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 businesses 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.

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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,1 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”. 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.2 In response to the report Mong Reththy lamented: “It’s like the other allegations against my 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 claimed he would not “pay or do anything”,5 but Mong Reththy later claimed he had already paid $100,000 to the seaport manager to keep their operations going. The report claims that Mong Reththy’s involvement in drug smuggling and illegal logging activities have enabled the tycoon to amass a vast fortune, and he has been able to use his wealth to influence government officials and the CPP. 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 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 Neakavong, a pagoda in Phnom Penh. Tellingly, the name of Mong Reththy’s construction company, Sammang 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 somewhere between $3.8 million to development projects, including the construction of schools and roads.6 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.

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 such as Mong Reththy’s eager to argue that the hardship of the 1970s taught them diligence and humility. Mong Reththy cherishes his worn-out sandals from the Khmer Rouge era as a reminder of past hardship,4 while another oknha tycoon maintains: “I was very lucky and fortunate, 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 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 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 patron, 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. Connections and political patronage are paramount for success. People without political 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 receive ELCS, valuable urban property, import monopolies for foreign brands, 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”. The oknha receive ELCS, valuable urban property, import monopolies for foreign brands, 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”. The oknha receive ELCS, valuable urban property, import monopolies for foreign brands, 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”. The oknha receive ELCS, valuable urban property, import monopolies for foreign brands, 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”.
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 then the one who deals with the authorities. 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 to extort money from you, but my parents haven’t reached that level yet. They tell me ‘why would you do this when you can do something else?’ Indeed, 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 young 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 she has 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 business and the mines do it themselves. 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 pay so much for licences?” Similarly, they 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, when a political leader or minister wants to have you pay with soft with them. We have connections with government people, we need to get things from them, but we just do it by causing them some discomfort. We go to the project we do invite the governor to do the ceremony”. The elite patron-client network not only excludes the outside elite, but also weakens the regulatory state. In the words of Boisvenu, the informal nature of patron-client ties undercuts formal state institutions like “a parasitic vine clinging to the trunk of a tree”.

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 often involves 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 going to court 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 the useful 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 frequencies while pointing to the sky, which ISPs owner, who would not even consider filing a lawsuit in case of any other case, 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’ profit tax through registers did not turn out 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 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 allowances, including ‘sanitation fees’ and other payments seemingly unrelated to his line of business. Ultimately, the pharmacist created a couple of smaller stores under the name Kum Lung, members reduced 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

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.
6 See note 4.
8 See note 5.
9 See note 2.