

RESEARCHERS AT SINGAPORE'S INSTITUTE OF SOUTHEAST ASIAN STUDIES SHARE THEIR UNDERSTANDING OF CURRENT EVENTS

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New Chinese Immigration and Capital in Cambodia

*By Nyíri Pál (Guest Writer)**

EXECUTIVE SUMMARY

- The present wave of Chinese migrants into Cambodia began in the early 1990s, and was made up of petty traders and service entrepreneurs exploiting the demand for low-priced Chinese consumer goods in Cambodia. These began to taper off in the 2000s with living standards in China rising. Profits had also begun to decline due to market saturation and increased competition from Chinese-Cambodians.
- The second-largest group of Chinese migrants comprise of middle management staff, technical personnel and foremen at garment factories. Garment manufacturing is Cambodia's preeminent industry and makes up 80 per cent of total exports.
- Young Chinese professionals fluent in Mandarin and English, some educated abroad, also make up a growing share of the regional labour force in international accounting and law firms. Some have established real estate agencies, investment consultancies, and other businesses whose main function is to locate investment opportunities or broker deals for investors in China.

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- The areas of investment dominated by private Chinese investors are agriculture, garment manufacturing and, in the last five years, tourism, agricultural processing, manufacturing, and real estate. Manufacturing investment has been largely driven by apparel companies that have moved production from China due to lower wages and to the lower duties which the EU and the US impose on imports from Cambodia.
- Providing services for investors from China is now a major business opportunity for Cambodians-Chinese. Chinese capital has also placed a premium on fluency in Chinese, which has contributed to a revival of Chinese education—the largest Chinese school in Phnom Penh now has 13,000 students—as well as the media.
- The opposition Cambodia National Rescue Party championing the revision of land concessions and supporting union demand for higher wages-only narrowly lost the contested 2013 elections. The outcome of the elections may cause Chinese investors to reconsider their unilateral reliance on Cambodian People's Party patronage.

INTRODUCTION

Cambodia has had a long history of Chinese entrepreneurial and labour immigration. This tradition was interrupted upon decolonization and re-emerged only in the 1990s after the withdrawal of the Vietnamese army from Cambodia in 1990 ended a freeze on relations between the latter and China. As early as in 1991, the first individual Chinese migrants began to arrive in Cambodia. Interviews also indicate that some Chinese medical personnel working in Khmer Rouge-controlled territories—China did not abandon its support for the Khmer Rouge until 1993—remained in Cambodia to take advantage of new business opportunities arising from the opening of the war-ravaged country to trade. Since then, China has once again become a major source of both entrepreneurial and labour immigration to Cambodia, and from the second half of the 2000s, it has also emerged as a major source of capital. This paper briefly reviews the relationship between human and capital flows from the People's Republic of China to Cambodia since the end of the Cold War, its broader impact, and Cambodian responses.¹

TYPES OF CHINESE IMMIGRATION TO CAMBODIA SINCE THE COLD WAR

Petty traders and service entrepreneurs

In the early 1990s, “Chinese thermos flasks, electric rice cookers, radios, clocks, pans, toilet paper, soap, talcum powder, tea, clothing, and a host of other commodities were the most chic and ‘modern’ items on sale in Phnom Penh’s Central Market” (Edwards 2002:271). As in other “transitional economies” around the same time, it was this demand for low-priced Chinese consumer goods that propelled the initial wave of Chinese immigrants. It is no surprise then that petty traders and service entrepreneurs made up the group of Chinese immigrants into Cambodia.

By the mid-1990s, these were “engaged in various facets of the economy, from small-scale service and retail industries such as restaurants, the sex and entertainment industry, hotels and bookselling, to dentistry and ... medicine” (Edwards 2002: 273). Their shops, clinics, and massage parlours usually employed two to four workers from China, often family members of the owners, under informal arrangements (but a handful, like Lucky Foot Massage in Phnom Penh, may have had up to a hundred workers). Yet unlike in Laos, Eastern Europe or Africa, the bulk of domestic trade networks remained in the hands of locally-born Chinese entrepreneurs, who

¹ This paper is based on four periods of interviews and ethnographic fieldwork in Phnom Penh, Battambang, and Kampot between 2007 and 2011 (see Nyíri 2012 for more detail) and ten days of follow-up interviewing in Phnom Penh in the wake of the 2013 general election.

had quickly recovered their central role in the Cambodian economy after private businesses were legalised. Chinese-Cambodian entrepreneurs had access to real estate and were familiar with official procedures and patronage networks necessary for running a business. As a result, unlike in those other countries, there are no major wholesale hubs in Cambodia—namely, Phnom Penh’s consumer goods markets—and only a minor share of retail shops selling Chinese consumer goods are owned by Mainland Chinese migrants.

Since most new Chinese immigrants enter Cambodia on short-term visas and either extend them at local police offices or remain in the country illegally, there are no reliable figures for this population, with some estimating the number to be between 50,000 to 100,000 (Zhuang 2008). As elsewhere in the world, petty entrepreneurial migration appear to have peaked at some point in the 2000s and then tapered off for several reasons, such as rising living standards in China, declining profits caused by market saturation, and increasing competition from Chinese-Cambodians who had built up their own connections to manufacturers in China.

In 2013, a consular official at the Chinese embassy estimated the number of Chinese citizens in the country to be 70,000 to 80,000, roughly in the middle range of estimates given by Chinese journalists and association leaders, which extend from 30,000 to 160,000, with immigrants from Zhejiang Province constituting the largest group. Only a small number of petty entrepreneurs have succeeded in moving to more profitable and specialised niches, for example the import and distribution of scooters or construction materials or the construction industry itself, particularly as subcontractors to large-scale infrastructural projects carried out by investors from China or with concessional loans or grants from the Chinese state. A business reporter for the leading Chinese-language paper, *The Commercial Daily*, estimates that there are around 3,000 registered businesses owned de jure or de facto by Chinese citizens.

Skilled garment workers

The second-largest group of new Chinese immigrants is made up of middle management staff, technical personnel and foremen from garment factories. Garment manufacturing is Cambodia’s preeminent industry and makes up 80 per cent of the country’s total exports. It has been steadily expanding since the late 1990s, with over 500 factories registered with the Garment Manufacturers Association of Cambodia (GMAC) in mid-2013. Most operations are owned by investors from Hong Kong, Taiwan, Singapore, and Malaysia, and have been transferred from China because of increasing labour costs there. Most factories employ scores, and the largest ones hundreds, of skilled transferees or new recruits from China, with estimates of between 5,000 and 10,000 of such transferees in total. The largest group of these, around 3,000 according to the Zhuji Chamber of Commerce, hail from Zhuji in

Zhejiang Province. Some former managers have started their own garment factories, and GMAC estimates that there now are around 120 factories owned by Chinese citizens, and the Zhuji Chamber of Commerce believes 70 of these are owned by its members.

White-collar workers

China has thus become both Cambodia's largest source of investment (see below) and top trade partner. This has generated employment opportunities for a range of Chinese professionals, from intra-company transferees to the Cambodian operations of Chinese corporations such as Huawei, ZTE, the Bank of China, and the Industrial and Commercial Bank of China (ICBC). Young Chinese professionals fluent in Mandarin and English, some educated abroad, also make up a growing share of the regional labour force of international accounting and law firms such as KPMG. Chinese-language media and schools—many funded by Chinese investors—also employ a growing number of editors, journalists, and teachers from China.

Some Chinese immigrants have also established their own real estate agencies, investment consultancies, media companies, and other businesses whose main function is to locate investment opportunities, broker deals, find patronage connections, arrange official permits, and sometimes recruit labour from China for investors. Conversely, these enterprises also help to secure financing in China for state and private development projects from Cambodia. The most prominent among these—Jimmy Gao, president of the Chinese Chamber of Commerce in Cambodia, and Cao Yunde, chairman of Khmer Holdings—have become investors in their own right, acquired Cambodian citizenship, and been made *oknha* (a title of nobility) by the king.

TYPES OF CHINESE INVESTMENT IN CAMBODIA

According to the Council for Development of Cambodia (CDC), total Chinese investment in Cambodia reached US\$9.17 billion between 1994 and 2012, making China the top source of overall investment in Cambodia. Nevertheless, these figures should be questioned for three reasons. Firstly, they indicate *committed* investment. There is no tracking of actual effected investment, which in some high-profile cases has been a fraction of the former. Secondly, CDC data are limited to investments worth above US\$2 million. And finally, much capital from Mainland China, particularly in agriculture (foreign citizens are not allowed to own land), flows via locally registered joint ventures, Chinese immigrants who have taken on Cambodian citizenship, or via Hong Kong-registered companies.

Until 2010, Chinese investment was concentrated in hydropower, and road and bridge construction. In these sectors, state-owned enterprises, enjoying both concessional and commercial loans from Chinese banks, served as general contractors but many subcontracted to private companies and individual entrepreneurs from China and Cambodia.

Areas of investment dominated by private Chinese investors include agricultural (cassava, sugar cane, rubber, banana and others) and logging concessions. According to LICADHO, a Cambodian human rights NGO, concessions traceable to investors from China cover a total area of 373,000 ha as of 2013.² Other areas are garment manufacturing and, in the last five years, tourism, agricultural processing (rice, rubber, sugar, and bioethanol), manufacturing (shoes, fabrics, plastics, cement, construction materials, furniture, printing, and scooters), and real estate. As of mid-2013, the local branches of Bank of China and ICBC had a total lending portfolio of about US\$250 million, mostly concentrated in infrastructure, manufacturing and trade. They seem to have steered clear of agriculture, mining, and real estate, which may have been considered too risky. Large investors in these areas seem able to have obtained cheaper financing in China.

Few single manufacturing investments exceed US\$10 million. Investments in agriculture and infrastructure tend to be larger, but the largest registered investment to date is a tourism development project with reported fixed assets of US\$3.8 billion. This project, by Union Development, has benefited from a China Development Bank loan. However, five years after the project was registered with CDC in 2008, no more than an estimated \$300-400 million have been invested.

The Hongdou Special Economic Zone near Sihanoukville, a duty-free zone privately supported by the Chinese government, had 22 manufacturing companies—mostly Chinese-invested garment factories—operating at the time of writing.

Manufacturing investment has been largely driven by apparel companies that have moved production from China due to lower wages and to the lower duties which the EU and the US impose on imports from Cambodia. These investments appear to perform satisfactorily, although rising wages combined with relatively low productivity have made some investors consider moving production to Vietnam or Myanmar. In contrast, the profitability of investments in infrastructure, agriculture, and mining is questioned by those involved. Other investments, driven by China's demand for raw materials, have performed less well. Large-scale agricultural concessions (5000 to 50,000 ha) are often inactive beyond logging; and as the remaining hardwood is less accessible and its export more difficult, they are no longer popular with Chinese investors because agriculture has proven hard to develop due to the lack of infrastructure and a shortage of labour. Instead, investors prefer to buy plots of 100-200 ha from owners of large concessions.

² This includes the tourism development concession mentioned below.

Mining investments are often hard to trace because Chinese investors tend to buy controlling stakes of existing companies at relatively low prices (US\$2-3 million). Because of inaccurate or missing estimates of deposits, many mines cannot be exploited in a profitable fashion. At the time of writing, none have started production. Similar problems exist in the power sector, which unlike roads and bridges employs BOT agreements, typically for 40-50 years. The largest Chinese investment to have been completed is the Kamchay hydropower plant, which cost US\$280 million. It began generating electricity in 2011, but is running at one third of its planned capacity largely due to incorrect precipitation forecasts. However, since it is seen as part of development assistance, the power sector is less sensitive to profit demands.

IMPACT OF CHINESE INVESTMENT AND LOCAL REACTION

The most immediate impact of Chinese immigration and investment has been the creation of jobs. The expansion of employment in the garment industry and in construction—the latter being mostly indirect, via subcontracting arrangement—has led to a shortage of labour in some areas of the country where paid employment has previously been scarce. It has to be pointed out that most jobs are for unskilled labourers, and employers prefer rural migrant labour as it is believed to be more docile. For urban Cambodians of Chinese descent, providing services for investors from China is now a major business opportunity. These services range from online platforms and real estate agencies to labour recruitment and brokering connections to highly placed patrons within the Cambodian elite, but they also include employment as interpreters and “troubleshooters” in Chinese-invested companies. This has placed a premium on fluency in Chinese, which has contributed to a revival of Chinese education—the largest Chinese school in Phnom Penh now has 13,000 students—as well as the media. These, as well as Cambodian-Chinese organisations, are now geared essentially towards mediating contacts with China.

For the ruling elite of the Cambodian People’s Party (CPP) and wealthy Chinese-Cambodian businessmen associated with it, the steady stream of personal payments for helping investment deals has cemented their political and economic dominance. Some of these deals involving Cambodian strongmen and Chinese investors, such as the now-suspended Boeung Kak Lake real estate development project in Phnom Penh, have generated well-publicized protests. Influential NGOs have been vocal about the impact of some Chinese-invested agricultural concessions and development projects, notably Kamchay and the Union Development project, on rural livelihoods, and there have been strikes and pickets at Chinese-run factories.

CONCLUSION

However, Chinese investment and migration does not arouse the same suspicions as elsewhere in Southeast Asia. Those typical suspicions are associated with those of the Vietnamese. Although politicians of the opposition Cambodia National Rescue Party, which narrowly lost the contested 2013 elections, have mooted the revision of land concessions and have supported union demands for higher wages, they have not specifically targeted Chinese investments or immigrants, and the party's leader has said that he sees China as Cambodia's most important ally. Nonetheless, the outcome of the elections may cause Chinese investors to reconsider their unilateral reliance on CPP patronage.

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