If the owner wants to open again, he has



Above:
Tycoon Mong Reththy shows a rubber plantation at his Economic Land Concession in Sihanoukville. Photo by Heng Chivoan/The Phnom Penh Post.

to pay money to the police". It took three months and a statement by the Ministry of Information exonerating online gaming before the issue was resolved.

The tax system is similarly weak. Most businesses pay a lump sum, meaning that tax officials estimate the appropriate tax, essentially bargaining the amount with business owners when they visit. According to one businessman: "when you pay \$2000, you get a receipt that says \$500. The person who handles your account would get some [of the \$1500 difference], but at least half of it would go to this big guy in the tax department". Attempts by the government to transition from this 'estimated regime' (tax through a lump sum) to a 'real regime' (tax through registered turnover) have not been very successful. While some blame this on non-compliance among SMEs, business owners themselves posit a different argument: "Business people take the most profitable route possible, otherwise someone else does it. I want to pay full tax, it would improve education etcetera, but if my competitor doesn't, I can't". Another one adds: "The government is starting to collect more tax, but companies actually have to pay bribes to pay tax. The official wants some extra if you come to register [for the real regime]. Besides, they don't accept your financial statements; if you lost money, it's not like they are going to exempt you from paying tax. So, a lot of business people moved back [to the estimated regime]".

The underlying problem, of course, is that officials depend on bribes to top up their low salaries. Roughly, while higher-level officials make money via 'proxy' tycoons, who are thereby exempt from interference by lower-level officials, the latter supplement their meagre salaries with informal payments from the lower strata of the private sector. A younger generation entrepreneur relates: "When we opened [our business] and had not even started yet, so many different officials were coming in. 'You need to have this, you need to have that.' Outside the official requirements to start a business, there are a lot of unseen inspections and licences that we had never heard of". According to one interviewee, a business consultant and member of the Council of Ministers, Cambodia's development operates according to a "dis-economy of scale"; business expansion begets greater government intervention and hence higher costs. He gave an example of a pharmacist whose success attracted an increasing number of government officials asking for licences, tax and fees, including 'sanitation fees' and other payments seemingly unrelated to his line of business. Ultimately, the pharmacist created a couple of smaller stores under the names of family members, redirected his customers, and closed his big store. He could now say to officials: "look at my size, I don't have the money to pay you that much".

Exclusive development writ large

There is thus a clear dividing line between big and small business in Phnom Penh, which largely parallels a dividing line between the politically connected and bereft. Big businesses benefit from political connections by way of protection and privileges, and hence are concentrated in those niches that depend on CPP patronage, including

the exploitation of natural resources and land concessions, import monopolies, real estate, public contracts and channelling foreign investment. In contrast, SME owners are hampered by rent-seeking officials, a weak regulatory state and exclusion from the get-rich-quick-schemes of the elite; instead, they safeguard their firms and round up capital via trust-based kinship connections.¹⁴

In its nature, little has changed for economic development in Cambodia since this divide emerged in the aftermath of the Cold War. It remains elite-centric and revolves around extractive practices facilitated through patron-client interdependencies. In the words of one interviewee, who fled the Khmer Rouge to the US and now imports second-hand American cars: "Business in Cambodia is like one pie, and only one person owns it. If you want this piece, you pay me. If you want that piece, you pay me. If you don't pay me, I pick someone else to replace you. That's business in Cambodia". In degree, however, much has changed. To stick with the metaphor, the CPP has gained tighter control over the pie (i.e., land, resources and people), the pie has grown larger as economic liberalisation and regional and global integration further, and more people demand a piece of the pie. Naturally, this has also spurred the larger-scale exploitation of Cambodia's natural resources, land and cheap labour.

The *oknha* tycoons, meanwhile, "enrich themselves through corrupt government concessions and then underwrite charities or schools in the areas impoverished by their corruption".¹⁵ Cambodian elites, including Mong Reththy and Hun Sen, fail or refuse to recognise this bitter irony. Both men responded to figures suggesting that the number of *oknha* had mushroomed from around 20 in 2004 to more than 700 in 2014. While Mong Reththy said that "if there are a lot of *oknhas*, then that should be good for society", Hun Sen asked: "If a country has no millionaires, where can the poor get their money from?"¹⁶ Evidently, inclusive development is a long way off.

Michiel Verver is an Assistant Professor at the Department of Organization Sciences, VU Amsterdam. In 2016 he completed his PhD on the post-Khmer Rouge revitalization of entrepreneurship in Phnom Penh. His interests lie in Cambodia's private sector dynamics as well as the country's ethnic Chinese minority, and more broadly in (immigrant) entrepreneurship in Southeast Asia and beyond (m.j.verver@vu.nl).

References

- 1 This article draws from fieldwork conducted by the author in Phnom Penh between October 2010 and December 2011, and from newspaper articles and NGO reports.
- 2 Sam Rith and Richard Wood. 2004. 'Business tycoon started small', *The Phnom Penh Post*, 19 November 2004. (tinyurl.com/tycsmall; accessed 30 May 2017).
- 3 Jason Barber and Hurley Scroggins. 1997. 'Politics with your marijuana, Sir?', *The Phnom Penh Post*, 18 April 1997. (tinyurl.com/polmarij; accessed 30 May 2017).
- 4 Global Witness. 2007. *Cambodia's Family Trees: Illegal Logging and the Stripping of Public Assets by Cambodia's Elite*. Washington: Global Witness Publishing.
- 5 Kay Kimsong and Fergal Quinn. 2008. 'Mong Reththy—The Path from Porter to Agribusiness Tycoon', *Cambodia Daily*, 15 February 2008. (tinyurl.com/rethport; accessed 30 May 2017).
- 6 See note 4.
- 7 Patrick Falby. 2003. 'Money can't buy you a King's respect, but it's a sure path to Royal honors', *The Phnom Penh Post*, 11 April 2003. (tinyurl.com/kingresp; accessed 30 May 2017).
- 8 See note 5.
- 9 See note 2.
- 10 Verver, M. & Dahles, H. 2015. 'The Institutionalisation of Oknha: Cambodian Entrepreneurship at the Interface of Business and Politics', *Journal of Contemporary Asia* 45(1), p.62. (doi.org/10.1080/00472336.2014.891147; accessed 5 June 2017).
- 11 Boissevain, J. 1966. 'Patronage in Sicily', *Man* 1(1), p.30. (doi: 10.2307/2795898; accessed 5 June 2017).
- 12 Jeremy Mullins. 2010. 'Wireless "WiMAX" derailed in the Kingdom', *The Phnom Penh Post*, 12 October 2010. (tinyurl.com/wimaxder; accessed 30 May 2017).
- 13 Chhay Channyda. 2010. 'PM urges fresh efforts in anti-gaming push', *The Phnom Penh Post*, 13 January 2010. (tinyurl.com/antgam; accessed 20 June 2017).
- 14 Verver, M. & Koning, J. 2017. 'Toward a Kinship Perspective on Entrepreneurship', *Entrepreneurship Theory and Practice*. (doi.org/10.1111/etap.12274; accessed 29 August 2017).
- 15 Elizabeth Becker. 2011. "'Cambodia's Curse'", by Joel Brinkley, *SF Gate*, 16 April 2011. (tinyurl.com/curbrink; accessed 5 July 2017).
- 16 Sek Odom and Simon Henderson. 2014. 'As Oknha Ranks Grow, Honorary Loses Meaning', *Cambodia Daily*, 21 June 2014. (tinyurl.com/oknhamean; accessed 1 June 2017).