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The Impacts of FDI, ODA, and LS on Gross Domestic Product in Cambodia: A Comparative Analysis

Vathanak Chet

University of Cambodia

chetvathanak@gmail.com

Abstract. The study focus mainly on the impact of ODA, FDI, and LS on the GDP growth of Cambodia from 1995 to 2020 using the combined data generated from Macrotrends LLC (2021); Trading Economics (2021); World Bank Group (2021a; 2021b; 2021c & Cambodia Public Debt Statistical Bulletin (2015; 2016; 2017; 2018; 2019; 2020; 2021) and the Eviews 10 was used as a tool to analyze the data by applying the multivariate regression with ordinary least squares method. The result confirmed that FDI and LS are significant and positively contributed to the GDP growth of Cambodia with almost 100% confident interval or probability of 0.02%, and the ODA was evidently insignificant and also negatively impacted on the economic growth of Cambodia. The researcher also suggested for further researches in order to clarify the lapses of this study.

Keywords. Local Savings, Official Development Assistance, Foreign Aid, Foreign Direct Investment, and Gross Domestic Product

I- Introduction

Cambodia has been blamed for too much dependence on Foreign Aid by the researchers, scholars, economists, and politicians throughout the globe (Ear, 2013). The study is to review and analyze the effectiveness of foreign direct investment (FDI), official development assistance (ODA), & local savings (LS) on the gross domestic product (GDP) growth in Cambodia from 1995-2020 using a combined data from the World Bank Group (2021a; 2021b; 2021c); Macrotrends LLC (2021); Trading Economics (2021); and Cambodia Public Debt Statistical Bulletin (2015; 2016; 2017; 2018; 2019; 2020; 2021) through a desk reviews. A mixed methodology research with multivariate Ordinary Least Squared Auto Regression was applied using Eviews 10 as analyzing tools. Granger causality test was also applied during the analyzing processes to see the causality among all independent variables and the dependent variables.

Next section will be the relevant literatures on the influences of FDI on economic growth, the impact of ODA on economic growth, and the influence of local savings on economic growth. Came after the literature review, is the research findings, and next section is the discussion, and the final section is the conclusion that comprising of summary of the findings and the suggestion for further reseaches.

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II- Relevant Literatures

Traditional approaches to aid and spending have failed to achieve sustainable economic development, particularly for the least developed economies, as Vitalis (n.d.) reported from a round table discussion on sustainable development focusing on official development assistance and foreign direct investment in the pursuit of improving synergies. Similarly, FDI flows were too unevenly distributed to imply that such a mechanism could replace the gap left by decreased ODA. With aid funds shrinking, an increasingly pressing topic for developing and donor nations is how to combine private financing with public resources by establishing favorable framework conditions to attract and maintain FDI. It was proof that using ODA in a deliberate and targeted manner to try to attract and retain such flows might improve the efficiency and efficacy of such aid.

Chhair and Ung (2014) conducted a descriptive study of Cambodia's economic history of industrialization by examining data from the country's economy over the last six decades. They found that Cambodia's economy was on the right track, with fast economic growth in the double digits and technology spillover to local investing enterprises, but they criticized Cambodia's economy for being overly reliant on a few sectors such as the garment industry and tourism.

Using a panel data approach, Zardoub and Sboui (2020) conducted a study on the influence of FDI, ODA, and other remittances on the economic growth of developing countries, applying the OLS regression and Hausman test statistics. The findings revealed significant contributions of FDI and local investment to developing country economic growth, implying that governments in those countries should develop policies to encourage more investments from both domestic and international sources, while an observation found that ODA could positively contribute to developing country economic growth unless those countries have good governance or a stable political environment.

Using a simultaneous equation model and dynamic panel data analysis, Sabra and Eltalla (2016) investigated Foreign Aid, Domestic Savings, and Economic Growth in Selected MENA Countries (Morocco, Algeria, Egypt, Palestine, Syria, Jordan, Lebanon, and Tunisia). The findings revealed that foreign aid had a negative impact on MENA countries' economic growth due to the Dutch disease and a poor policy environment, while trade openness and domestic investment had a positive impact on those countries' economic growth, and the researchers recommended further research into the impact of remittances and foreign direct investment on economic growth and local savings.

2.1 FDI vs Economic Growth

The Organization for Economic Cooperation and Development conducted a study on the impact of FDI on the economic development of developing countries. The findings revealed that FDI triggers technology spillovers, aids human capital formation, contributes to international trade integration, aids in the creation of a more competitive business environment, and enhances enterprise development, all of which contribute to economic growth that can alleviate poverty in those countries. Furthermore, FDI may contribute to the improvement of the host country's environmental and social situations by transferring cleaning technologies and resulting in more socially responsible business strategies (OECD, 2002).

Van (2016) investigated the impact of Foreign Direct Investment (FDI) on Pakistan's Gross Domestic Product (GDP) from 1966 to 2014, using the Autoregressive Distributed Lag-Error Correction Model (ARDL-ECM) method to simultaneously find long and short run effects, as well as the Lagrange Multiplier (LM) statistic test to check for serial correlation. FDI

inflows have a significant positive impact on Pakistan's GDP growth both in the long and short term, and FDI inflows bring advanced technology and investment, enhancing the country's economy, while other factors such as inflation and population have significant effects on GDP in the long run. Gross capital formation and trade, on the other hand, play no significant role in explaining the variation in the country's economic growth.

Samantha and Haiyun (2017) used the ARDL approach to cointegration to uncover short-run and long-run relationships across variables in order to investigate more liberal economic policies in the South Asian region from 1978 to 2015. The results verified the long-run link between variables, and FDI was positively correlated with economic growth in Sri Lanka, albeit not significantly so.

Based on panel data from 284 Chinese prefecture cities from 1994 to 2010, Hong (2014) used the generalized method of moments (GMM) to estimate the dynamic empirical relevance between FDI and economic growth and the relevant factors. The findings confirmed that FDI stimulated economic growth in China, and FDI factors such as economic scale, human capital, infrastructure level, wage levels, and regional differences generate positive interactions with FDI and promote output jointly in the lag adjustment process. On the other hand, it appears that trade openness does not clearly induce FDI and contribute to China's economic growth, and that expenditure slows growth. Particularly, it is likely that FDI has had a crowding-out effect on domestic investment and funds, posing the question of how to rationally use China's massive foreign exchange reserves and bank loans.

Alfaro et al., (2006) credited to the financial markets that allow the backward linkages between foreign and domestic firms to turn into FDI spillovers, with some assumption that holding the extent of foreign presence constant, financially well-developed economies experience growth rates that are almost twice those of economies with poor financial markets; an increases in the share of FDI or the relative productivity of the foreign firm leads to higher additional growth in financially developed economies compared to those observed in financially under-developed ones; and market structure and human capital were also important for the effect of FDI on economic growth.

Modou and Liu (2017) used Fully Modified Ordinary Least Squares to investigate the interaction between FDI, Trade Openness, and Economic Growth in Asian and 13 West African countries between 1980 and 2015, and found that FDI and Trade contributed to economic growth in those countries, with unidirectional causality from FDI to economic growth but bidirectional causality between trade and economic growth.

Sokang (2018) used a quantitative method research to investigate the impact of FDI on Cambodian economic growth from 2006 to 2016, employing time series data from 2006 to 2016 with correlation matrix and multiple regression analysis techniques to analyze data. The study's findings revealed that FDI has a positive impact on Cambodia's economic growth.

E., Promise, and S. (2015) used the Augmente Dickey Unit Root Test to evaluate stationary data, Johansen Co-integration to estimate the long-term equilibrium relationship among the variables, Granger ausality to test the causal relationship, and the Ordinary Leased Squared to estimate the model to examine the impact of capital inflows on economic growth in Nigeria, Ghana, and India from 1986 to 2012. The findings revealed that capital inflows have a considerable impact on the economies of the nations listed above, and that they can help to reduce the savings-investment gap in those countries.

Ly (2021) investigated the implications of FDI in Cambodia under the BRI, utilizing a qualitative technique and two theoretical frameworks of Ownership-Location-Internationalization and Investment Development Path to analyze the cases. The findings

revealed that FDI had a substantial impact on Cambodia's mainstream economy, generating jobs and income for workers and subcontractors in the infrastructure development sector.

According to the U.S. Department of State (n.d.), FDI has had a significant impact on Cambodia's economic growth, which has been fueled by higher exports, increased investment, domestic consumption, and tourism. Cambodia has received less investment from US corporations due to a small market size, corruption, a shortage of qualified personnel, high energy costs, and a lack of openness in business application processes, according to the research. The paper also acknowledged the importance and influence of Chinese FDI outward to Cambodia, which increased dramatically to 60% of total FDI-funded projects and more than 40% of total FDI in Cambodia in 2017 and 2019, respectively, without taking into account the business environment as it does for US companies.

2.2 ODA vs Economic Growth

The World Bank Group (2019, December) conducted a Debt Sustainability Analysis (DSA) using the joint IMF/WB Debt Sustainability Framework for Low Income Countries (LIC-DSF). The results showed that Cambodia's external public debt, including arrears, was approximately 7 billion US dollars (about 29% of GDP) at the end of 2018, but the country remained at low risk of external debt distress, as all debt burden indicators are projected to remain below their indicative thresholds under the LIC-DSF. Due to forecast greater fiscal deficits in the medium term, the public and publicly guaranteed (PPG) debt-to-GDP ratio is expected to climb by 6.5 percentage points during the next decade. These findings highlight the significance of reforming the economy to improve its resilience to external shocks and diversification. To ensure debt sustainability in the medium term, more measures to mobilize fiscal revenue, raise the efficiency of public expenditure, strengthen fiscal governance, and improve monitoring of risks associated to contingent obligations are required.

Using a panel dataset of 117 countries from 19980 to 2010 and disaggregated ODA flows from 5 major donors and the sum of other donors, Momita, Mtsumoto, and Otsuka (2019) conducted research to assess whether Japanese ODA contributes to economic growth in developing countries to answer the question of how ODA can promote growth. The findings revealed that Japanese ODA differs from other OECD donors in that it focuses on economic growth, and they demonstrated that Japanese ODA is linked to industrial expansion, which helps developing nations expand economically.

Yahyaoui and Bouchoucha (2021) used the Dynamic OLS (DOLS) approach to eliminate the correlation between regressions and the error term, as well as the Full Modified OLS (FMOLS) estimator to include the nuisance parameters, possible autocorrelation, and heteroscedasticity phenomena of the residues, to investigate the relationship between ODA, economic growth, and governance in African countries from 1996 to 2012. The researchers look at the impact of foreign aid on economic growth in the first stage of the study. The researchers evaluate the role of institutions as an intermediate in the relationship between foreign aid and economic growth in African countries in the second stage. In both the FMOLS and DOLS models, it was discovered that foreign aid has a detrimental impact on African economic growth. However, empirical findings show that only in the DOLS model does foreign aid increase economic growth when there is excellent institutional quality.

Yiew and Lau (2018) used a sample of 95 developing countries to evaluate the function and impact of ODA on economic growth (GDP), with FDI and population as control variables. The panel data revealed that ODA and economic growth had a U-shaped relationship. Foreign aid has a negative impact on a country's growth at first, but over time, it adds to economic

growth in a beneficial way. Furthermore, the findings clearly support the hypothesis that FDI and POP are more important predictors of GDP, meaning that GDP is less likely to be reliant on ODA. Strengthening the legal framework would be critical for these countries, as their overdependence on ODA could have negative consequences for overall growth. Importantly, good foreign aid administration will ensure that the Sustainable Development Goals (SDG) are met.

Parikh (2015) cited from Cambodia national strategic planning 2013-2018 that Cambodia had still needed foreign assistance to fill the gap of savings shortage for economic development to reach national strategic plan to become an upper-middle income country by 2030, and cited from Dr. Ear Sophal that Cambodia still needs foreign aid, but the constructive aid, never the less, he notified Cambodia still depends heavily on foreign aid that needs to be alleviated.

Vathanak (2021) used the Eviews 10 program with a Least Squared analyzing method to conduct research on the influence of China's Official Development Assistance for infrastructure development in Cambodia from 2003 to 2019, and scientifically evident that China's official development assistance for infrastructure development was positively contributed to Cambodia's economic growth with less than 1% chance of error.

2.3 Local Savings vs Economic Growth

Ribaj and Mexhuani (2021) used augmented Dickey-Fuller tests, Johansen cointegration tests, and Ganger causality tests to perform a mixed method study on the influence of domestic savings on economic (GDP) growth in Kosovo, utilizing data from 2010 to 2017. The findings revealed that local savings had a major positive impact on Kosovo's economic growth, as they boosted investment, production, and employment, resulting in more sustainable growth. Loans and remittances, on the other hand, boosted Kosovo's economy by promoting investment, and local savings can limit FDI inflows from abroad, lowering the country's volatility risks.

According to Aghion et al., (2016), local savings do not contribute to economic growth because local entrepreneurs are unfamiliar with frontier technologies, so there is a need to attract more FDI in order to collect more technology spillover injecting into the poor economies of the host countries, which can help to develop the economy growing faster.

Misztal (2011) used panel data from the International Monetary Fund's World Economic Outlook database and the econometric methods of co-integration models and Granger's causality test to investigate the cause and effect relationship between economic growth and local savings in developed, emerging, and developing countries. In developed, developing, and transition nations, the results confirmed the existence of an on-way causal relationship between local savings and GDP, but there was no causal association between GDP and local savings.

III- Findings

The researcher obtained the data from World Bank Group, Global Development Indicators, the Cambodia Public Debt Statistical Bulletin, Trading Economics, and Macrotrends LLC as basis for analyzing.

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Table 1: The LS, ODA, FDI, & GDP of Cambodia from 1995 to 2020

Year	LS	ODA	FDI	GDP
1995	193,283,053	506,000,000	150,800,000	3,441,205,693
1996	163,923,935	384,000,000	293,600,000	3,506,695,720
1997	294,067,033	325,000,000	203,700,000	3,443,413,389
1998	225,731,334	308,000,000	115,871,733	3,120,425,503
1999	457,972,020	251,000,000	102,225,822	3,517,242,477
2000	522,366,452	345,559,997	118,308,566	3,677,897,739
2001	650,360,405	367,000,000	146,481,995	3,984,000,517
2002	615,021,091	407,290,008	130,956,364	4,284,028,483
2003	662,109,561	443,160,003	81,580,651	4,658,246,918
2004	670,119,598	407,019,989	131,416,229	5,337,833,248
2005	856,394,081	452,899,994	379,180,191	6,293,046,162
2006	1,444,975,421	476,350,006	483,209,383	7,274,595,707
2007	1,660,030,464	636,169,983	867,288,539	8,639,235,842
2008	1,730,183,655	612,559,998	815,180,218	10,351,914,093
2009	1,955,952,388	637,929,993	928,393,617	10,401,851,851
2010	1,967,726,341	681,039,978	1,404,315,449	11,242,275,199
2011	2,098,461,806	691,950,012	1,538,883,425	12,829,541,141
2012	2,650,717,362	807,690,002	1,988,102,945	14,054,443,213
2013	3,207,764,042	803,190,000	2,068,470,774	15,227,991,395
2014	3,568,452,601	744,120,000	1,853,471,158	16,702,610,842
2015	3,743,230,450	778,400,000	1,822,804,151	18,049,954,289
2016	4,069,584,765	846,390,000	2,475,915,854	20,016,747,754

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2017	5,135,949,488	977,630,000	2,788,084,322	22,177,200,512
2018	6,231,407,953	1,843,470,000	3,212,633,447	24,571,753,583
2019	7,361,833,133	1,288,270,000	3,663,032,999	27,089,389,787
2020	6,559,000,000	2,022,460,000	3,500,000,000	25,290,000,000

The researcher prepared the above table using the data collected from Macrotrends LLC (2021); Trading Economics (2021); World Bank Group (2021a; 2021b; 2021c & Cambodia Public Debt Statistical Bulletin (2015; 2016; 2017; 2018; 2019; 2020; 2021).

By using the regression model GDP = $C_0 + \beta_1 LS + \beta_2 ODA + \beta_3 FDI + e$

GDP stands for Gross Domestic Product, LS stands for Local Savings, ODA stands for Official Development Assistance, and FDI stands for Foreign Direct Investment.

C_0 is a constant,

β_1, β_2, β_2 are coefficients of LS, ODA, and FDI respectively.

e is an error estimator.

Table 2: Lease Squares Regression Analysis using NLS & ARMA Model

Dependent Variable: GDP
Method: Least Squares
Date: 12/12/21 Time: 15:09
Sample: 1995 2020
Included observations: 26

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.47E+09	3.79E+08	9.163929	0.0000
FDI	3.531241	0.773817	4.563404	0.0002
ODA	-1.614734	1.000316	-1.614224	0.1207
LS	2.003597	0.450227	4.450195	0.0002

R-squared	0.988160	Mean dependent var	1.11E+10
Adjusted R-squared	0.986546	S.D. dependent var	7.79E+09
S.E. of regression	9.04E+08	Akaike info criterion	44.22221
Sum squared resid	1.80E+19	Schwarz criterion	44.41576
Log likelihood	-570.8887	Hannan-Quinn criter.	44.27794
F-statistic	612.0500	Durbin-Watson stat	1.134869
Prob(F-statistic)	0.000000		

(The Researcher generated the above table from Eviews 10)

So the regression model formula can be illustrated as:

GDP = 3.47 + 2LS – 161ODA + 3.53FDI

The current result showed that powerful significant and positively contributions of FID and LS on the GDP growth in Cambodia with highly confident interval of almost 100 percent (0.02%

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of probability). In contrary, the overall ODA is insignificant and provide a negative contribution to the Cambodia economy with 12% probability change of error. The result can be interpreted that if 1 dollar was added to the FDI, the GDP will be increased by 3.53 dollars with chance of error 0.02%, assuming the other factors remains constant. Further, if we add 1 dollar to the LS, the GDP will be increased by 2 dollars with chance of error 0.02%, assuming that the other factors remains constant. On the other hand if 1 dollar was added to the ODA, the GDP of Cambodia will be decreased by 1.61 dollars with chance of error 12% assuming the other factors remains constant.

Since the Prob (F-Statistics) is 0.00 meaning that the combined effect of LS, ODA, and FDI is significant or considerable. On the other hand, the Durbin-Watson stat equal to 1.13 less than 2, explaining that LS, ODA, and FDI are autocorrelation. While the R-Squares value equal to 0.9881 explaining that the combined of LS, ODA, and FDI explained 98.81% of the GDP.

The researcher has also used the Pairwise Granger Causality Tests to see the causality amongst dependent and independent variables. And the results showed that FDI had a unidirectional causal relationship with the GDP since the probability equals 38.61% greater than 5%, so the null hypothesis is rejected. Further LS and FDI have a bidirectional causal relationship with each other since the mutual probability of both Granger causality tests were 56.83% and 5.61% are greater than 5%, so the null hypothesis of both tests were rejected. The observation on the causal relationship between ODA and FDI, the result confirmed that ODA has a unidirectional causal relationship with the FDI since the probability equals to 29.27% greater than 5%, so the null hypothesis is rejected. On the other hand, LS and GDP hadn't causal relationship since the probability of the tests equals to 0.6% and 0.3%, so both of the null hypothesis were accepted. For the causal relationship tests between the ODA and GDP, the results showed that both variables had bidirectional causal relationship since the probability equals to 67% and 500% greater than 5%, so both null hypothesis were rejected. Last but not least, ODA and LS had bidirectional causal relationship with each other since the probability of the tests equal to 9.75% and 500% greater than 5%, so the null hypothesis were rejected.

Table 3: The Pairwise Granger Causality Test of GDP, FDI, ODA, and LS

Pairwise Granger Causality Tests
Date: 12/17/21 Time: 16:09
Sample: 1995 2020
Lags: 1

Null Hypothesis:	Obs	F-Statistic	Prob.
GDP does not Granger Cause FDI	25	10.6023	0.0036
FDI does not Granger Cause GDP		0.78210	0.3861
LS does not Granger Cause FDI	25	0.33558	0.5683
FDI does not Granger Cause LS		4.06681	0.0561
ODA does not Granger Cause FDI	25	1.16217	0.2927
FDI does not Granger Cause ODA		22.0911	0.0001
LS does not Granger Cause GDP	25	9.04401	0.0065
GDP does not Granger Cause LS		10.6178	0.0036

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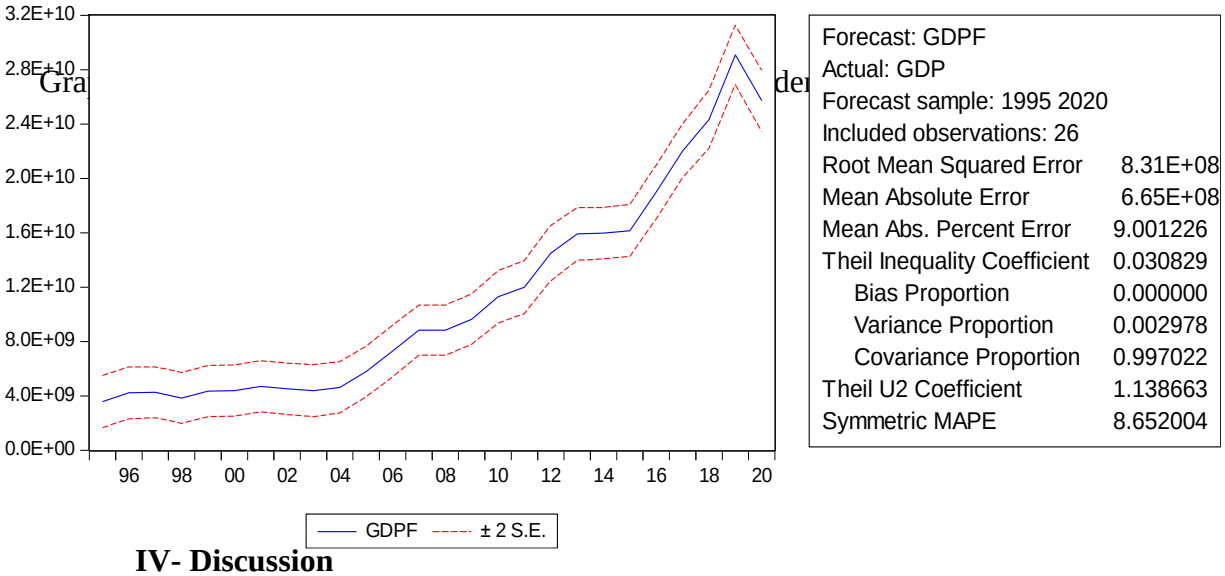
ODA does not Granger Cause GDP	25	0.18237	0.6735
GDP does not Granger Cause ODA		25.3386	5.E-05
ODA does not Granger Cause LS	25	2.99510	0.0975
LS does not Granger Cause ODA		48.7658	5.E-07

Furthermore, according to below graph showed that all independent variables have long-term correlation with the dependent variable.



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IV- Discussion

The result findings revealed that foreign ODA was scientifically insignificant and negatively contributed to the economic growth of Cambodia during the observed period, while the LS and FDI both scientifically significant and positively contributed to the economic growth of the Country in the observed period. The result supported by a recent researched findings of Vathanak (2021) that China's ODA was also insignificant and negatively affected the economic growth of Cambodia. On the other hand the observation exhibited that there was a mutual causal relations between LS and ODA, while there was no causal relations between LS and FDI. Further there was a non-integration effect among the independent and dependent variables since the Theil U2 Coefficient equal 1.13 greater than 1.

The above findings implied that ODA positively contributed to local savings (LS) and the LS encouraged the growth of the economy (GDP) of Cambodia, revealing that ODA contributed to build the infrastructure of the country and the LS was significant and positive contributed to the economic growth of Cambodia. Since the LS had no causal correlation with the FDI implied that FDI didn't encourage LS in one hand, and LS also didn't encourage FDI inflows on the other hand.

The GDP forecast of the above graph showed covariance proportion is 0.9970 explaining that all independence variables have a long term correlation with the dependence variable, but the independent variables weren't well forecasted the dependent variable since the Theil U2 Coefficient equals to 1.13 greater than 1.

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V- Conclusion

5.1 Summary of findings

Base on the result during the observed period by using the multivariate regression method with ordinary least squares during the analyzing processes, two variables FDI and LS were scientifically significant and positively contributed to the economic growth of Cambodia, while another variable ODA was insignificant and negatively affected on the economic growth of the country with a negative parameter of 1.61 value. While using the Granger causality test to validate the causal effect of the dependent and independent variables by using a pairwise Granger causality tests with lag 1 the result showed that LS has bidirectional causal relationship with FDI and ODA, but has no causal relationship with the GDP. Further ODA has a unidirectional causal relationship with the FDI, and has a bidirectional causal relationship with the GDP.

5.2 Suggestions for future researches

To fill the lapses of the above findings, further researches should be conducted by interested scholars and researchers on the effectiveness of foreign aid by donor, and by sectors which was also suggested by Dreher et al., (2017) to look into more precisely about the effectiveness of the foreign aid.

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