



# RESEARCH BRIEF

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## Patronage and Clientelism of Chinese Investment in Cambodia

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### Key Points:

- Chinese investors and companies are exploiting the host country's socio-political culture of patronage networks, partly entrenched by previous generations of Chinese migrants to Cambodia, in order to influence regulations and secure investment operations.
- The patron-client relationship is a cultural form of intermediary that ensures long-term business success in the host country's uncertain regulatory enforcement.
- The Sino-diaspora is the key para-legal intermediary for a new generation of Chinese investment and way of doing business in the era of the Belt and Road Initiative.

This Research Brief will address: i) how the new generation of Chinese investors and companies acquire licenses in a host country of a predominant Sino-diaspora community, and ii) how these Chinese investors and companies instil

patron-client networks to influence regulations and secure business in the host country. I will address these topics by drawing on existing literature, field interviews and observation. I will begin with a brief overview of the relations between China and Cambodia, and other Western counterparts. I will then illustrate how Chinese aid and trade have played a significant role in Cambodian business and regulatory frameworks by drawing on political culture and patronage-clientelism concepts.

### Chinese Diaspora and China's Relation within Cambodia

Contemporary Cambodia-China relations can be traced back to just before the collapse of the French protectorate in Indochina. In September 1947, China established its Phnom Penh consulate<sup>1</sup> although the first generation of Chinese migrants probably began settling in Cambodia as early as the late 12<sup>th</sup> century when Zhou Daguan visited the Khmer Angkorian Empire. In the early 1950s, there were approximately 3,000 Chinese living in Phnom Penh alone.<sup>2</sup> As a business strategy, the

<sup>1</sup> Nayan Chanda, *China and Cambodia: In the Mirror of History*, 9(2), ASIA PACIFIC REVIEW, 1, 11 (2002).

<sup>2</sup> Bernard P. Groslier, 1958, cited in James K. Chin, *Ethnicized Networks and Local Embeddedness: The New Chinese*

Chinese migrants established good connections with Cambodians who were wealthy or were officials working for the French administration. Since then, the ties between Chinese migrants and Cambodian elites has become entrenched and been maintained up to and including the current younger generation.<sup>3</sup> This has shaped how the younger Chinese generations in Cambodia, commonly known as Sino-Khmer or Sino-Cambodia, operate their small and large-businesses in the country.

Politically, following the collapse of the French protectorate in 1953, the leaders of the two countries (Zhou Enlai and Norodom Sihanouk) met in 1955 at the Bandung Conference, where their relationship became closer.<sup>4</sup> Due to geopolitical turbulence and intervention, especially by the U.S. war with Vietnam - which trampled the neighbouring countries of Cambodia and Laos - the region became engulfed by civil war. Beginning in the early 1970s, when Norodom Sihanouk was deposed by a coup orchestrated by the pro-U.S. General Lon Nol of Cambodia, the relationship between China and Cambodia become volatile, even though Sihanouk's tie with China remained the same. After defeating the pro-U.S. government, the Khmer Rouge's communists re-established the bilateral relationship with China, from 1975 until 1979, and maintained contact until 1998. China then re-established a relationship with the new government that emerged from the United Nations organised-election in 1993.

After the election, there was an influx of European and U.S. trade and aid into Cambodia (similar to what occurred in Myanmar after their 2015 election). The inflow of Chinese aid and trade did not draw much attention from the U.S. and EU donors until the 2010s, when China's economy surpassed some of the world biggest economies, and when China's Belt and Road Initiative officially launched in 2013. Compared to other donors, the EU had been the most generous donor in terms of grants, followed by local and international NGO core funding, and the US. But as of 2010, China alone is the biggest donor to Cambodia (see Figure 1).<sup>5</sup>

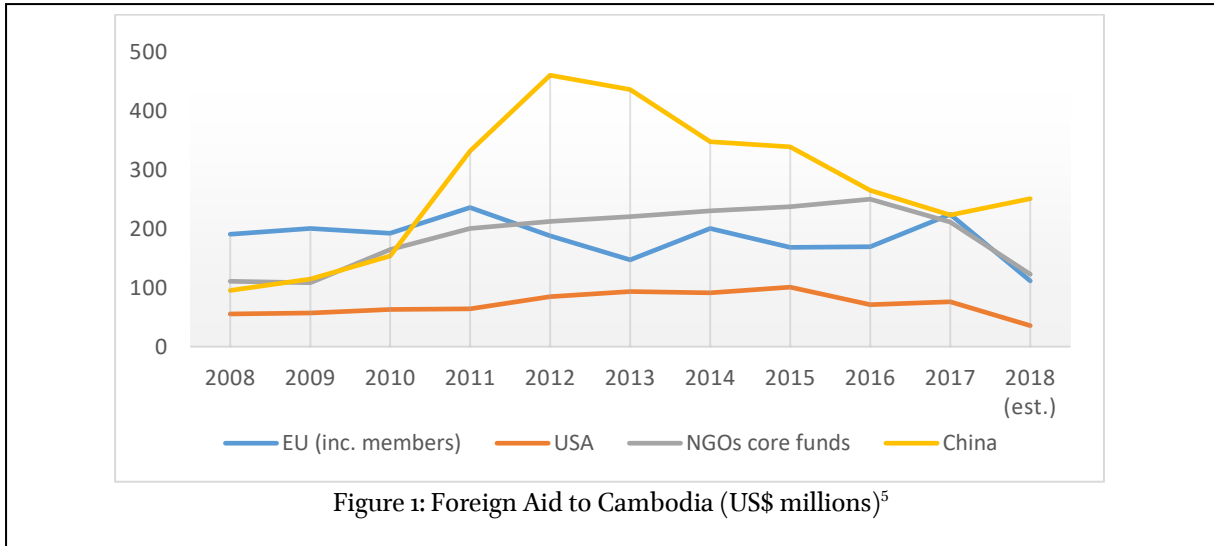
Following the 1998 elections, Cambodia reformed its economy by amending investment laws and regulations to attract foreign capital as well as to integrate Cambodia into the region, and into the larger global economy. Cambodia's trade with the US has benefited from the granting of a "Generalised System of Preference," which allows the country to export duty-free products into the U.S. market. Because of this, a huge number of garment factories were opened and operated within Cambodia. In 2001, Cambodia was listed as a least developing country, able to receive the EU's Everything But Arms (EBA) trade preference, which allowed Cambodia to export products to EU countries, tariff- and quota-free. The inflow of foreign capital also increased significantly starting in the early 2010s, from around US\$800 million in 2010, to more than US\$1 billion in 2012-13, and US\$3.5 billion in 2018 (Figure 2).

*Migrant Community in Cambodia*, in *Contemporary Chinese Diasporas* (M Zhou ed. 2017).

<sup>3</sup> Pál Nyíri, *Investors, Managers, Brokers, and Culture Workers: How the "New" Chinese are Changing the Meaning of Chineseness in Cambodia*, 1 (2), *CROSS-CURRENTS: EAST ASIAN HISTORY AND CULTURE REVIEW*, 369-397 (2012).

<sup>4</sup> Chanda, *supra* note 1.

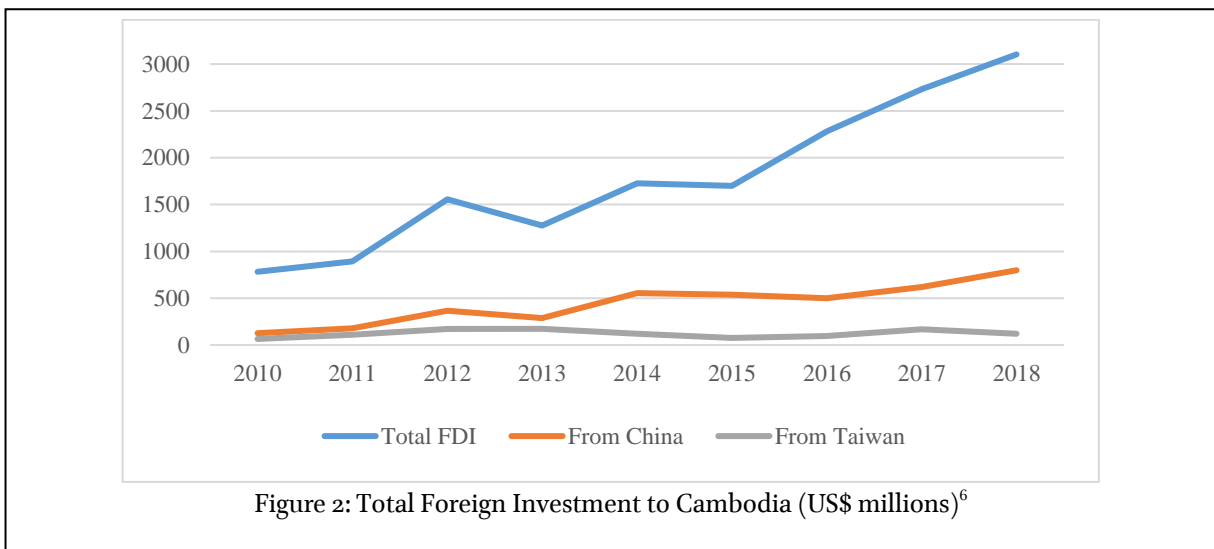
<sup>5</sup> CDC (Council for the Development of Cambodia), *Development Cooperation and Partnerships Report* (Jan. 2018), available at [http://www.cdc-crdb.gov.kh/cdc/dcpr\\_images/docs/english.pdf](http://www.cdc-crdb.gov.kh/cdc/dcpr_images/docs/english.pdf).



While intra-ASEAN investments played a significant part in this rapid inflow of capital, China alone has provided approximately 20.4% of total foreign investment to Cambodia, and has thus become the single most important strategic investment partner to Cambodia (Figure 2).<sup>6</sup>

However, Cambodia has been ranked low in the ease of doing business index, placed at 138 out of 190 (World Bank, 2019).<sup>7</sup> The enforcement of

regulations is generally weak and uncertain, as admitted by investors.<sup>8</sup> This has caused obstacles for most Western investors, but not for China. Since 2005, the inflow of Chinese investment exploits the government’s economic policies, including the privatisation of public resources, such as land, water, forest, and mines, by endorsing a number of regulations, such as the sub-degree on economic land concession (ELC) in 2005.<sup>9</sup> Foreign investors, including the Chinese,



<sup>6</sup> ASEA Statistic, <https://data.aseanstats.org/fdi-by-hosts-and-sources> (last accessed Sept. 2 2019)

<sup>7</sup> World Bank Group, Doing Business 2019: Training for reform, economy profile Cambodia, (2019) <https://www.doingbusiness.org/content/dam/doingBusiness/country/c/cambodia/KHM.pdf>.

<sup>8</sup> Surya P. Subedi, *Land rights in countries in transition: A case study of human rights impact of economic land*

*concessions in Cambodia*, ASIAN YEARBOOK OF INTERNATIONAL LAW, 1, 46 (2018), and Sokphea Young, *Movement of Indigenous Communities Targeting an Agro-Industrial Investment in North-Eastern Cambodia* 44 (1.2), ASIAN J. OF SOCIAL SCIENCE, 187, 213 (2016).

<sup>9</sup> Subedi *supra* note 8.

have flocked to Cambodia to acquire licenses for resource extraction. Investing in real estate has also been popular among Chinese individual investors and companies. One of the most popular areas is the coastal area in Sihanouk province, where real estate, including casinos, are owned predominately by Chinese businessmen. These investments, though not all, often sparked grassroots communities' reaction against the unjust regulatory enforcement of license permits.<sup>10</sup>

### **Cambodia's Socio-Political Culture, Patronage and Clientelism**

The uncertainty in Cambodia's regulatory enforcement appears to oppose the deregulation or race to the bottom theories (which enabled the inflow of foreign investment). This uncertainty instead seems to encourage multinational corporations, not only from China but now also from some European countries, though China still predominates. This Research Brief asks how do these Chinese companies: i) acquire investment licenses; ii) secure their business operations over a long-term period; and iii) cope with risks in the uncertain regulatory enforcement environment? Based on my observation and case studies, these questions can be addressed through a careful study of Cambodia's socio-political culture in relation to an entrenched patronage and client network.

Both clientelism and patronage imply the politically motivated distribution of favours that aims to promote personal and political interests. The two terms are often combined when speaking of patron-client relationship, which can be

understood as a dyadic tie involving a largely instrumental friendship.<sup>11</sup> In this friendship, an individual of higher socio-economic status (the patron) uses their own influence and resources to provide protection or benefits, or both, for a person of lower status (the client) who, for their part, reciprocates by offering general support and assistance to the patron. Developing a clientelist network is a means by which to gain protection and achieve goals in a situation of uncertainty created by public institutions which may behave in ways that are not predictable.

The patron-client network has been generally accepted by Cambodia's political culture, having the ruler as the central patron of the neo-patrimonial regime. Characterising Hun Sen (the prime minister of more than 30 years in office) as a man of prowess, scholars assert that he has remained in power because he is culturally perceived as a man possessing merit or *bunn*, which can be translated as power.<sup>12</sup> In essence, all decision-making must be referred to the patrons of the regime (having Hun Sen as chair or central patron).

To maintain their patronage system, the patron of the regime has, since the early 1990s, not only awarded lucrative positions to clients, but also allocated natural resources.<sup>13</sup> For instance, the awarding of licences for resource extraction (mining, oil, agricultural land, commercial forest logging and energy) and the privatising of state properties has been given to those individuals who support and are loyal to the ruling party (see Figure 3).

<sup>10</sup> Sokphea Young, *Protests, Regulations, and Environmental Accountability in Cambodia* 38(1), J. OF CURRENT SOUTHEAST ASIAN AFFAIRS, 33, 54 (2019).

<sup>11</sup> James Scott, *The Erosion of Patron-Client Bonds and Social Change in Rural Southeast Asia*, 32(01) THE JOURNAL OF ASIAN STUDIES, 5, 37 (1972).

<sup>12</sup> Trude Jacobsen and Martin Stuart-Fox, *Power and Political Culture in Cambodia*, Working Paper 200, Asia Research Institute, National University of Singapore (May 2013), [http://www.ari.nus.edu.sg/wps/wps13\\_200.pdf](http://www.ari.nus.edu.sg/wps/wps13_200.pdf).

<sup>13</sup> CAROLINE HUGHES, POLITICAL ECONOMY OF THE CAMBODIAN TRANSITION (2003).

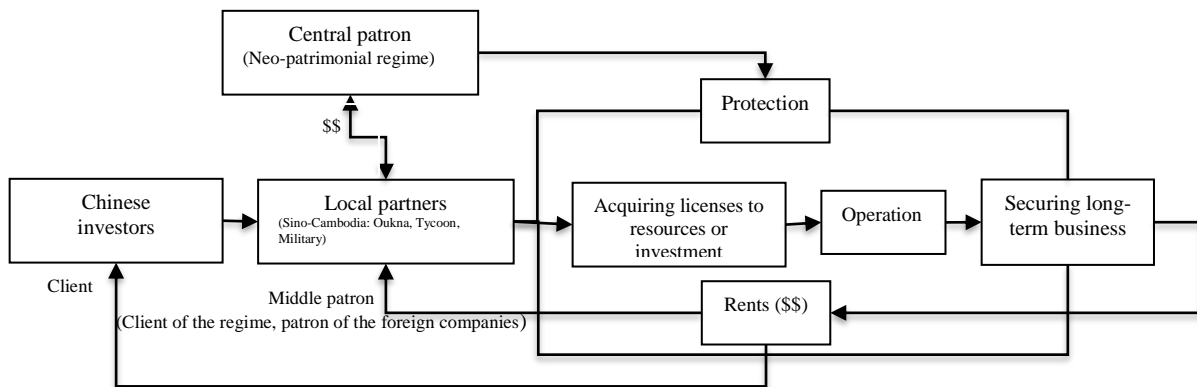


Figure 3: A model of Chinese investors operating in Cambodia

Generally, government officials seek lucrative positions and use their positions to extract rent. These appointments are not made freely, but are based on rents. As the rent increases, so does the price of the position. In so doing, the allocation of lucrative positions is subject to (invisible) auctions and competition within the network, and relies on connections with the patrons and the ruling party. “They have to pay a certain amount of money to secure their position.”<sup>14</sup> If someone, in addition to his or her popularity, dares to pay more or contribute more to the party’s patrons, they will be offered the position. To ensure access to ministries with authority over resources and power, including lucrative sectors, a strong network is highly necessary.<sup>15</sup>

The foregoing political culture of doing internal business in Cambodia has become a contact point of the foreign investors. Foreign investors (the clients) need powerful politico-commercial officials (the middle patrons) to support long-term business operations in Cambodia, where lax regulation enforcement and an uncertain business

environment persistently prevail (see Figure 3). The network of middle patrons and clients (foreign investors) is installed through one of two pathways: being a local joint venture partner or being a broker who later becomes a local partner. Without these pathways, it is extremely difficult for foreign investors to get access to natural resources;<sup>16</sup> no business can enjoy the medium term in Cambodia without connecting to the patron’s affiliates. Through joint ventures with local reliable and powerful businesspersons, foreign investors can be granted ELCs and secure long-term successful investments. If there is no such relationship, foreign investors will not be able to access the resources. If there is no powerful local partner, foreign investors are likely to face high risk and fail in securing an ELC or long-term investments.<sup>17</sup>

For example, a Chinese state-owned company, Fuchan and China Cooperative State Farm Group, partnered with Cambodian Pheapimex to develop agricultural plantations in the north-eastern province of Mondulhiri, and in Kampong Chhnang and Pursat provinces. Such an arrangement

<sup>14</sup> An interview with a member of parliament and standing committee of the party (Dec. 18, 2013)

<sup>15</sup> Caroline Hughes and Tim Conway, *Understanding Pro-poor Political Change: The policy process: Cambodia* (2004), Overseas Development Institute, UK.

<sup>16</sup> Senior legal advisor (09 Dec 2013); a company Chief Executive Officer (18 Dec 2013) and ELC general manager (27 Nov 2013).

<sup>17</sup> ELC general manager (27 Nov 2013) and senior legal advisor (09 Dec 2013).

caused adverse impacts on the socio-economic conditions of the local communities, including displacement, loss of access to natural resources and land, food insecurity and impoverishment.<sup>18</sup> These investments have nevertheless been secured in Cambodia through a joint venture between Chinese investors and Cambodian magnates, dominated by Sino-Khmers.<sup>19</sup> In this instance, this patron-client network has been installed not only within the government administration, but also between these politico-commercial elites and foreign investors or investment projects in Cambodia.

Another pathway is through a broker (or license trader) who later becomes a local joint venture partner. Foreign investors have to find a local broker who is powerful and has strong connections with senior government officials in order to facilitate the process of requesting ELCs. The foreign investors have to pay a substantial amount that is not indicated in the regulations. On receiving ELC licences, foreign investors have to allocate some number of shares to the broker free of charge<sup>20</sup> and then the broker becomes a local partner to protect the business operation. Otherwise, other corrupt or influential senior government officials might intrude into the business during its operations.<sup>21</sup> In so doing, the domestic partners become middle patrons of the foreign investors (the clients). The patrons have an obligation to protect the client in return for

rent; for example, confronting allegations from affected communities, activists and NGOs.

In a case of a Sino-Khmer who facilitated Chinese investment in Cambodia, a senior government official revealed “... They, the foreign investors, do not know the entry point for investment in Cambodia, where to go and how to process the legal documents.”<sup>22</sup> Such a process is confirmed by a legal advisor who facilitates access to granting ELC licences. She argues that if investors had no connection with ruling elites, and wanted to follow the procedure stated in the concession regulatory framework, the concerned ministries of the government would not be available to talk and work with them. Investors have to seek local investors or facilitators/brokers who are powerful and have strong connections with powerful officials to get an ELC approved within a short period, although they have to pay transition fees.<sup>23</sup> She pointed out that: “Newcomers [investors] ... find someone who has good networks and relationships, and the process of granting licence goes smoothly...”<sup>24</sup>

In this case, by connecting with a local Sino-tycoon, it took a Chinese foreign investor only three months to obtain a license from the Council of Ministers (CoM) chaired by the prime minister,<sup>25</sup> much quicker than for most companies. Acting on this advantage, the joint company did not conduct proper public consultation or social and environmental impact assessments (EIA), as

<sup>18</sup> Kheang Un, *China's Foreign Investment and Assistance: Implications for Cambodia's Development and Democratization* 16(2) PEACE & CONFLICT STUDIES, 65, 81 (2009).

<sup>19</sup> *Id.*

<sup>20</sup> A deputy provincial governor (15 Dec 2013) confessed that foreign investors allocate certain shares to their Cambodian brokers and they later become local partners.

<sup>21</sup> A CEO (18 Dec 2013) and ELC general manager (27 Nov 2013).

<sup>22</sup> A deputy provincial governor (15 Dec 2013).

<sup>23</sup> NGO deputy director (20 Dec 2013) and senior legal advisor (09 Dec 2013)

<sup>24</sup> Senior legal advisor (09 Dec 2013).

<sup>25</sup> The license is approved by the CoM in the form of a notification (*sor chor nor* in Khmer), which is usually exaggerated by companies and local and provincial authorities as a ‘law’ or *chbab*.

required by the sub-decrees of economic land concession (2005) and the EIA (1999), and the Land Law (2001), before approval by the CoM. This concession is thus accused of violating these regulations. As stated in the Land Law, no concession is granted to a private company of greater than 10,000 hectares. This agro-sugar industrial investment was, however, awarded up to 19,100 hectares, as it claimed to be two independent companies but was, in fact, operating as a single company.<sup>26</sup> This case has suggested how a local Sino-Khmer could influence the regulatory process in doing and securing business in Cambodia amidst rampant protests by civil society organisations and the affected communities.

### **Conclusion**

Against the backdrop of long historical migration, business and diplomatic relations between the two countries, the influx of new generations of Chinese foreign investments and aid to Cambodia is the by-product of geopolitical expansion, but it is one that is complementing both the host and foreign country's political economic interests. The continuation of Chinese investment to Cambodia's least favorable business environment has been secured and maintained as new Chinese investors have exploited socio-political cultural practices instilled by older generations of Sino-

Khmer (tracing back to the 12<sup>th</sup> century, and very clearly from the end of the French protectorate era in Cambodia). Cambodia's long-established clientelism and patronage culture is seen as a mesh network, within which the stronger influence the weaker, and both share reciprocal but not always equal benefits. This culture has influenced regulatory enforcement and become an invisible form of business regulatory practice in Cambodia, where their ruler, also known as the patron at the apex of the pyramid, has been in power for decades. The patron, the middle-patron and the client (including the new generation of Chinese investors) become what is called "paralegal", mediating and easing doing business in the host country's ambiguous regulatory enforcement environment. The ability to embrace and adopt the entrenched patron-client networks in the host country is a powerful means of ensuring and securing long-term business operations (generally enabled by high-level bilateral diplomatic and political economic relations).

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<sup>26</sup> NGO lawyer (20 Dec 2013).