



SCHOOL OF ECONOMICS AND MANAGEMENT

Bachelor's programme in Economy and Society

Foreign Aid as a Catalyst for FDI-Driven Development Evidence from Post-Conflict Cambodia (1995–2019)

By

Milla Ramnebro

milla.ramnebro@gmail.com

Abstract

The last century has been a turbulent period in Cambodia, yet in the recent decades it has emerged from conflicts and humanitarian crises and become one of the world's fastest-growing economies. This transformation was enabled in large part by foreign aid (ODA) and foreign direct investment (FDI). This thesis analyses the mechanisms by which ODA and FDI influenced the economy individually and in combination, exploring whether ODA laid the foundation for FDI to drive economic growth. The study is grounded in the Solow growth model and endogenous growth theory. Using post-conflict Cambodia as a case study, this paper carries out a historical narrative, investigating how foreign capital, combined with gains in human capital and governance quality, influenced economic growth. The study finds that targeted ODA towards social sectors such as education and health increased human capital. This subsequently enhanced the economy's productive capacity, both attracting more FDI and allowing it to be more effective, especially within the service sector. Contrastingly, ODA targeting government and institutions did not affect the quality of government. Building upon previous research that emphasises an economy's internal capacity as a key determinant of the extent to which FDI drives economic growth, this thesis suggests that ODA is essential in laying the groundwork for FDI to be successful.

EGESO

Bachelor's Thesis (15 Credits ECTS)

May 2025

Supervisor: Benjamin Chatterton

Word Count: 12,616

Acknowledgements

I would like to begin by thanking my supervisor, Benjamin Chatterton, who has guided me throughout this process. Without his invaluable advice and expertise, this thesis would not have been possible. I would also like to extend my gratitude to the professors of Lund University, School of Economics and Management, who have provided me with a myriad of knowledge throughout these three years. Their support provided me with the foundation and inspiration to begin this work.

Table of Contents

List of abbreviations	3
Figures and tables.....	4
1. Introduction.....	5
1.1. Aim of the Study	6
1.2. Scope of the Study and Relevance	7
1.3. Delimitation	7
1.4. Outline of the Thesis	8
2. Background	8
3. Literature Review.....	11
3.1. Foreign Aid, Growth, and Human Capital Development	11
3.2. The Impact of FDI on Economic Growth	12
3.3. Complement or Competition? When Aid and Investment Share the Stage	13
4. Theoretical Framework	14
4.1. The Solow Growth Model	14
4.2. Endogenous Growth Theory	15
4.3. Study's Contribution to Existing Theories	15
5. Methods and Data	16
5.1. Methodology	16
5.2. Variables and Data Sources.....	17
5.3. Limitations	18
6. Analysis.....	19
6.1. Post-Conflict Reconstruction (1995-2003)	19
6.2. Early Economic Growth (2004-2010)	26
6.3. Economic Expansion (2011-2019)	29
7. Discussion	32
8. Conclusion	36
AI Statement	38
Bibliography.....	38
Unit of Analysis	39
References.....	35
Appendix	43

List of Abbreviations

FDI	Foreign Direct Investment
ODA	Official Development Assistance
GDP	Gross Domestic Product

List of Tables and Figures

Tables:

Table 1: Four key variables for human development in 1995 and 2003

Table 2: Four key variables for human development in 2004 and 2010

Table 3: Four key variables for human development in 2011 and 2019

Figures:

Figure 1: GDP per capita in Cambodia 1985-2019

Figure 2: Foreign aid and Foreign Direct Investment inflow from 1985-2019

Figure 3: Foreign aid and Foreign Direct Investment as a % of GDP from 1995-2019

Figure 4: Sectoral allocation of ODA from 1995-2003

Figure 5: Sectoral allocation of FDI

Figure 6: Value added by sector per capita from 1995-2019

Figure 7: Value added by sector as a percent of GDP from 1995-2019

Figure 8: Kaufmann's six dimensions of Governance for Cambodia from 1996 to 2019

Figure 9: Sectoral Allocation of Foreign Aid from 2004-2010

Figure 10. GDP per capita growth rate and Trade openness

Figure 11: Sectoral Allocation of Foreign Aid from 2011-2019

Figure 12: HDI, FDI and GDP per capita from 1995-2019

1. Introduction

After decades of war, genocide, foreign occupation and unending political instability, Cambodia has defied all odds by becoming one of the world's fastest-growing economies. In the thirty-three years following their independence in 1991, Cambodia's total GDP increased by more than 2000% (as of 2024) (The World Bank, 2025). This transformation has raised important questions about the mechanisms through which countries such as Cambodia, which are characterised by institutional deficiencies, a lack of basic infrastructure and serious human capital deficits, can recover and achieve sustained economic growth.

Investigating the drivers behind Cambodia's transition provides an opportunity to understand the challenges of growing in the aftermath of political and social trauma. Among the many elements that contributed to Cambodia's economic growth, the inflow of foreign aid or Official Development Assistance (ODA¹) and foreign direct investment (FDI) stands out as a key player. Few topics within international development have created as much debate as the impact of foreign aid on economic growth. While FDI is significantly less controversial and generally viewed more favourably, its influence on development is also a highly contentious discussion. Traditional economic theories, such as Solow's neoclassical growth model (1956), emphasise capital accumulation and productivity as key drivers of economic growth. Using this logic, both ODA and FDI should stimulate growth. Yet various cases from around the world have proven that this dynamic is a lot more complex. FDI has frequently shown its ability to drive industrialisation and job creation, although several critics argue it leads to labour exploitation (Sabir et al, 2019). Conversely, foreign aid has long been criticised for creating dependency and failing to produce measurable economic growth, yet it has also been argued to be essential for low-income countries in addressing human development (Bird and Choi, 2019; Selaya et al, 2012).

Within this extensive debate about the impact of foreign capital, ODA and FDI are often viewed as separate or even competing development strategies. However, in post-conflict cases such as Cambodia, the interaction between these capitals is more complex and may even be mutually reinforcing. Rather than viewing them as substitutes, we must consider whether they influence different elements within the economy that can act as complements in development efforts. That is to say that not all foreign capital is created equal. Both ODA and FDI have a wide range that differs in origin, objectives, and sectoral focus. These distinctions matter. ODA may be delivered as humanitarian relief, institutional support, or targeted development programs, each creating different implications for the economy in the long term. Similarly,

¹ The terms foreign aid and Official Development Assistance (ODA) are frequently used interchangeably. The main difference is that foreign aid includes military aid and loans that favour the donor country over the recipient. In the context of this paper, this difference is not relevant, and the terms will be used interchangeably.

FDI can take many different forms, concentrated in extractive industries, manufacturing, services or a wide range of other industries. This sectoral distribution of both ODA and FDI is a critical determinant of both the size and type of impact it will have on an economy.

This is particularly important in the context of post-conflict reconstruction, where initial deficiencies in infrastructure, governance, and human capital can severely constrain economic progress. For Cambodia, decades of violence and ineffective, corrupt regimes left it with one of the least educated and least healthy populations in the region (Britannica, 2025). In this context, aid targeting human development and institutional recovery will naturally have vastly different outcomes than FDI targeting output-oriented industries. Yet, only FDI will be able to directly convert its investment into GDP. Because of this, investigating Cambodia's development trajectory requires moving beyond the question of whether ODA or FDI *works*, and instead asking how different types of foreign capital interact across time and sectors to enable broader economic transformation.

1.1 Aim

This study follows the theory that ODA and FDI interacted with each other in developing Cambodia's economy in its post-conflict to modern period (1995-2019). The study aims to investigate the effect of both foreign aid and FDI in creating economic growth, as well as the ways in which foreign aid may have laid the groundwork for FDI to be effective.

In order to reach this aim, the study poses the following question:

How has foreign aid contributed to economic growth and the effectiveness of foreign direct investment in generating GDP growth in Cambodia?

This question encompasses discussions of both the direct and indirect role ODA has played in shaping Cambodia's economic trajectory. It invites an analysis not only of aid's independent contribution to growth, but also of its potential to enhance the effectiveness of FDI by addressing structural constraints. The study will reach this aim by analysing how and where both ODA and FDI were used, investigating specific industries and observing the impacts they had on various economic, political and social metrics. These observations will allow the study to understand the interaction between ODA and FDI. These various factors are critical in understanding how a post-conflict country with limited initial capacity managed to transform large inflows of foreign capital into economic gains.

1.2 Scope of the Study and Relevance

The methodological approach of this paper will allow me to explore causal relationships by investigating multiple different patterns of foreign capital and economic growth through descriptive statistics. The scope of the paper is limited to looking at the indirect relationships between ODA, FDI and GDP, without statistically testing their direct causal relationship. The paper will instead argue causation by exploring how aid targeted towards foundational elements, such as government capacity and human capital development, may have complemented FDI in creating long-term economic growth and increased productivity in Cambodia. The scope of this study is also limited to the period between 1995 and 2019. The timeline begins in 1995 to ensure the analysis reflects developments following the establishment of Cambodia's new constitutional government in 1993. Further, due to data availability, 1995 was chosen to ensure data consistency. The end point of 2019 was selected to avoid distortions caused by the COVID-19 pandemic, which would have included external shocks unrelated to the long-term trends of ODA and FDI.

The paper will contribute meaningfully to the growing research on the interaction between ODA and FDI in developing economies. In particular, it offers a country-specific perspective on Cambodia, an underrepresented case in the broader ODA and FDI literature. This study also engages with theoretical debates on aid effectiveness and economic development, building on traditional economic frameworks and theories proposed by Borensztein et al (1998) and Kotrajaras et al (2011), among others. Moreover, the findings will hold policy relevance for development efforts and countries seeking to optimise aid allocation to enhance the effect of foreign investments.

1.3 Delimitation

This section outlines the key boundaries set for the scope of this study. These boundaries are necessary in order to focus the analysis and maintain clarity. The use of Cambodia from 1995-2019 as a case study creates both a temporal and geographical delimitation. While this time frame captures the period in which Cambodia transitioned from post-conflict recovery to rapid economic growth, it also means that events before or after this window are excluded, even though they may hold contextual value. Further, by focusing solely on Cambodia, the external validity and generalizability of the findings are limited. Hence, any results can not be directly used to support another country's case. However, this focused approach allows for a more nuanced analysis of the relationship between ODA and FDI.

The classification of sectors is another boundary set up to limit the scope. With the sectors being grouped into one rather than separated into sub-sectors, the analysis sacrifices a degree of specificity. For instance, manufacturing, construction, and mining are all placed under the broader category of "industry," even

though each may respond differently to foreign direct investment. This simplification is necessary to ensure the analysis stays concise, rather than exploring multiple different avenues outside of the scope of the study.

The choice of a historical narrative approach, supported by descriptive statistics and economic theory, limits the methodological scope. The study deliberately avoids regression-based or econometric analysis as the narrative method instead allows the exploration of *why* patterns happened in post-conflict Cambodia, rather than simply proving *what* happened. For this paper, statistical testing would also lack context. Instead, a historical narrative provides an in-depth case study where data and context will be combined to understand the various dimensions. While these delimitations narrow the statistical accuracy, they also allow for a more detailed exploration of Cambodia's development trajectory. The intention is not to provide universally generalizable findings, but to offer a case-based foundation that future case or cross-country studies can build upon.

1.4 Outline of the Thesis

This thesis is outlined as follows: The first section following the introduction covers the historical background of Cambodia in regards to social, political and economic events. It begins covering events that occurred prior to the temporal scope of the study and thereafter covers events that happened within the scope. The second section is the literature review, providing multiple scholarly arguments about the effects and relationship of ODA and FDI. This section will review papers covering analyses of both Cambodia's case specifically and other contexts across the world. Thereafter, I have presented the theoretical framework that guides this paper's analysis, this is followed by the methodology, introducing both the type of analysis this paper will use as well as the data variables and sources. The next section covers the findings and analysis, which is closely followed by the discussion of the analysis. The paper will thereafter be closed off with concluding remarks, summarising the findings and the wider relevance.

2. Background

The 20th century was a devastating period for Cambodia, marked by colonisation, war, genocide and foreign occupation. Cambodia began the century under French colonisation, experiencing minimal social and economic development (for the local population) (Slocumb, 2010). When it became independent in 1956, it was caught in the crossfire of Cold War politics. As a neighbour of Vietnam during their civil war, Cambodia experienced extreme political and economic instability, which influenced their own civil war, abolishing the monarchy in 1970 (Slocumb, 2010). This was closely followed by the brutal Khmer Rouge regime. The Khmer Rouge, a radical communist party, seized power in 1975 and aimed to create a

classless agrarian society. They abolished currency, schools, and markets and executed or starved nearly 2 million people, roughly a quarter of the population. Intellectuals, professionals, and anyone associated with the former government were targeted, devastating Cambodia's human capital base (Britannica, 2025). When the regime was removed in 1979, Cambodia was hit with another wave of hardship, the Vietnamese occupation, during which several armed resistance groups were formed to fight the occupation (Britannica, 2025). During this time, Cambodia was politically isolated with high poverty rates, however, it did allow the education and health sectors to gradually rebuild after the Khmer Rouge regime, but remained in poor condition (UNCTAD, 2003).

In 1991, after more than a decade of Vietnamese occupation, the two countries signed the Paris Peace Accords, formally ending the occupation. This gave Cambodia a framework for peace, national reconciliation, and the restoration of democratic governance (Slocumb, 2010). With the peace accords and support from UNCTAD (United Nations Conference on Trade and Development), Cambodia began opening up for foreign direct investment. The accords also brought a UN Peacekeeping mission and set up the first democratic elections in 1993 (UNCTAD, 2003). Yet, due to political tensions between the royalists and the Cambodian People's Party, a coalition had to be formed between the incumbent and newly elected party, installing the former prince as the prime minister. Under this new constitution, Cambodia also returned to a monarchy (Britannica, 2025). Following the establishment of a new government, Cambodia took extensive measures aiming to rebuild the human and physical infrastructure that had been destroyed in the previous decades (Slocumb, 2010).

In this post-conflict recovery, foreign aid became crucial, not only for emergency relief and reconstruction but also for institutional development, governance reform, and social sector investment. Simultaneously, the government adopted an increasingly open approach to trade and investment, positioning Cambodia as an attractive destination for labour-intensive FDI, particularly in garments and tourism (UNCTAD, 2003). In comparison, aid-funded programs were particularly targeted at rural education, maternal and child health, and basic infrastructure. Development partners such as the World Bank, IMF, ADB, Japan, the EU, and the United States spent millions of USD aiming to create macroeconomic reforms and human investments (UNCTAD, 2003). This relatively steady period came to a halt in 1997 when the Cambodian People's Party held a coup, deposing their coalition partners as well as the prince and prime minister. The coup created unease among foreign donors and investors, leading to a decrease in the inflow of foreign capital, whilst Cambodian entry into ASEAN (Association of Southeast Asian Nations) was delayed (Slocumb, 2010). Simultaneously, East and Southeast Asia were hit with the Asian financial crisis of 1997-1999. Although Cambodia was not at the centre of the crisis, as many of its largest trade partners

and investors were impacted, the Cambodian economy became very vulnerable and increasingly reliant on donors from other parts of the world (Slocomb, 2010).

In the early 2000s, although the country was finally at peace and had begun to stabilise, it still had a slow-growing economy with a serious AIDS epidemic and still held a least-developed country status. In 1999, Cambodia joined ASEAN, and then in 2004, it joined the World Trade Organisation, marking an integration into the global economy (Britannica, 2025). During this time, Cambodia also began shifting their economic structure, moving from agrarian and logging industries to manufacturing and tourism industries, regaining confidence from foreign investors. While agriculture, particularly rice cultivation, remained an important employer in rural areas, Cambodia became less dependent on it as the garment and textile industry emerged as a dominant industry (Vutha and Narin, 2025). Garment manufacturing, in particular, became Cambodia's largest export sector, attracting large volumes of FDI due to its low labour costs and preferential trade agreements, especially with the EU and the US (Penghuy and Savuth, 2025).

At the same time, the tourism sector expanded rapidly, spurred by growing global interest in Cambodia's cultural heritage sites, such as Angkor Wat (Vutha and Narin, 2025). Services such as retail, transportation, hospitality, and financial services began to play a larger role in the economy. This development was not without setbacks, most notably in 2014, when widespread civil unrest erupted following disputed elections and growing dissatisfaction with working conditions in the garment sector. Mass protests and violent crackdowns disrupted investor confidence and exposed ongoing governance and labour rights challenges (Iammarino, 2024). Despite political instability and global criticism of the fairness of the democratic elections, these consistent growth rates reinforced existing foreign investors and attracted even more. By the end of the 2010s, Cambodia had achieved one of the fastest sustained GDP growth rates in the world, positioning Cambodia as one of Southeast Asia's rising economies by 2019. Meanwhile, large investments into education and healthcare led to significant improvements in school enrollment at all levels, child mortality rates and life expectancy. (U.S. Embassy Phnom Penh, 2024)

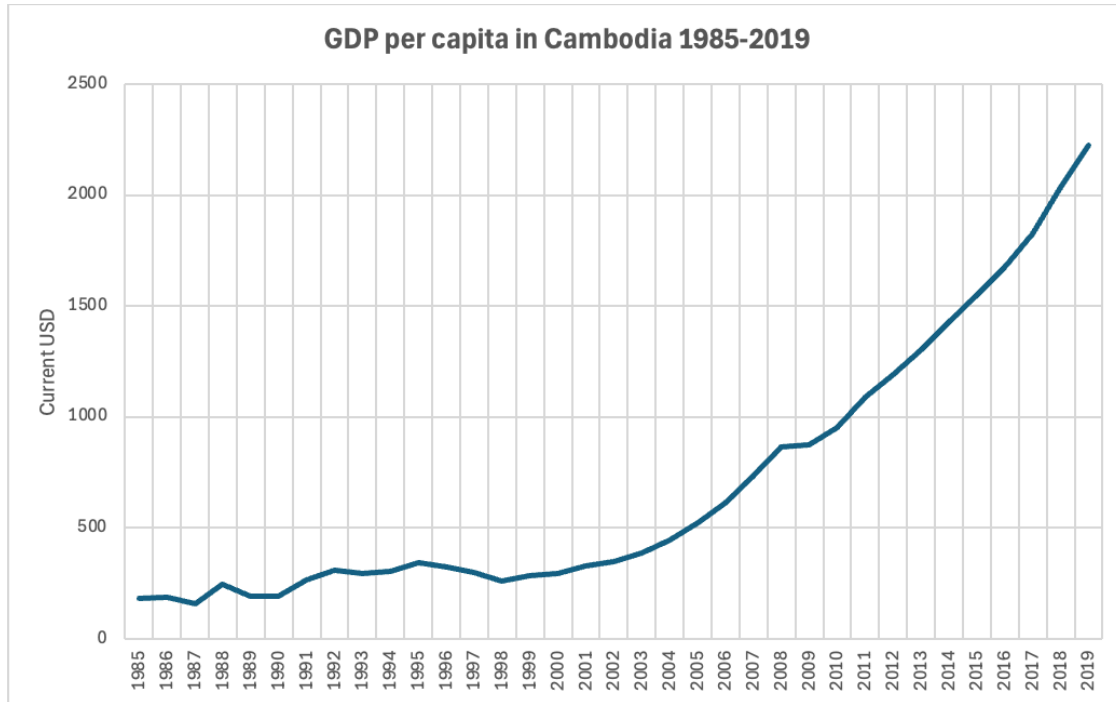


Figure 1. GDP per capita in Cambodia 1985-2019

3. Literature Review

3.1. Foreign Aid, Growth, and Human and Institutional Development

The debate surrounding aid as a mechanism for economic growth is extensive, controversial and long-running. Academics have covered aggregate and disaggregate research over multiple periods, with no common consensus. Differences in methods and data samples have left the topic without a real understanding of the effect of aid. One argument suggests that aid inefficiencies are attributed to weak institutions and that some forms of aid have greater effects than others (Kotrajas, 2011). Rajan and Subramanian's (2005) cross-country analysis finds no evidence to support this argument. They find little robust evidence of either a positive or negative effect, suggesting that even in good policy environments, aid has, at best, a very small, statistically insignificant effect on economic growth. Research analysing aid in Cambodia generally supports this, finding no positive relationship between aid and economic growth since the 1990s (Chet, 2022; Nwani, 2021; Shirazi, 2009). However, Hansen and Tarp (2000) criticise the argument that aid is ineffective, as much of the aid doesn't directly aim to create economic growth but rather develop social sectors such as health and education, target food security through investing in agriculture or government reform. Therefore, research would be more positive if studies used metrics which looked at human capital, institutional quality and happiness metrics rather than economic growth.

Nwani (2021) investigated this in a study researching how aid may interact with human capital development in South Asia and Sub-Saharan Africa. They find that ODA doesn't in itself drive economic growth, but when allocated towards education, skills, health and knowledge, it improves human capital development, which in turn impacts economic performance. Shirazi et al's (2009) paper supports this finding. In a Granger causality study, they find a small, insignificant bidirectional relationship between ODA and economic growth, but a unidirectional causality from ODA to education and human development indexes. Kaya (2012) also finds no significant relationship between ODA and economic growth, but finds that ODA directed towards agricultural development has been effective in reducing poverty in developing countries. Through advancing the agriculture industry, and thereby increasing urbanisation, aid can indirectly promote economic growth more efficiently than directly targeting it through output-oriented sectors. Additionally, through providing the appropriate infrastructure and government support for foreign direct investments and trade agreements, aid may have had a hand in incentivising labour reforms and employment rates in Cambodia, which may in turn have had a role in the growth of the garment sector, responsible for around 75% of total exports in 2010 (Ear, 2013).

3.2. The Impact of Foreign Direct Investment on Economic Growth

In comparison to aid research, FDI's relationship with economic growth is commonly agreed to be positive. Dinh et. al.'s (2019) study examined the effects of FDI in developing countries and found that in the long run, developing nations experience economic benefits. FDI's supplement domestic investments, mitigate the saving-investment gap, and provide access to new technology whilst simultaneously enhancing human capital and tax revenues. Economic growth and FDI have also been found to be bidirectional, where not only does FDI create economic growth, but economic growth in turn attracts more investors (Kheng, 2017). Sokang et al (2018) research aimed to see if this remained true in the case of Cambodia and found a strong positive relationship between FDI inflows and GDP growth.

However, the impact of FDI on an economy is highly dependent on the country's preconditions, where Kotrajaras et al (2011) suggest that the preconditions of the economy can be a major determinant of its impact on economic growth. They find a strong positive relationship between FDI and growth in high and middle-income countries but suggest that lower-income countries benefit less. In contrast to low-income countries, high and middle-income countries already bring higher levels of human capital, infrastructure and trade openness to support the incoming FDI. Whereas low-income countries lack the means to efficiently use FDI to grow their economies. They suggest that low-income countries need to implement policies to increase investments in human capital development in order to benefit from FDI. Le et al (2019) had a similar discovery in their study analysing FDI, human capital and labour productivity. They

find that both human capital and FDI individually positively influence labour productivity, yet FDI is significantly more effective when human capital is higher and vice versa. Similarly, Kheng et al (2017) suggest that not only do human capital and government quality make FDI more effective, but they are also important determinants of attracting more FDI inflows. They find a mutually reinforcing relationship between FDI and human capital and find that an increase in tertiary enrollment leads to a relatively large increase in FDI inflows, which then creates the opposite effect again. Jajri et al (2012) looked at this relationship in terms of productivity in East Asian countries and suggested that the interaction between human capital and government effectiveness with FDI positively affects productivity growth.

3.3. Complement or Competition? When Aid and Investment Share the Stage

Several studies have researched ODA and FDI individually, but fewer have aimed to directly compare or connect the two. The primary purpose of aid is to develop low-income or conflict/catastrophe-ridden countries, but it has largely been labelled ineffective in creating economic growth. FDI is comparatively used as a means for foreign private companies to increase their profits through market expansion, which may in turn create economic benefits for the host country (Kotrajas et al, 2011). Their contrasting motivations have limited a narrative for FDI and aid as either substitutes or complements.

A few studies have attempted to address this relationship. Bird and Choi's (2019) study aimed to directly compare FDI and ODA, isolating the two kinds of funding. They found that FDI positively correlated with economic growth across a broad sample by increasing capital investment, improving technology transfer, and creating jobs. Aid, however, showed no consistent effect on growth, with some cases finding positive impacts and others finding negative or insignificant effects. They argue that governments should aim to reduce aid reliance and attract foreign investments instead. However, many scholars argue that FDI is not a substitute for aid but that they work as complements. The 2002 UN Monterrey Consensus states that "Official development assistance (ODA) plays an essential role as a complement to other sources of financing for development, especially in those countries with the least capacity to attract private direct investment. ODA can help a country to reach adequate levels of domestic resource mobilisation over an appropriate time horizon, while human capital, productive and export capacities are enhanced". Selaya (2012) supports this finding, suggesting that when aid is invested in sectors complementary to FDI (public infrastructure and human capital), it increases the marginal productivity of capital. They also find that when aid is allocated directly into physical capital, there is a crowding-out effect of FDI, but when allocated into complements of physical capital, there is a crowding-in effect for FDI. Lutz et al (2006) suggest that this is true for countries with a high regulatory burden, where ODA directed into public infrastructure can act as compensation for the high regulations. Yet, this does not hold for countries without significant regulations, where they find no relationship between aid and FDI. Similar to Lutz et al,

Karakplan et al (2005) suggest that the relationship between aid and FDI is conditional on the countries' preconditions. In comparison, they argue that aid only attracts FDI in well-governed countries with stable financial systems. Without these conditions, aid does not make much of a difference in promoting foreign investment.

Salesman et al.'s (2023) study investigated this relationship in post-conflict Cambodia, providing valuable insights for this paper. They aimed to find whether there were crowding-in/ -out effects depending on where the aid was allocated and who it was coming from. Their study shows that in the short run, aid allocated towards social sectors and governance had crowding-in effects. However, no such relationship was found in aggregate aid, whilst economic aid crowds out FDI. In the long run, aggregate aid overall promotes foreign investment. They also find that where the aid is coming from (USAID, UNDP, JAID) has varying effects on FDI inflows. Tobin et al (2006) argue against the idea that ODA and FDI are complements, suggesting that FDI slows down the rate of human capital development and that lower-income countries need aid to experience sustainable growth.

4. Theoretical Framework

The theoretical framework of this paper is grounded in the broader economic growth literature, particularly drawing from classical and modern theories that address the role of capital, technology, and human development in long-term growth trajectories. This framework is developed in close connection with the methodology and analytical focus of the paper, which will investigate the effectiveness of ODA in its interaction with FDI in creating economic development.

4.1. The Solow Growth Model

The Solow growth model, introduced in 1956 by Nobel Prize winner Robert Solow, has been instrumental in understanding the role of capital and labour in driving GDP growth. The classic Solow model theorises that economic growth is driven by the accumulation of physical capital, expansion of the labour force, and improvements in technology. However, due to diminishing returns to capital, increases in capital alone yield progressively smaller gains in output. Because of this, in the long run, sustained growth in output per capita can only be achieved through technological progress (Asiedu, 2007). In this framework, ODA and FDI may raise income levels in the short term through capital accumulation, but it does not create long-term growth unless they contribute to improvements in productivity, particularly through technological advancement (Akinbode, 2020). If this model holds, aggregate ODA and FDI into Cambodia would be expected to have only a temporary effect on GDP levels unless they contribute to lasting improvements in productivity. This invites a discussion on how ODA and FDI inflows may have helped Cambodia escape diminishing returns and aid dependency and move toward more sustained economic growth.

4.2. Endogenous Growth Theory

Endogenous growth theory was developed to account for the limitations of the neoclassical Solow growth model. While the Solow framework treats technological progress as an exogenous factor, endogenous growth theory seeks to explain it from within the model itself. It emphasises that economic growth can be sustained through investments in innovation, human capital, and research and development, all of which create positive spillover effects and increasing returns to scale (Romer, 1986; 1990). More modern extensions of the endogenous growth theory also include governance quality as a key component. This extension argues that institutional capacity through control of corruption, the rule of law, and efficient bureaucracy is an important determinant of an economy's ability to develop (Riviera-Batiz, 2002). Hence, through a high institutional quality, human capital and investment in innovation, an economy can experience sustained growth. In other words, in a knowledge-based economy, the indirect effect of investment in technology, institutions and people will continue to generate returns. Within this framework, ODA acts as a catalyst for economic development by enhancing a country's capacity for innovation and supporting education, health and government. By strengthening human capital, governance and promoting advancement, aid improves the productive capacity of the economy, enabling it to grow from within (Morrisey, 2001). In Cambodia's case, this would suggest that ODA targeting human and governmental sectors was the key driver of economic growth. This would further suggest that aid enabled growth from within the country rather than dependency on foreign investors or donors.

4.3. Study's Contribution to Existing Theories

This paper will combine ideas from the Solow growth model and the endogenous growth theory, along with contributions from existing research, to investigate the Cambodian case study. This framework takes inspiration from Borensztein et al (1998) and Kotrajaras et al (2011), who suggest that the benefits of FDI are not automatic, but conditional on host countries reaching certain thresholds of human capital and institutional quality before making use of the capital. This would suggest that neither the Solow nor endogenous growth theory is able to capture the whole picture. The Solow growth model claims that growth is exogenous, this would mean that Cambodia's GDP growth was triggered by the large inflows of FDI into productive industries, and long-term growth came from advancements in technology. Whilst the endogenous growth theory would argue that their GDP growth came from improvements in human capital and institutions. This paper explores the idea that the models combined can explain the GDP growth. Aid would act as the instigator, increasing Cambodia's internal capacity for productivity. This, in turn, creates a more attractive market for foreign investors, generating an inflow of financial and physical capital, knowledge and technology. This capital, in combination with internal capacity improvements, thereby drives GDP growth and productivity. As a result, aid and FDI complement each other, with neither

capable of driving growth in isolation. Applying this thought to Cambodia, I will analyse how aid investments into human capital and institutional development may have created an environment for FDI to have long-term economic benefits beyond short-term capital accumulation. If aid effectively laid the foundation for a skilled workforce and institutional capacity, then FDI inflows into industry and services amplified growth.

5. Method and Data

5.1. Methodology

This study uses Cambodia as a case study and adopts a historical narrative methodology with a longitudinal design to investigate the role of ODA in enabling FDI-driven economic growth in Cambodia between 1995 and 2019. Rooted in the Solow growth model and the endogenous growth theory, this paper will prioritise understanding processes over statistically testing correlations. A historical narrative is particularly suited for showing the sequential nature of development, where causality often appears over extended periods rather than through individual events (de Vaus, 2013). This approach is especially suited for Cambodia as their post-conflict recovery, human and institutional development, and integration into international markets unfolded in phases rather than in a steady and uniform flow. Cambodia's development did not occur simultaneously or linearly, but instead different factors built upon each other. This means that analysing the effect of aid and FDI on economic growth through statistical testing risks overlooking the phased nature, oversimplifying the complex relationship between foreign capital, human and institutional development and economic growth.

This paper's method is based on the theory that the effects of FDI are conditional on the country's existing capacity for productivity, measured through human capital and institutional quality. Because of this, the study will trace how aid investments into different sectors influenced the effectiveness of FDI in output-oriented sectors. This analysis will include looking at data about ODA allocation, FDI allocation, sectoral GDP contribution and GDP per capita over the period 1995 to 2019. While this quantitative data will support the analysis, the core contribution lies in interpreting historical trajectories. The analysis proceeds by:

1. Identifying patterns of ODA allocations into various sectors.
2. Identifying the timing, scale, and sectoral focus of FDI inflows.
3. Evaluating sectoral and economic outcomes.
4. Evaluating the human capital and quality of governance outcomes.

This analysis will also be split into three distinctive development periods, each aligned with major shifts in Cambodia's political and economic landscape. The first period, from 1995 to 2003, covers the post-conflict era, which was heavily focused on social, political and economic recovery efforts. The choice to begin in 1995 allows for a brief institutional settling period following the signing of the peace accords in 1991 and the formation of Cambodia's new government in 1993. This allows the effects of external support and reform efforts to be observed more meaningfully in a less turbulent period. The second period, from 2004 to 2010, begins with Cambodia's accession to the WTO in 2004, an event that significantly improved access to global markets and investors. This era saw a surge in export-led growth, rising foreign direct investment, and an increase in trade agreements. The final period, from 2011 to 2019, captures Cambodia's post-global-recession recovery and expansionary phase. During this time, the economy diversified, with increasing contributions from tourism, construction, and financial services alongside continued manufacturing growth. (Vutha and Narin, 2024) These chronological divisions not only align with patterns in Cambodia's macroeconomic data but also with important global and national events. By structuring the analysis around these three phases, the study benefits from a clearer temporal sequence, which strengthens the ability to examine potential causal relationships.

This paper uses average values in sectoral share of FDI and ODA for each period, as inspired by Saing et al (2012) and Iammarino et al (2024). This helps the paper understand the broader trends of each period, mitigating the inevitable inconsistencies and fluctuations within annual foreign capital data. This approach makes it possible to draw clearer comparisons across time and examine whether structural changes in capital allocation align with changes in development outcomes.

5.2. Variables and Data Sources

The data chosen for this study is used to analyse how ODA and FDI were used and the results on Cambodia's economy from 1995-2019. As its unit of analysis, this study will use data from multiple sources. Gross domestic product per capita and sectoral value added per capita are used as key indicators to measure economic growth and productivity. GDP per capita provides a broad view of how national income and output are improving relative to population growth. Sectoral value added per capita, on the other hand, allows for a more granular analysis of productivity within specific industries. This helps assess how effectively each sector is contributing to overall growth. Data on Cambodia's GDP per capita is retrieved from The World Bank's open database (World Bank, 2025). Data on GDP contribution by sector (agriculture, industry, services) was retrieved from Cambodia's National Institute of Statistics. Data on ODA sectoral allocation (1995-2019) is taken from the Cambodian Development Cooperation Board and is supported by research papers from the IMF. This is used to understand how much ODA was

moving into Cambodia and which areas it was targeting. Data on FDI allocation in Cambodia does not exist as one concise set, hence, it was retrieved from a variety of official documents covering different periods. This data was taken from the Cambodia Development Resource Institute and documents from the United Nations Conference on Trade and Development (UNCTAD). Similarly to ODA, this will be used to understand how much and where FDI went.

To measure improvements in human capital, this study uses the Human Development Index (HDI), primary and tertiary school enrollment rates, and life expectancy. HDI provides a composite measure of education, health, and income, capturing the overall progress in human development. School enrollment rates offer more specific insight into the education component, indicating how access to and participation in education evolved over time. Life expectancy serves as a key proxy for health outcomes, reflecting the general well-being and health of the population. Together, these indicators allow for a multidimensional understanding of how human capital developed. To assess the quality of governance, this study draws on Kaufmann's six dimensions of governance. These include Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption. These dimensions provide a holistic picture of institutional quality and are widely used in international development research, offering a standardised framework to analyse how governance trends may have affected Cambodia's ability to effectively use foreign capital. All these variables are taken from the World Bank's open database (World Bank, 2025) and the Global Economy's (2025) database.

5.3 Limitations

While this study aims to provide a comprehensive understanding of how foreign aid contributed to the effectiveness of FDI in Cambodia, several limitations must be acknowledged. First, the use of a case study and historical narrative approach inherently involves a degree of subjectivity in interpreting events, patterns, and causality. Although supported by empirical data, the analysis does not produce statistically tested results, meaning that findings of causality are based on historical interpretations rather than formal econometric findings. However, due to the complexity and the need for context to explore multi-causality, this narrative method is the most appropriate.

Second, the availability and consistency of sectoral data on FDI and ODA pose challenges. FDI allocation data, in particular, is fragmented across multiple sources and time periods, and often lacks standardisation in sector definitions or coverage. As a result, the analysis must rely on combining secondary sources, which may have inconsistencies or gaps. Similarly, while ODA data from the Cambodian Development Cooperation Board is comprehensive, variations in sector classification and reporting standards over time may affect reliability. This limitation is mitigated by using multiple data sources and cross-referencing them to find inconsistencies, ensuring that the data is as comparable as possible.

Third, the use of aggregate sectoral data may limit an understanding of the nuances within the sector. For instance, multiple industries and firms within the manufacturing sector may have different patterns of growth, which can not be understood by the broader datasets. This limits a detailed understanding of the changes in the sub-sectors and how foreign capital may influence different markets. To mitigate this, the study complements quantitative data with qualitative descriptions from official reports, as well as case examples to differentiate sub-sectoral characteristics where possible.

6. Analysis

6.1. Post-Conflict Reconstruction (1995-2003)

The period from 1995 to 2003 marks Cambodia's initial phase of post-conflict reconstruction following the first democratic elections and the formal reestablishment of a constitutional monarchy. Despite continued political instability, most notably the 1997 coup and the Asian financial crisis in 1997, this era saw Cambodia begin to rise and integrate into the global economy (Slocumb, 2010). Following the Vietnamese occupation and the Khmer Rouge regime, the country faced extremely limited state capacity, with public institutions still deeply flawed and ineffective (Slocumb, 2010). As seen in Figure 2, the Paris Peace Accords of 1991 marked the beginning of substantial ODA flows into Cambodia. In 1995, the growth in ODA flows stopped but remained a steady inflow throughout the period. Figure 3 shows how Cambodia's economy was heavily reliant on aid at the beginning of this period, where it accounted for almost 15% of the total GDP. By 2003, the proportion of ODA as a component of GDP had decreased significantly, but remained a large proportion at around 9%.

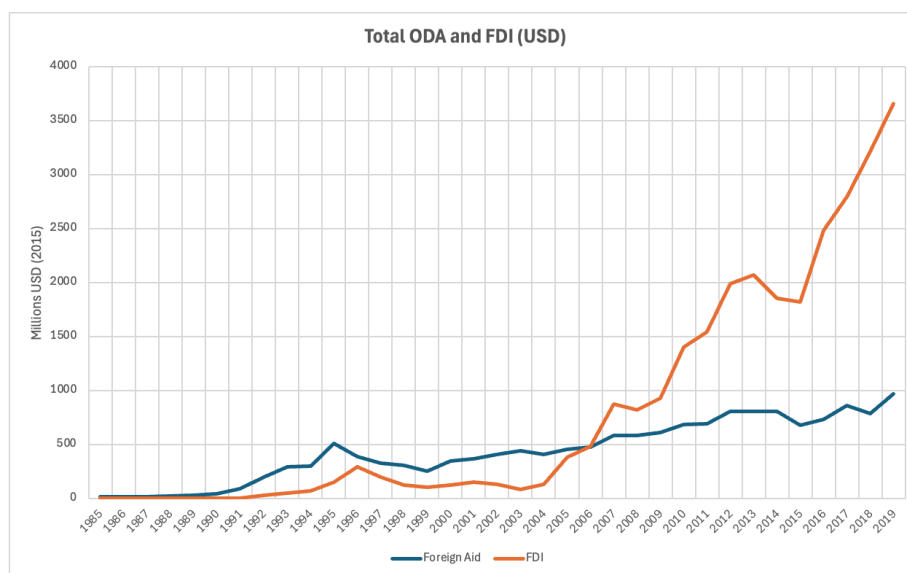


Figure 2. Official Development Assistance and Foreign Direct Investment inflow from 1985-2019

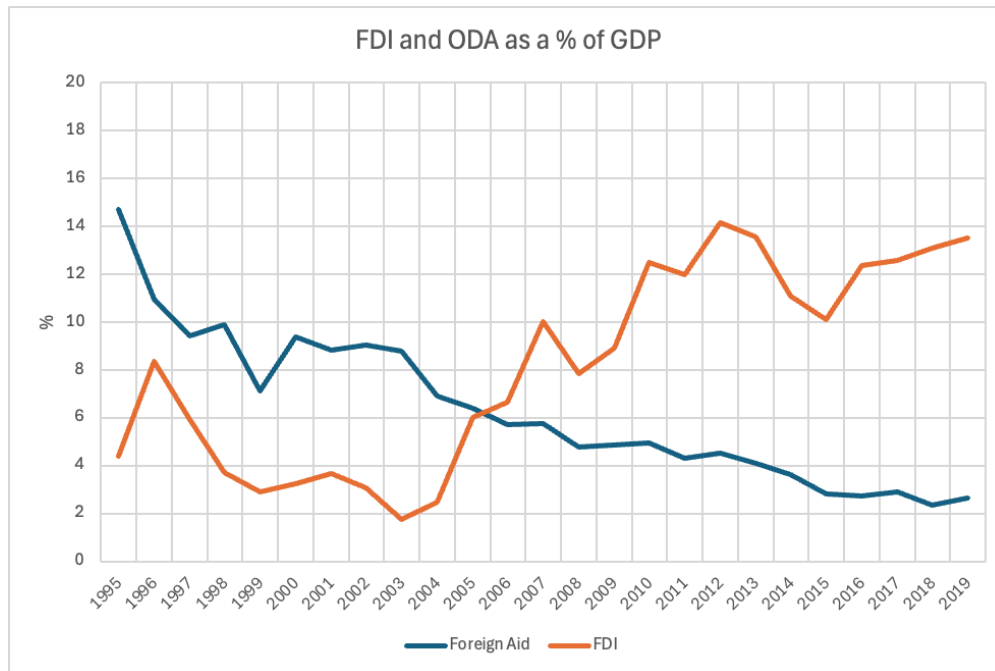


Figure 3. Official Development Assistance and Foreign Direct Investment as a % of GDP from 1995-2019

Foreign aid flows during this time were primarily aimed at stabilising the country and addressing more urgent development needs following decades of conflict. Much of the country's infrastructure had been destroyed, the labour force was largely unskilled, and there was no meaningful industrial base (Slocomb, 2010). Figure 4 shows how ODA was dispersed in the post-conflict reconstruction period. ODA flows targeting human development were the most significant, taking up almost 35%. The second largest recipient, at around 25%, was for “other” sources. The “others” category, largely consisting of ODA toward government, institutions, and technical assistance, includes a wide range of projects such as funding for international expert consultants, salary supplements for civil servants, government reform efforts, administrative development programs, economic management and funding for both international and local NGOs involved in state-related services. These projects were created with the general purpose of creating government reform and getting the state to function effectively. The third largest group at 16.8% was for industry, primarily consisting of manufacturing and construction (largely focused on rebuilding destroyed infrastructure). Services, mainly targeting financial services and telecommunication, accounted for 15.9%, whilst agriculture recorded 6.4%. It is clear that whilst large amounts did go towards productive sectors, in the post-conflict period, ODA primarily targeted human capital, rebuilding infrastructure and institutional recovery.

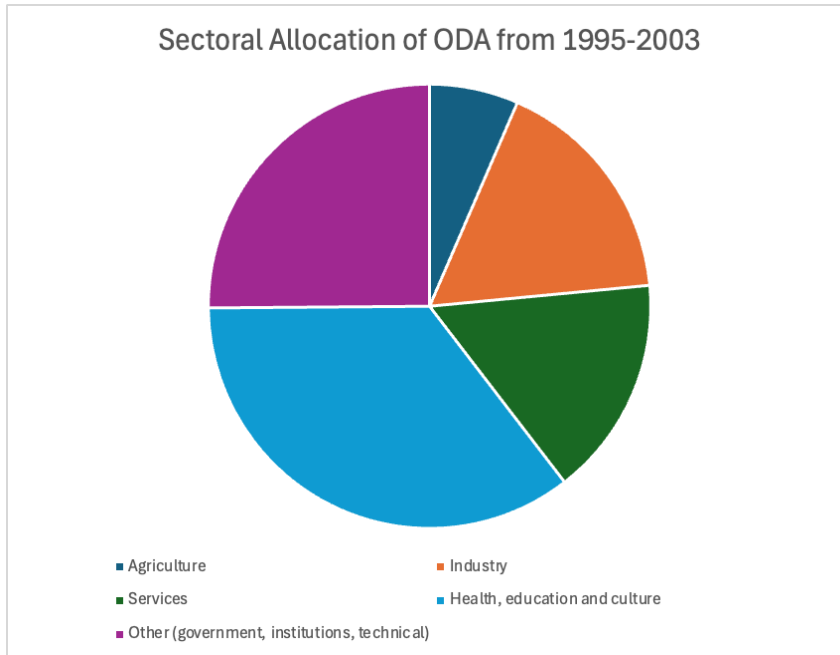


Figure 4. Sectoral allocation of Official Development Assistance from 1995-2003

During this same period, Cambodia received around half as much FDI as ODA, with the yearly quantity remaining at a steady but slightly decreasing rate (Figure 2). Figure 5 shows how the largest recipients of FDI were the industrial sectors, mainly targeting the garment sector. Tourism also received large proportions of FDI, whilst the service sector fell behind, receiving less than half of tourism's amount and around a third compared to the industrial sector. Agriculture, similar to ODA flows, only accounted for about 6% of the total FDI flows. Contrary to ODA, but unsurprisingly, FDI flows targeted profit-oriented sectors.

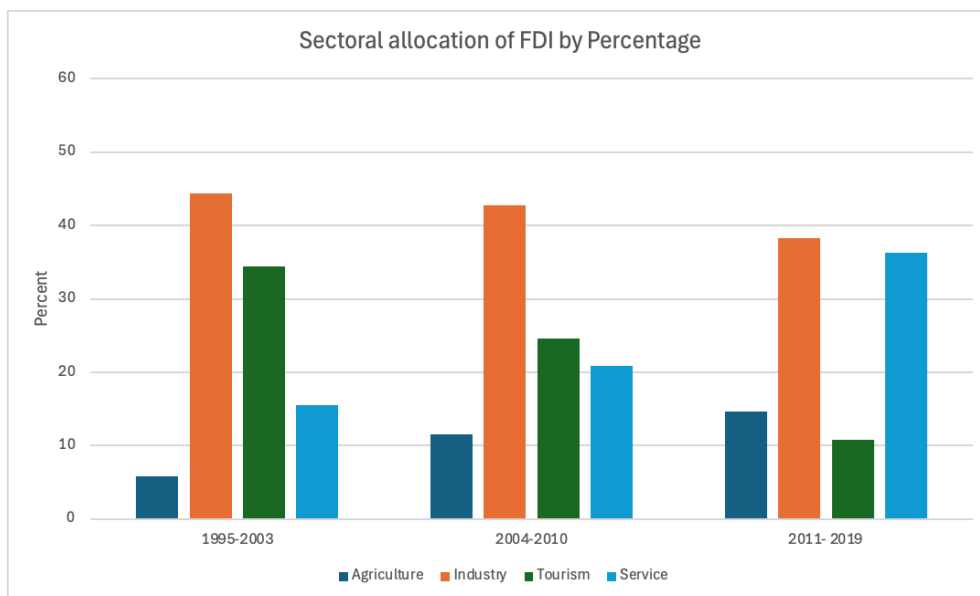


Figure 5. Sectoral allocation of Foreign Direct Investment

During the 1995-2003 period, there was slight economic growth, with the average GDP per capita rising by around 1.9% annually (Figure 1). Although there were economic improvements, the rates were less significant than the neighbouring ASEAN countries, and the growth was unstable (Appendix A). At the beginning of this period, the economy also had a recession as a result of the Asian financial crisis, as well as the political instability following the coup by the Cambodian People's Party and the delayed ascension to ASEAN (Appendix B). Figure 6 shows the limited productivity growth in all three sectors, with the agriculture sector decreasing in per capita value and the service sector experiencing slight growth. However, although the growth was slow compared to later periods, the industry sector managed to see large improvements. Figure 7 shows how the composition of the sectors altered, going from a primarily agriculture-driven economy to a service-driven economy. This is in large part thanks to the large growth of the tourism industry, with sites such as Angkor Wat becoming a global attraction (Appendix C) (Vutha and Narin, 2024). The industrial sector also became a larger component, witnessing the largest growth of the three sectors, in part due to the garment sector growing by roughly 413% (Appendix D), yet still remaining the smallest by 2003.

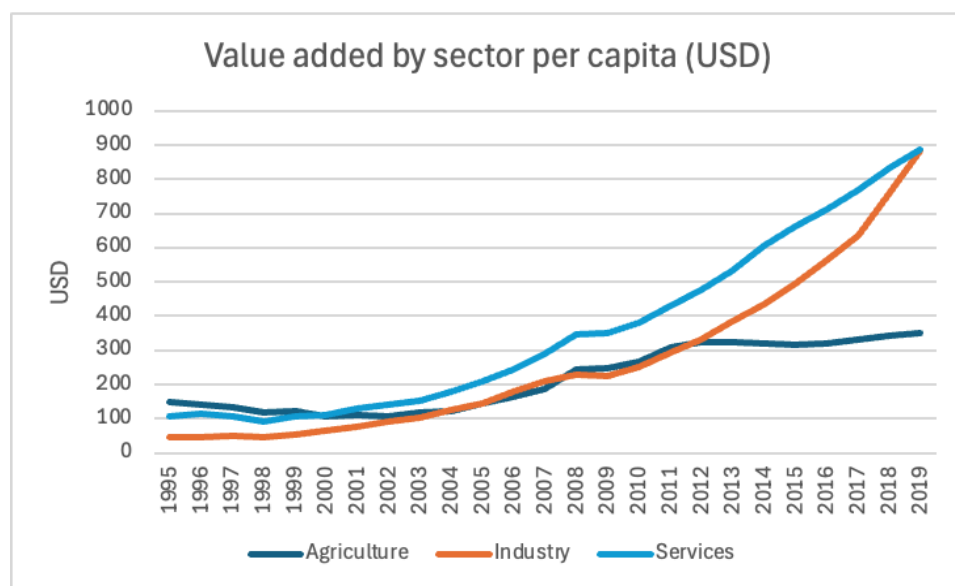


Figure 6. Value added by sector per capita from 1995-2019

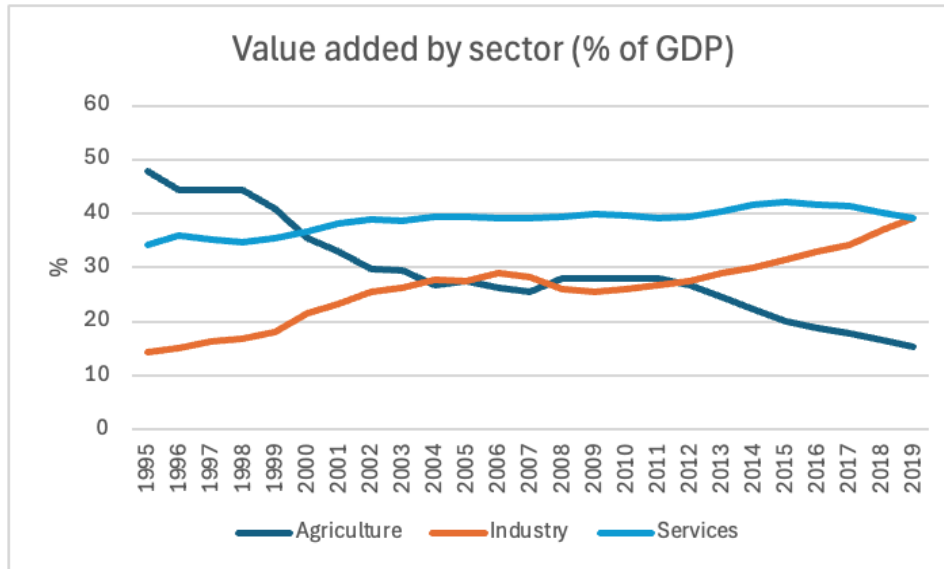


Figure 7. Value added by sector as a per cent of GDP from 1995-2019

Although ODA towards “others” (government, institutions and technical assistance) was the second largest recipient, when looking at the Percentile Rankings on Kaufmann et al.’s Six Dimensions of Governance (Figure 8), there was no stable pattern of improvement, except for some gains in political stability & absence of violence and terrorism. This suggests that substantial governance-targeted ODA did not translate into institutional reform. These findings are consistent with Ear (2007), who argues that foreign aid in Cambodia contributed to a form of ‘Dutch disease,’ distorting incentives by pulling scarce human capital into the donor sector rather than building state capacity. Aid often substituted government responsibility, with donors funding education, health, and rural development, while the Cambodian government prioritised defence and security. He further notes that ODA allocated to fund civil servants’ salaries often enabled abuse of public office for private gain and removed motivation for reform.

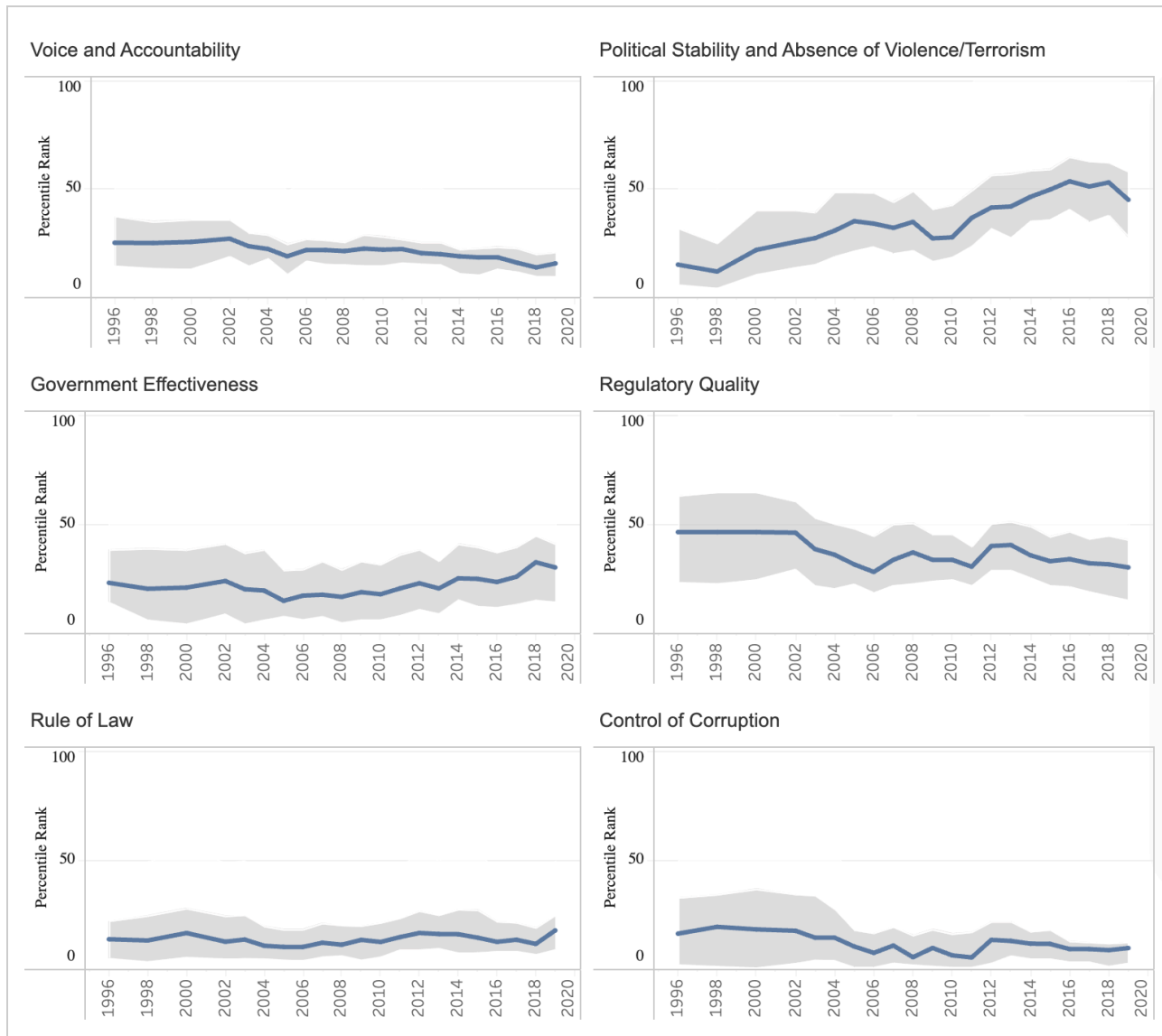


Figure 8. Kaufmann's six dimensions of Governance for Cambodia from 1996 to 2019
(Acquired from The World Bank, 2024)

However, whilst GDP and quality of governance failed to grow and improve in the post-conflict period, the same cannot be said for human development. From 1995 to 2003, the largest share of ODA to Cambodia was allocated to the education, health, and culture sectors. This distribution of aid aligns closely with clear improvements in human capital indicators during the same period. Table 1 illustrates that across four dimensions of human development: school enrollment (primary and tertiary), life expectancy, and the Human Development Index, Cambodia experienced unanimous progress. Primary school enrollment rates surged, surpassing 100%, likely due to over-enrollment from older students who had missed out on early education during the conflict years (Penghuy and Savuth, 2025). Tertiary

education also saw improvements, with enrollment rates more than doubling by 2003. Although still low in absolute terms, reaching only 2.29%. This increase reflected a growing accessibility to education and a gradual rebuilding of the country's human capital base. Similarly, health indicators improved significantly. Life expectancy rose by over five years from 1995-2003, indicating both improved access to healthcare and progress in public health outcomes. These changes were then reflected in the Human Development Index, which saw a 20.4% increase. This period marked a shift in the country's trajectory, with donors focusing on rebuilding basic capabilities and providing public goods such as healthcare and education, playing a significant role in re-establishing social stability and long-term human development.

Year	Human Development Index	Life expectancy	Primary School Enrollment Rate (Gross% %)	Tertiary School Enrollment Rate (Gross% %)
1995	0,387	55.13	86.18	1.19
2003	0,466	60.78	131.48	2.29

Table 1. Four key variables for human development in 1995 and 2003

Despite these improvements in human capital, neither the substantial ODA inflows nor the relatively smaller levels of foreign direct investment directly translated to significant macroeconomic improvements. Although GDP did grow, the rate was significantly smaller than in later years and compared to other ASEAN countries (Appendix A). Additionally, despite a fourth of ODA and nearly all of FDI going into profit and output-oriented sectors, there was a limited effect on sectoral productivity. The industrial sector, primarily garment manufacturing, however, experienced more investment and growth during this period, likely due to the lower demand for highly educated labour in these industries. Whilst the lack of higher education prevented significant improvements in the service industry, with the exception of tourism. However, the comparatively limited growth supports multiple scholars' (Ear, 2013; Chet, 2022) argument that aid had no substantial direct effect on economic output in Cambodia, raising questions about the absorptive capacity of the Cambodian economy at the time and about the structural constraints that still existed. It also suggests that while aid effectively addressed urgent social needs and developed basic human capital, these improvements had not yet helped attract higher quantities of FDI, as FDI instead decreased over the period. As a result, ODA during the immediate post-conflict years seems to have failed to catalyse significant economic development.

6.2. Early Economic Growth (2004- 2010)

The period 2004 to 2010 began with Cambodia joining the World Trade Organisation. In contrast to the previous period, Cambodia's development was no longer focused on post-conflict restoration but on creating sustainable economic growth (Slesman, 2023). From 2004 to 2010, Cambodia continued to receive hundreds of millions of USD worth of foreign aid, which continued to increase yearly at around a 6.7% rate. Similarly to the previous period, the largest receiver of ODA was health, education and culture at around 40%, seeing a roughly 5% increase from the previous period. Industry remained the same as previously, agriculture and services saw a slight increase in their share of ODA by about 2 to 3% each, whilst “others”, which mainly includes government, institutions and technical assistance, lost the largest share, going from around 25% to a 16.5% share. The general allocation patterns remained consistent from the previous period, with the focus lying primarily in human capital. However, although efforts to support institutions (“others”) continued to receive large amounts of funding, it was less prioritised than previously.

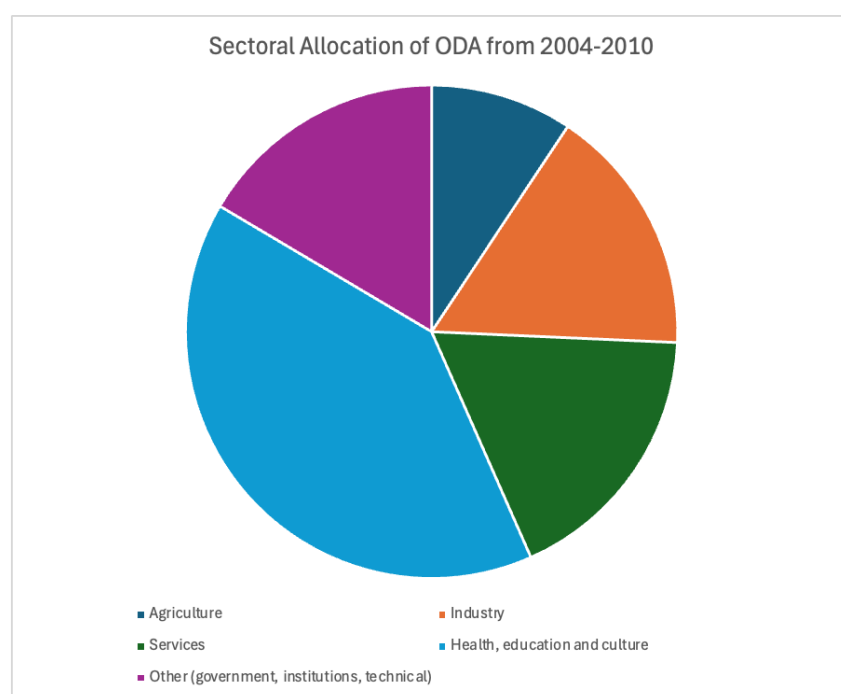


Figure 9. Sectoral Allocation of Official Development Assistance from 2004-2010

Despite the decrease in ODA targeted towards government, institutions and technical assistance programs (“others”), there was neither a deterioration nor an improvement in governance outcomes (Figure 8). Instead, the pattern of underwhelming progress continued, reinforcing the idea that aid, even when present in substantial volumes, was not a significant driver of improved state capacity. Rather than strengthening public institutions, aid may have inadvertently created a separate system run by NGOs and donors,

making the government seem less capable and affecting administrative effectiveness (Sophal, 2007). Yet, in terms of human capital development, the 2004-2010 period once again experienced large improvements. Life expectancy increased about 4.5 years, primary school enrollment decreased, but still had an overenrollment rate, hence, the decrease is likely due to fewer younger students who had to “catch up” on missed years and tertiary school enrollment rates rose significantly, experiencing a more than 11% growth. These improvements then support the 11.9% growth in HDI, showing that the foundations laid in the first period were being built upon effectively. These outcomes are particularly significant considering that education, health, and culture remained the largest recipients of ODA during this period, suggesting that ODA played a crucial role in creating long-term social progress.

Year	Human Development Index	Life expectancy	Primary School Enrollment Rate (Gross%)	Tertiary School Enrollment Rate (Gross%)
2004	0,478	61.65	131.94	2.82
2010	0,535	66.12	123.83	13.96

Table 2. Four key variables for human development in 2004 and 2010

Whilst total ODA did increase during the period, the growth was stable and proportional to the population. In comparison, following the ascension to the WTO, FDI had a dramatic growth (Figure 2). By 2005, FDI had overtaken ODA as the primary source of foreign capital, and although there was a slight dip during the Great Recession, FDI continued to rise through to the end of the period, accounting for around 12.5% of Cambodia’s GDP. Figure 5 shows how the sectoral allocation during this time also shifted from the previous period. Whilst the industry sector remained relatively similar, with a high proportion going into the garment industry (Iammarino, 2024), the tourism sector experienced large decreases in its proportion of FDI. This meant that both the service and agriculture sectors experienced a growth in FDI, both increasing by a 6% share, and rising in absolute terms. In addition, although tourism still received a larger amount than service, the difference between the two went from 19% in the previous period to less than 4% between 2004-2010.

In comparison to the post-conflict period, this period experienced significant and stable economic growth at an average annual growth rate of 13.9%. Although Cambodia was affected by the 2008 recession, its economy continued to grow at around a 1% growth rate, and in 2009 it had recovered to a rate of 8.7% (Figure 1). Within the six years, GDP per capita had grown by 114% (Figure 1). This period also marked a change from industry being the least valuable sector to it shifting between industry and agriculture. However, during this period, there was little increase or decrease in any of the three sectors' share as a percentage of GDP (Figure 6). This can be attributed to the three sectors all experiencing similar growth rates throughout the period, at around 13-14% annually, a dramatic increase from the previous period.

The evidence from the changes (and lack of) in human capital, quality of governance, economic growth and productivity following the inflow of foreign capital suggests that although ODA towards government and institutions had no effect, ODA targeting human capital was a complement to FDI in creating economic growth. The improvements in health and education not only enhanced the productivity potential of the Cambodian workforce but also made Cambodia more attractive for foreign investors. In particular, the quadrupling of higher education enrollment would explain the increase in investments within the service sector, which requires higher-skilled workers. This aligns with Kheng et al (2017), who found that higher tertiary education levels lead to large increases in FDI.

Another likely catalyst for the surge in FDI was Cambodia's accession to the WTO in 2004, which signalled greater openness to trade. However, Figure 10 shows that although joining the WTO may have attracted foreign investors, it did not cause economic growth, as increased trade openness had no correlation with GDP per capita. Further, based on the endogenous growth theory, the earlier improvements in human capital rather than trade, played a larger role in enabling foreign investment to create economic growth. In this sense, ODA was only made effective by channelling FDI.

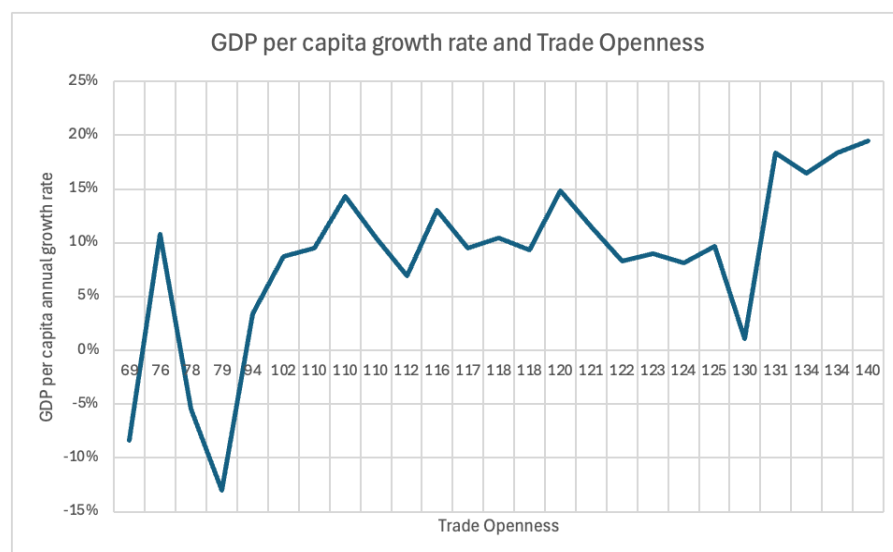


Figure 10. GDP per capita growth rate and Trade Openness

The pattern between the significant amounts of aid to social sectors in the early period and the following surge in FDI and GDP growth supports both the endogenous growth theory's premise that sustained economic development is driven by internal capacity-building and the Solow growth model that suggests that GDP growth is derived from an inflow of capital. In this sense, aid during the first period laid the groundwork for the dramatic rise in FDI, both by helping meet the minimum human capital thresholds needed for FDI to be effective and by attracting higher levels of investments in the first place.

6.3. Economic Expansion (2011-2019)

By 2011, Cambodia had recovered from the Great Recession and was in the beginning phases of greater economic expansion and transformations. During this period, the country experienced significant levels of growth, becoming one of the world's fastest-growing economies. This period naturally came to a halt after 2019 when the COVID-19 pandemic hit (Slasman, 2023). In 2015, Cambodia reached lower-middle income status after having been a low-income country since the classification began (Vutha and Narin, 2025). Although the country was experiencing significant growth throughout the period, development aid continued to flow and increase at a slow but steady rate (Figure 2). However, aid as a component of GDP dropped to around 3% (Figure 3). Figure 11 shows that once again, health, education and culture were the largest recipients of ODA, although they had combined decreased by around 5%. Interestingly, the output-oriented sectors (agriculture, service, industry) all received a larger proportion than in the previous period. Agriculture was now at 12.8%, industry at 17.3%, and service at 22.5%. The “other” sector continued to receive fewer amounts than previously, going from the second largest in the first period to the smallest, nonetheless, still taking up around 11% of the total aid flows. Whilst ODA continued to be primarily targeted towards human development, over the whole time from 1995-2019, the productive sector grew significantly as a recipient of aid. Likely in an attempt to support the incoming FDI (Vutha and Narin, 2024)

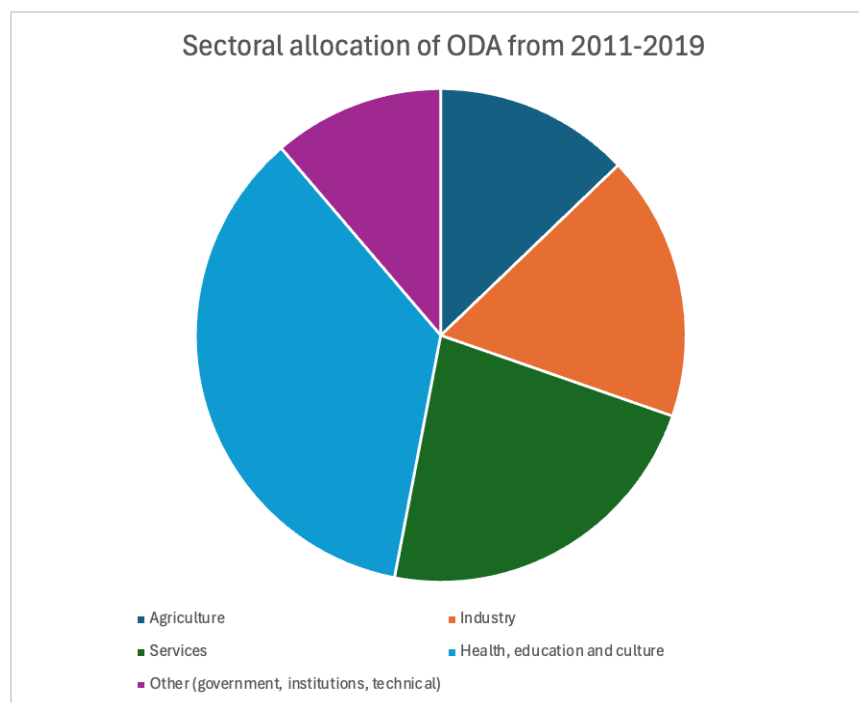


Figure 11. Sectoral Allocation of Official Development Assistance from 2011-2019

Annual FDI continued to rise following the previous period, with a dip from 2013 to 2014, in part due to the political instability surrounding the elections (Iammarino et al, 2024). By 2019, FDI had reached a record high of more than 3.6 billion USD, accounting for almost 14% of Cambodia's GDP (Figure 2 & 3). The composition of this FDI also underwent a shift, with the service sector achieving the largest growth, at 36% overall, a 15.4% rise from the previous period and a close second to the industrial sector. Although still the dominant recipient, industry had decreased its share by more than 4%, leaving it with 38.3% of the total FDI share. Interestingly, tourism had become the smallest recipient, losing 14% of its share, whilst agriculture came in third at 14.6%, gaining a mere 3% share as seen in Figure 5. Although FDI and ODA towards agriculture increased, the per capita value failed to grow at the same rate as the other two sectors, achieving a 1.6% annual growth rate whilst the service sector had a 9.8% rate and industry achieved a staggering 15% rate, once again, largely driven by the garment industry (Penghuy and Savuth, 2025). The rapid growth of the industrial sector from 2011 to 2019 led to it reaching an equal share of value added to GDP to the service sector, both at 39%, with the service sector neither increasing nor decreasing. The different growth rates thereafter led to agriculture's share decreasing by almost 13% (Figures 6 & 7).

As the sector's productivity increased, naturally so did GDP per capita, doubling within the eight years (Figure 1). This trajectory and the alignment between FDI allocation and sectoral value per capita suggest that FDI played a significant role in enhancing productivity and driving GDP growth, aligning with the Solow Growth Model's emphasis on capital accumulation as a central driver of economic expansion and productivity. The substantial rise in value added from the industry and service sectors indicates that foreign investment not only contributed capital but also likely brought with it technology transfers, improved production practices, and market access. Penghuy and Savuth (2023) argue that this broader pattern reflects Cambodia's transition from an agriculture-based to an industry- and service-based economy. They note that labour has steadily moved from agriculture into manufacturing and services. However, they also point out that Cambodia's manufacturing sector has seen little diversification over the past two decades, with most value added coming from low-productivity sub-sectors such as garments and textiles, which contributed around 16% of GDP and 80% of total exports in 2019. This lack of diversification is heavily influenced by China's textile and garment manufacturing sector, which has exported and invested significantly in manufacturing centres in Cambodia, due to China's rising wages relative to Cambodia (Iammarino, 2024). However, this lack of diversification may prevent Cambodia from continuing to see long-term economic growth. In the service sector, Penghuy and Savuth (2023) highlight that it remains dominated by low-productivity, non-tradable services like wholesale and retail trade, but has seen significant growth in the tradable services, including financial and insurance, information and communication technology, and real estate.

In the final period from 2011 to 2019, Cambodia's governance performance, based on Kaufmann et al.'s indicators, again showed no consistent upward trend, apart from continued relative gains in political stability (Figure 8). By this time, ODA to the "others" sector had declined to its lowest share across the three periods, showing a clear de-prioritisation of direct support for governance and institutional development. Yet, even with this reduction in governance-related aid, there was no overall effect in governance outcomes, showing for a third time that ODA in this domain had little lasting positive or negative impact. According to the endogenous growth model, the low quality of governance should prevent economic growth as the internal capacity is limited, however, the dramatic economic growth disproves this.

Looking at the human capital developments during this period, Table 3 shows that although HDI improved, overall, the human capital developments were less impressive than previously, despite ODA towards social sectors increasing. Whilst life expectancy grew by three years, school enrollment saw little change. However, for primary school, there was still an overenrollment rate, yet less than previously, likely again due to young students having to make up lost years. Tertiary education remained at the same rate of around 15%, still far below the global average of 39% (2019) (The World Bank, 2025). Although still positive overall, reduced improvements despite increased total investments suggest that the most rapid gains occur at earlier stages of development when even small investments yield substantial improvements. As Cambodia moved past the initial post-conflict recovery period and began to approach a more stable development trajectory, the marginal returns on additional investments in education and health declined. For example, expanding primary school access may have been more straightforward than improving educational quality or universal access to tertiary education. This helps explain why, despite increased ODA, the rate of progress may have slowed in this period.

Year	Human Development Index	Life expectancy	Primary School Enrollment Rate (Gross %)	Tertiary School Enrollment Rate (Gross %)
2011	0,542	66.61	122.14	14.89
2019	0,581	69.66	106.47	14.74

Table 3. Four key variables for human development in 2011 and 2019

Although improvements in human capital were more modest, the strong foundation laid between 1995 and 2010 likely played an amplifying role in the effectiveness of FDI. Whilst patterns of foreign capital, macroeconomic advancements and human development are clear, causality is lesser so. However, Figure

12 offers suggestive temporal evidence. The three-axis graph shows that HDI began to rise well before significant increases in FDI and GDP per capita (when looking at the three variables relative to each other), indicating that foundational gains in human development preceded the surge in foreign investment and economic growth. This sequencing aligns with endogenous growth theory and the findings of Saleya (2012) and Kotrajas et al (2011), who argue that FDI is more (and only, according to Kotrajas et al) effective in countries with an existing human capital base. In this view, early aid-driven improvements in HDI amplified the effectiveness of later FDI by fostering a more skilled, healthy, and adaptable labour force, enabling foreign capital to translate into productivity gains.

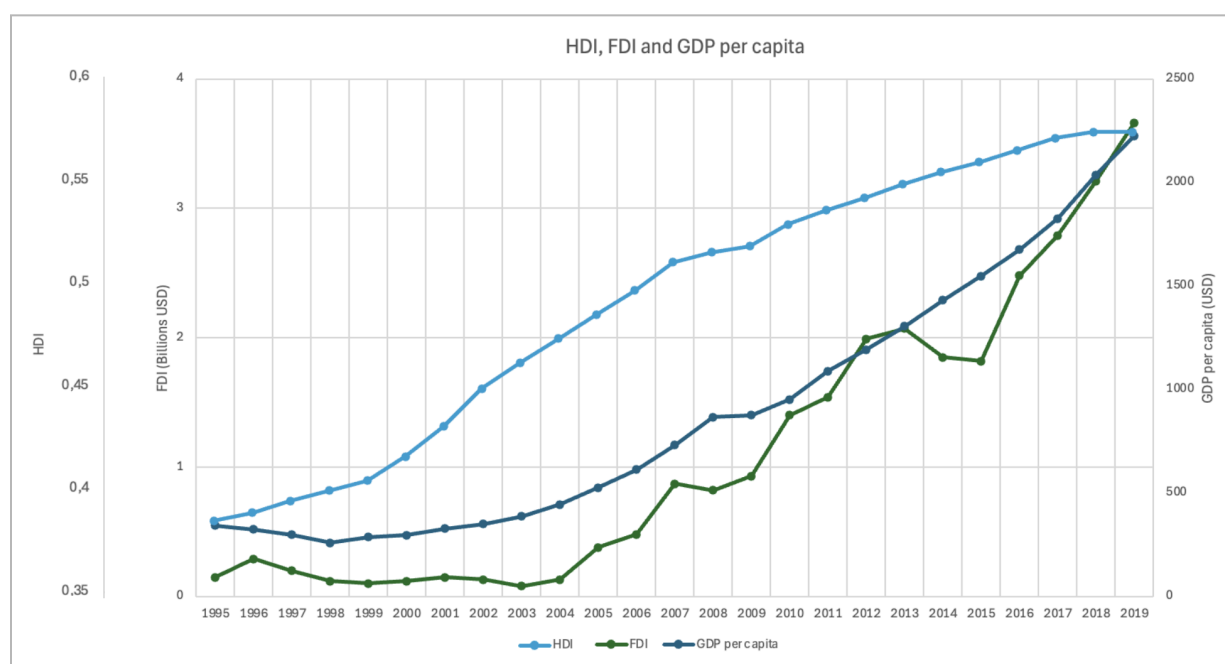


Figure 12. HDI, FDI and GDP per capita from 1995-2019

7. Discussion

Did ODA support the conditions necessary for FDI to create economic growth?

The relationship between foreign aid and foreign direct investment is extremely complex, especially in a post-conflict country with a new constitutional government. With the varying intentions of FDI and ODA, along with the volatile environment, the effectiveness of foreign capital is difficult to measure and analyse. What is undeniable is that since 1995, up til 2019, Cambodia underwent a transformative development period. Their total GDP increased tenfold, moving the country out of severe poverty. Whilst still considered a developing country, Cambodia's rapid growth marked a significant shift from post-conflict fragility to relative economic stability. What the analysis undoubtedly reveals is the positive impact of FDI on Cambodia's GDP per capita and sectoral productivity. Whether the foreign investments

led Cambodia's economy to become less diversified and reliant on certain investors or markets is an important discussion outside of the scope of this paper. However, the alignment between the inflow of FDI and the growth of GDP per capita, as well as the productivity growth of each sector and the private investment in the respective sectors, creates a very clear picture of FDI as a driver of economic growth in Cambodia. This finding supports the Solow Growth Model, emphasising capital accumulation, particularly physical capital such as machinery, infrastructure, power sources and industrial capacity as a key driver of economic output.

Similarly, the pattern between foreign aid allocations and human capital improvements demonstrates a causal relationship. As millions of USD flowed into improving social sectors, Cambodia's human development levels rose considerably. These rates of human capital growth showed no clear pattern with FDI or with the quality of governance, indicating that the developments occurred without support from these variables. That is to say that improvements in health or education occurred not as a result of improved governance, but rather despite stagnant institutional development, suggesting that external factors such as targeted ODA were the primary drivers of human progress.

What remains less clear, however, is whether FDI would have been equally effective in driving economic growth without the foundation laid by earlier improvements in human capital. While the effects of FDI on GDP per capita are evident, and the link between foreign aid and human development is well-supported by both sectoral allocation data and human capital trends, the interplay between these two forms of foreign capital requires deeper scrutiny. This uncertainty lies at the heart of the question: Did foreign aid simply improve quality of life, or did it actively create the conditions necessary for FDI to generate long-term structural growth? Combining endogenous and Solow growth theory provides a useful framework for exploring this relationship. The theories suggest that investments in human capital not only improve living standards but also serve as critical inputs in enhancing an economy's productivity potential. Thereby, combined with the inflow of financial and physical capital along with knowledge and technology, the economy is able to innovate, effectively absorb technology, and efficiently use physical capital. This aligns with Kotrajas et al (2011) finding that FDI only had positive effects on countries with sufficient levels of human capital and governance. In other words, human capital development is not merely an outcome of growth but also a prerequisite for sustaining and accelerating it. In this context, foreign aid that targets human capital is not just welfare-oriented, it can be viewed as an enabler that increases the effectiveness of other inputs.

On the other hand, endogenous growth theory would also suggest that improvements in governance would, similarly to human capital, set up the foundation for FDI to be effective. In this case, governmental support, a reliable and transparent legal framework and efficient bureaucracy would increase productivity and the economy's absorptive capacity. However, the consistent lack of improvement in the quality of governance, despite millions of USD of foreign aid being spent annually to strengthen the institutions, shows the opposite. FDI's ability to create economic growth occurred without changes in the quality of governance. Because of this, endogenous growth theory only holds under the human capital framework. This finding also goes against Karakplan et al (2005), who suggested that aid only attracts FDI in countries that are well-governed with stable financial systems. However, despite the lack of governance improvement in the first period from 1995-2003 did not prevent the spike in FDI in 2004. Lutz et al's (2006) paper may help explain this. They found that in countries without stable governments, foreign aid directed towards the government acts as a stabiliser, signalling to investors that reforms are on the way and that the risk of investing may be gradually declining. This would further support Slesman's (2023) findings that ODA investments into government crowds in FDI. Despite eventually finding that governmental ODA has no significant impact, the mere suggestion by foreign donors that a commitment to reform is in place may have been enough to attract investors.

These findings suggest that the investment in human capital and institutions helped attract FDI, yet only human capital improvements actually enhanced FDI's ability to drive economic growth. However, it is important to acknowledge that much of Cambodia's rapid economic growth was driven by industries that do not heavily rely on a highly educated or skilled workforce. The garment and textile industry, which has been the single largest contributor to Cambodia's export earnings and a major source of employment since the late 1990s, is a clear example (Vutha and Narin, 2025). These industries typically depend on low-skilled, labour-intensive production processes that require only basic training (Penghuy and Savuth, 2025). The comparative advantage that attracted FDI to Cambodia's manufacturing sector was not necessarily its human capital quality, but rather the availability of a large, low-cost labour force. Investors in these sectors were primarily drawn by cost efficiency rather than workforce capabilities (Iammarino, 2024). This suggests that at least in the short to medium term, FDI-led growth in Cambodia was achievable without substantial improvements in health and education indicators.

However, this argument does not account for the improvements in the productivity of Cambodia's service sector, nor does it explain its increasing share of FDI. Services such as tourism, wholesale and retail trade, financial intermediation, and insurance grew (Penghuy and Savuth, 2025). These sub-sectors, unlike low-skill manufacturing, are far more reliant on a healthier, better-educated workforce. Effective

communication, foreign language skills (specifically in English or Mandarin), digital and regular literacy, and customer service skills require formal education and job-specific training, skills crucial for the tourism and finance/insurance industry. Similarly, an efficient retail and logistics operation depends on managerial capabilities, basic financial skills, and technical knowledge (Penghuy and Savuth, 2025). This argument is further supported by the contrasting trends in productivity growth between the first and second period. During the first period, the industrial sector experienced significantly higher growth in value added per capita compared to the service sector, while tertiary education enrollment had only increased to a mere 2%. In contrast, the second period saw substantial growth in both the industrial and service sectors, which expanded at similarly high rates. This was accompanied by a significant increase in tertiary enrollment to approximately 14%, suggesting that the rise in tertiary education played a crucial role in allowing FDI to be more effective in higher-skilled service industries. Further, improvements in health would have had an impact across all industries. A healthier population is more productive, takes fewer sick days, and can work more consistently in both physical labour and service jobs (Nwani, 2021). In the long term, investments in health and education not only raise individual capabilities but also reduce systemic inefficiencies. Hence, while FDI in the garment sector may have initially fueled growth without requiring significant improvements in human capital, the growth of the service economy would have demanded a better-educated and healthier workforce.

The sequencing of trends is especially relevant for this question of whether human capital improvements were necessary for FDI to be effective. As seen in Figure 12, improvements in human development indicators preceded both the growth in FDI and GDP per capita. This means that improvements in human development were not just a byproduct of economic growth, but rather that it improved in isolation from economic growth, and was thereafter present when FDI began flowing into Cambodia in substantial quantities. This suggests that although the relationship is likely bidirectional, the effect HDI had on FDI is more significant than the effect FDI had on HDI. This finding allows us to draw a larger conclusion about the relationship between aid and FDI. As many scholars have previously argued, aid was in large part ineffective in driving GDP growth (Ear, 2013; Chet, 2022; Nwani, 2021; Shirazi, 2009). This paper failed to find clear, significant causal relationships between aid and economic growth, productivity or quality of governance. However, in terms of human development, aid was able to provide significant support. These human capital improvements thereby allowed foreign investments to have a larger effect on sector productivity, inevitably causing GDP per capita to rise. In this sense, foreign aid was able to complement FDI by using human capital as a channel.

8. Conclusion

The case for Cambodia and their political, social and economic history is perhaps one of the most tragic cases of the last century. Few countries have had to endure an equal level of adversity, yet their recent economic successes offer a compelling story that provides valuable insights into modern development economics. Cambodia's transition to becoming one of the world's fastest-growing economies is a multidimensional case, built upon a number of different factors. Among these, the billions of US dollars of foreign aid and foreign direct investment stand out as one of the most consequential. However, the nature and extent of their individual influence remain highly controversial within academic debate. This paper contributed to this debate through the lens of Cambodia's recent economic history by examining foreign aid as a complement to FDI rather than by comparing the two. Through examining the extent to which foreign aid contributed to the effectiveness of FDI in driving economic growth, the paper answers the question of whether foreign aid laid the groundwork for FDI. The findings show that FDI played a decisive role in boosting GDP per capita and sectoral productivity, particularly in manufacturing and services, aligning with predictions from the Solow Growth Model. Foreign aid, meanwhile, proved most impactful in supporting human development, despite failing to significantly improve governance or directly contributing to economic growth. These improvements in human capital occurred largely independently of institutional quality and preceded the inflow of FDI, suggesting that ODA may have created the necessary conditions for FDI to be more productive. This dynamic supports endogenous growth theory and the idea that aid and FDI can be complementary forms of foreign capital, especially in sectors beyond low-skill manufacturing.

These findings should be understood not in isolation, but as part of the broader academic discussion regarding the roles and interactions of ODA, FDI, and economic growth. The findings partially lend support to Rajan and Subramanian's (2005) scepticism about aid's effectiveness, arguing that aid has little to no robust relationship with economic growth, as aid in Cambodia has not directly driven output growth. However, the analysis suggests that such conclusions overlook more indirect or long-run effects, notably through human capital development. This aligns more closely with Hansen and Tarp's (2000) argument that the objectives of aid are often mischaracterised, aid is not always meant to drive growth, but rather to address deficiencies in social sectors, especially in post-conflict states like Cambodia. The paper also lends weight to Nwani's (2021) argument that aid can positively influence economic outcomes when it is strategically allocated toward human capital. Further complementing Shirazi's (2009) and Kaya's (2012) findings that the relationship between aid and growth is more nuanced and that aid's impact is only visible in intermediate actors such as education and health.

However, this paper's findings question aspects of the endogenous growth theory, which includes governance as an aspect of a country's "internal capacity" necessary for growth. The theory may overemphasise the role of governance in the early stages of development, overlooking how post-conflict economies like Cambodia can leverage aid in human development to build foundations even in the absence of strong institutions. In such contexts, governance may become more important at a later stage, once basic preconditions for growth have been established, yet perhaps it is not considered fundamental for early growth. Future research could build on this finding through comparative studies across post-conflict economies, testing whether Cambodia's growth despite a lack of governance improvement is unique or representative of broader trends. Further, deeper investigation into different types of governments could determine whether there are certain institutional requirements or systems that allow aid to catalyse FDI, or if, as this study suggests, strong governance is not an immediate prerequisite for growth.

Ultimately, this paper contributes valuable insights for the broader global context. In recent years, the criticism surrounding foreign aid has grown more substantial, with several countries reducing or even ending their ODA flows (Kim et al, 2025). Critics argue that aid has failed to drive sustainable economic growth, with many economies instead finding themselves dependent on it rather than addressing the underlying factors needed for real development (Ear, 2013). However, foreign aid should not be seen as a quick fix to stimulate economic growth, but as a vital tool for human development. By investing in education and health, aid can create the conditions necessary for long-term growth. This is especially crucial in post-conflict economies such as Cambodia, where governance and institutional capacity are often weak, and the government lacks the means and sometimes motivation to develop human capital on its own. Without this foundation in human development, inflows of FDI may exploit cheap labour, leaving countries unable to move beyond low-skill industries. Although FDI may increase exports, employment and production, the population may remain trapped in cycles of poverty. In this case, ODA provides a critical lifeline, enabling countries to use FDI to begin the process of economic diversification and sophistication. Additionally, in countries such as Cambodia without stable governments, despite its lack of impact, government and institutional targeted aid may be crucial to attract FDI in the first place. While it is essential that aid be scrutinised more critically to avoid malpractice by governments or creating aid dependency, ending foreign aid flows altogether would leave war-torn and poverty-stricken countries without the necessary resources to achieve their full potential. Foreign aid, when properly allocated and managed, can be the key to unlocking a nation's growth potential, creating the foundation for a self-sustaining, diversified economy that ultimately reduces its reliance on external assistance.

AI Statement:

AI was used as a tool in this thesis, the methods were as follows: Creating the bibliography in correct format, discussing ideas, data and interpretations, summarising key ideas from various literature, grammar checking and finding appropriate synonyms and vocabulary.

Bibliography

9.1. Unit of Analysis

Cambodia National Institute of Statistics. (2024). Available at:

<https://www.nis.gov.kh/index.php/en/national-statistical-systems/official-statistics-of-cambodia>

[Accessed 10 May 2025]

Nakamura, K. (2006). Foreign Aid Flows and Foreign Direct Investment in Cambodia. *International Monetary Fund*. ISBN: 9781589064447.

<https://www.elibrary.imf.org/display/book/9781589064447/ch005.xml>

Royal Government of Cambodia. (2006). Development Cooperation Report 2004 and 2005. Cambodian Rehabilitation and Development Board, *Council for the Development of Cambodia, Phnom Penh*.

http://cdc-crdp.gov.kh/en/officials-docs/documents/dcr_english_2005.pdf

Royal Government of Cambodia. (2011). The Cambodia Development Effectiveness Report 2011.

Prepared by the Cambodian Rehabilitation and Development Board, *Council for the Development of Cambodia, Phnom Penh*.

[http://cdc-crdp.gov.kh/en/officials-docs/documents/DER%202011%20FINAL%20\(31%20Oct%202011\).pdf](http://cdc-crdp.gov.kh/en/officials-docs/documents/DER%202011%20FINAL%20(31%20Oct%202011).pdf)

The Global Economy. (2024). Cambodia 1995-2019.

<https://www.theglobaleconomy.com/download-data.php> [Accessed 10 May 2025]

United Nations & International Chamber of Commerce. (2003). An Investment Guide to Cambodia: Opportunities and Conditions, UNCTAD/ITE/IIA/2003/6, Internet Edition, United Nations, New York and Geneva. https://unctad.org/system/files/official-document/iteiia20036_en.pdf

World Bank Group. (2025). Worldwide Governance Indicators, Cambodia.

<https://www.worldbank.org/ext/en/home> [Accessed 10 May 2025]

9.2. References

- Akinbode, S. O., & Bolarinwa, T. M. (2020). Effect of foreign aid on human development in Sub-Saharan Africa: A system GMM approach, *South-Eastern Europe Journal of Economics*, vol. 18, no. 1, <https://ojs.lib.uom.gr/index.php/seeje/article/view/9695>
- Asiedu, E., & Nandwa, B. (2007). On the impact of foreign aid in education on growth: How relevant is the heterogeneity of aid flows and the heterogeneity of aid recipients?, *Review of World Economics*, vol. 143, no. 4, pp. 631–649, <https://doi.org/10.1007/s10290-007-0125-9>
- Bird, G., & Choi, Y. (2020). The effects of remittances, foreign direct investment, and foreign aid on economic growth: An empirical analysis, *Review of Development Economics*, vol. 24, no. 1, pp. 1–30, <https://doi.org/10.1111/rode.12630>
- Chet, V. (2022). The impacts of FDI, ODA, and LS on gross domestic product in Cambodia: A comparative analysis, *Technium Social Sciences Journal*, vol. 29, pp. 259–270, <https://doi.org/10.47577/tssj.v29i1.5962>
- Ear, S. (2007). The political economy of aid and governance in Cambodia, *Asian Journal of Political Science*, vol. 15, no. 1, pp. 68–96, <https://doi.org/10.1080/02185370701315624>
- Harms, P., & Lutz, M. (2006). Aid, governance and private foreign investment: Some puzzling findings for the 1990s, *The Economic Journal*, vol. 116, no. 513, pp. 773–790, <https://doi.org/10.1111/j.1468-0297.2006.01111.x>
- Heintz, J. (2007). Human development and clothing manufacturing in Cambodia: Challenges and strategies for the garment industry, *Political Economy Research Institute, WIEGO*. <https://www.wiego.org/research-library-publications/human-development-and-clothing-manufacturing-cambodia-challenges-and-strategies-garment/>
- Iammarino, S., Sumontheany, M., & Kosal, N. (2024). 20 years of FDI in Cambodia: Towards upper middle-income status and beyond, Phnom Penh: *Cambodia Development Resource Institute (CDRI working paper series, no. 149)*, <https://www.cdri.org.kh/publication/20-years-of-fdi-in-cambodia-towards-upper-middle-income-status-and-beyond>

Karakaplan, U., Neyapti, B., & Sayek, S. (2005). Aid and foreign direct investment: International evidence, Discussion Paper, No. 2005/12, *Turkish Economic Association*.

https://www.econstor.eu/bitstream/10419/83262/1/dp_2005-12.pdf

Kaya, O., Kaya, I., & Gunter, L. (2012). Development aid to agriculture and economic growth, *Review of Development Economics*, vol. 16, no. 2, pp. 230–242, <https://doi.org/10.1111/j.1467-9361.2012.00658.x>

Kheng, V., Sun, S., & Anwar, S. (2017). Foreign direct investment and human capital in developing countries: A panel data approach, *Economic Change and Restructuring*, vol. 50, no. 4, pp. 341–365, <https://doi.org/10.1007/s10644-016-9191-0>

Kim, S. E., Park, J. H., Rhee, I., & Yang, J. (2025). What do aid recipients want? Public attitudes toward foreign aid in developing countries, *World Development*, vol. 186, 106815, <https://doi.org/10.1016/j.worlddev.2024.106815>

Kosack, S., & Tobin, J. (2006). Funding self-sustaining development: The role of aid, FDI and government in economic success, *International Organization*, vol. 60, no. 1, pp. 205–243, <https://www.jstor.org/stable/3877872>

Kose, M. A., Prasad, E. S., & Terrones, M. E. (2007). How does financial globalization affect risk-sharing? Patterns and channels, *International Monetary Fund*, IMF Working Papers, <https://www.imf.org/en/Publications/WP/Issues/2016/12/31/How-Does-Financial-Globalization-Affect-Risk-Sharing-Patterns-and-Channels-21384>

Kotrajaras, P., Tubtimtong, B., & Wiboonchutikula, P. (2011). Does FDI enhance economic growth? New evidence from East Asia, *ASEAN Economic Bulletin*, vol. 28, no. 2, pp. 183–202, <https://www.jstor.org/stable/41317206>

Le, N. H., Duy, L. V. Q., & Ngoc, B. H. (2019). Effects of foreign direct investment and human capital on labour productivity: Evidence from Vietnam, *The Journal of Asian Finance, Economics and Business*, vol. 6, no. 3, pp. 123–130, <https://doi.org/10.13106/jafeb.2019.vol6.no3.123>

- Morrissey, O. (2001). Does aid increase growth?, *Progress in Development Studies*, vol. 1, no. 1, pp. 37–50, <https://doi.org/10.1177/146499340100100104>
- Munir, N., & Satti, Z. W. (2023). Empirical analysis of the extended Solow model and foreign aid in Pakistan's economy, *Pakistan Journal of Humanities and Social Sciences*, vol. 11, no. 2, pp. 844–852, <https://doi.org/10.52131/pjhss.2023.1102.0396>
- Nwani, S. E. (2021). Human capital interaction on foreign aid-growth nexus: Evidence from South Asia and Sub-Saharan Africa, *International Journal of Development Issues*, vol. 20, no. 2, pp. 258–279, <https://doi.org/10.1108/IJDI-11-2020-0261>
- Rivera-Batiz, F.L. (2002) 'Democracy, Governance, and Economic Growth: Theory and Evidence', *Review of Development Economics*, 6(2), pp. 225–247. Available at: <https://doi.org/10.1111/1467-9361.00151>.
- Sabir, S., Rafique, A., & Abbas, K. (2019). Institutions and FDI: Evidence from developed and developing countries, *Financial Innovation*, vol. 5, no. 1, p. 8, <https://doi.org/10.1186/s40854-019-0123-7>
- Saing Chan Hang (ed.) (2011). Foreign investment in agriculture in Cambodia, Phnom Penh: *Cambodia Development Resource Institute* (CDRI working paper series, no. 60), <https://cdri.org.kh/publication/foreign-investment-in-agriculture-in-cambodia>
- Selaya, P., & Sunesen, E. R. (2012). Does foreign aid increase foreign direct investment?, *World Development*, vol. 40, no. 11, pp. 2155–2176, <https://doi.org/10.1016/j.worlddev.2012.06.001>
- Shirazi, N. S., Mannap, T. A. A., & Ali, M. (2009). Effectiveness of foreign aid and human development, *The Pakistan Development Review*, vol. 48, no. 4, pp. 853–862, <https://www.jstor.org/stable/41261351>
- Sissoko, C., & Ishizu, M. (2025). Preventing financial ruin: How the West India trade fostered creativity in crisis lending by the Bank of England, *The Economic History Review*. <https://doi.org/10.1111/ehr.13407>
- Slocomb, M. (2010). An economic history of Cambodia in the twentieth century, *National University of Singapore Press*. <https://library.oapen.org/handle/20.500.12657/26109>

Slesman, L. (2023). Does foreign aid promote foreign direct investment in post-conflict Cambodia?, *Malaysian Journal of Economic Studies*, vol. 60, no. 2, pp. 163–188, https://www.researchgate.net/publication/376836785_Does_Foreign_Aid_Promote_Foreign_Direct_Investment_in_Post-conflict_Cambodia

Vutha, H., & Narin, K. (2025). Cambodia’s economic trajectory: 2000–2022 macroeconomic analysis, Cambodia’s New Growth Strategy: Background Paper 1, *Cambodia Development Resource Institute*. https://cdri.org.kh/storage/pdf/BP01_Eco%20Trajectory_1740976292.pdf

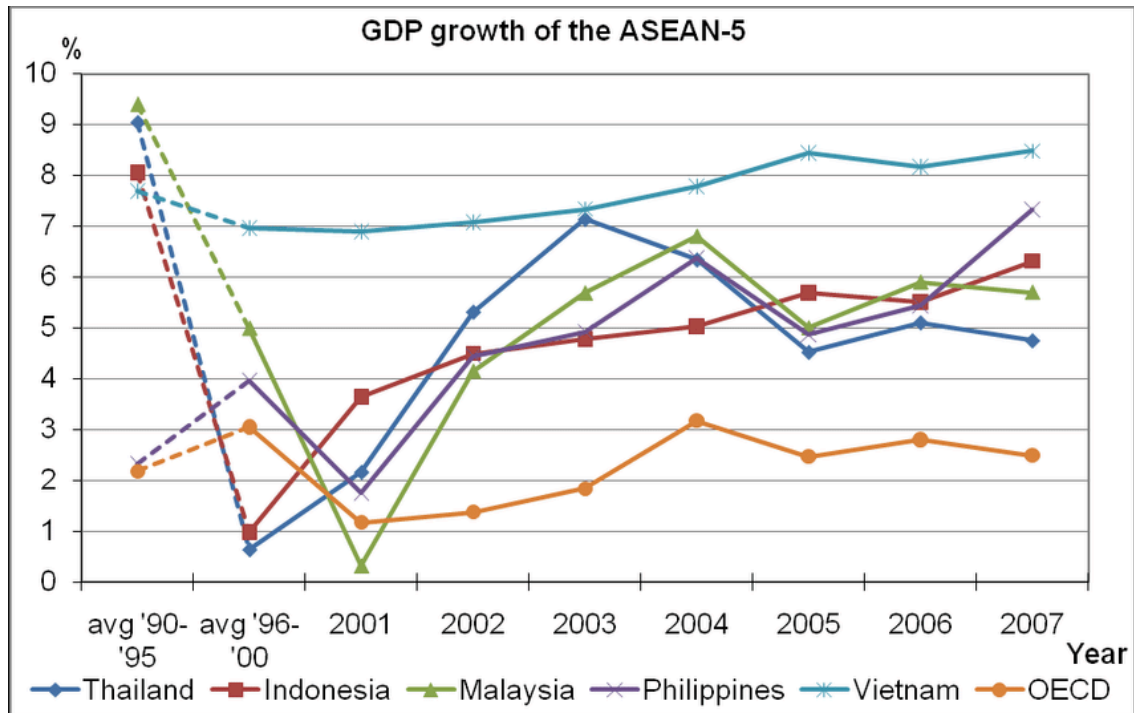
United Nations. (2003). Monterrey consensus of the International Conference on Financing for Development: The final text of agreements and commitments adopted at the International Conference on *Financing for Development, Monterrey, Mexico*, 18–22 March 2002, United Nations, https://www.un.org/en/development/desa/population/migration/generalassembly/docs/globalcompact/A_CONF.198_11.pdf

U.S. Embassy Phnom Penh. (2024). 2024 Investment Climate Statements: Cambodia. Economic Section, Phnom Penh, Cambodia. <https://www.state.gov/reports/2024-investment-climate-statements/cambodia/>

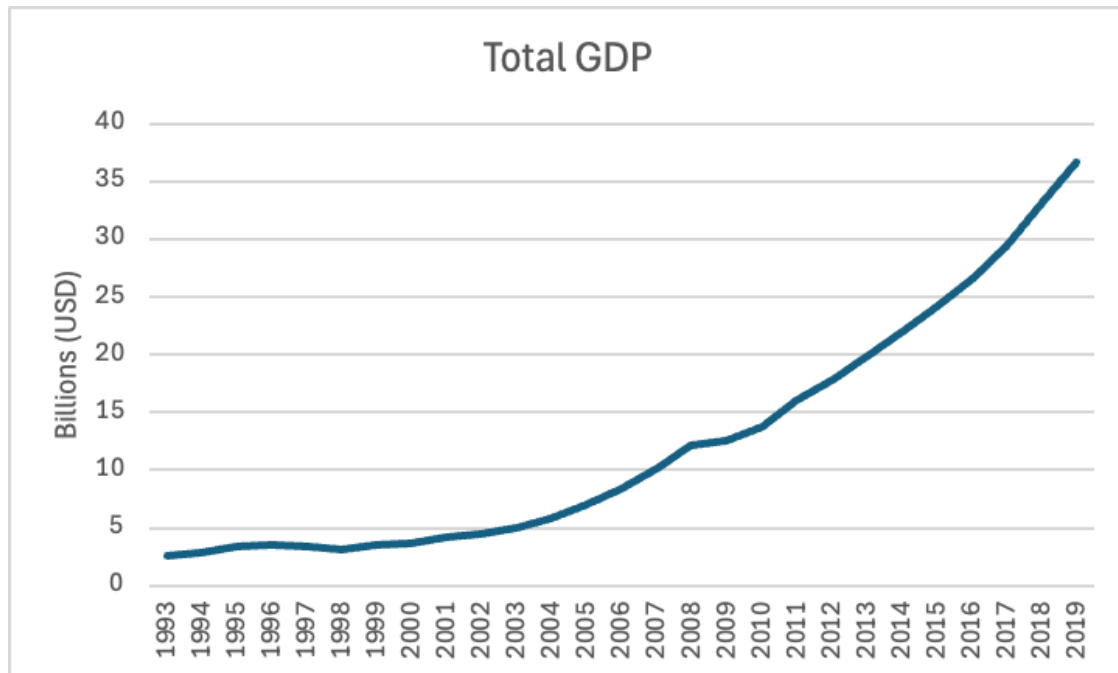
Penghuy, N., & Savuth, C. (2025). Structural transformation and economic growth in Cambodia, Cambodia’s New Growth Strategy: Background Paper 2, *Cambodia Development Resource Institute* https://cdri.org.kh/storage/pdf/BP02_Structural%20Transformation_1740978403.pdf

Appendix

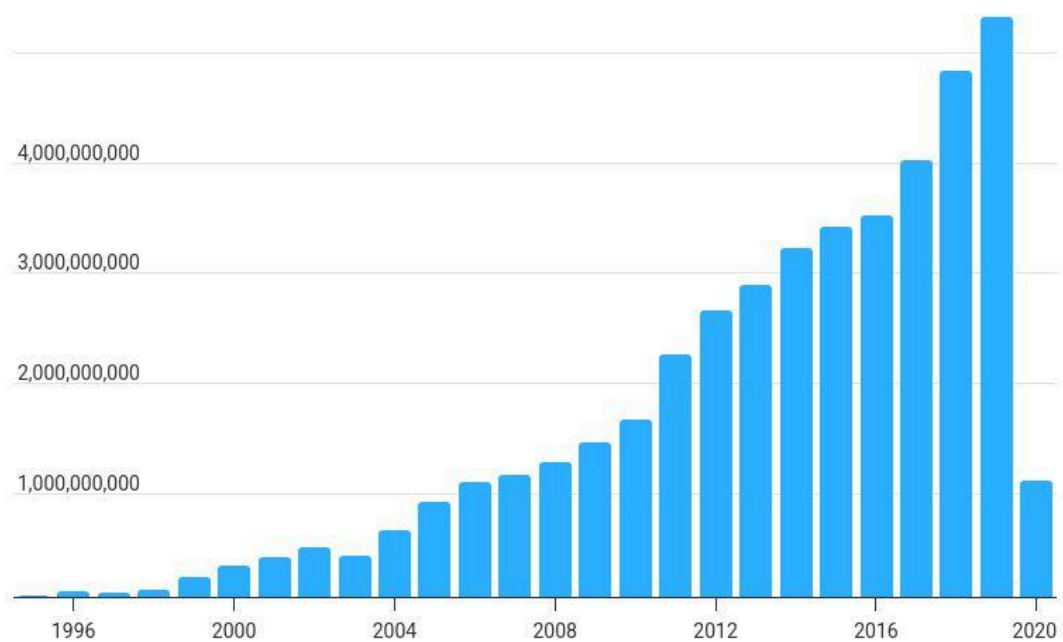
Appendix A: GDP growth of the ASEAN-5 from 1990-2007



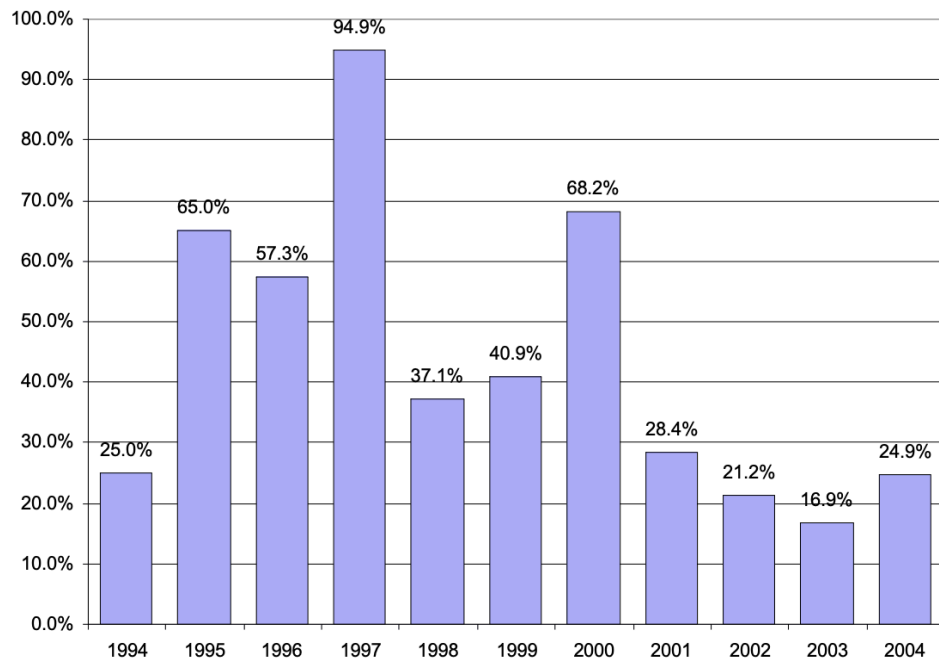
Appendix B: Total GDP in Cambodia from 1993-2019



Appendix C: Total Tourism Spending in Cambodia from 1995-2020



Appendix D: Growth rate of the Cambodian garment sector from 1994-2004



Source: National Institute of Statistics, Cambodia.