

Chapter 6 | Foreign Aid and Development Assistance

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Gary, a USAID specialist with the Feed the Future program, finishes packing up his second-story apartment. The busy sounds of the street market below filter up through the window, and somewhere someone is playing BBC Cambodia, recently launched with an all-Cambodian staff, much too loudly. After spending the last twenty years of his career traveling between Phnom Penh and rural communities around Cambodia, his work was finally done. USAID's food program was shutting down, leaving the work to a new cohort of Cambodian civil servants. There were still a few communities at risk, as he had outlined in his last report, but when the new roads reached them, it was only a matter of time.

As incomes rose and aid slowed, many of Gary's long-time foreign friends at other NGOs had seen their projects wrapped up and ended or transitioned entirely to Cambodian staff. They had been hands-on types, crisscrossing the country to compile reports and check in on the projects that reported to them. They had worked in every field, from healthcare to education to food security. Replacing them in his apartment block was a new group of foreigners. The individuals filling the rooms were businesspeople. More impressive was the huge surge in Cambodians, most with terminal degrees and niche specialties in financial markets, that had driven up his rent in the past five years.

With his last suitcase packed, Gary left the building, just barely making it to the bus stop in time. The electricity-powered bus was part of Phnom Penh's recently

finished carbon-neutral public transportation system, the result of a public-private partnership with Chinese company, and supported by NGOs who advised the project. The advisors, in conjunction with Cambodian counterparts, held a series of lengthy public forums to debate the impact of the system on lower-income quarters of the city. The forums were well-covered by the local blogs and podcasts, and resulted in an equitable consensus with broad public support. As he arrived at the airport and left the bus, Gary took one last look at the city's skyline. It was satisfying he had no more work to do here. He decided he would come back soon, but as a tourist.

I. Ideal Scenario: Foreign Aid in 2040

Efforts in the 2020s and 2030s have addressed, in large part, Cambodia's critical infrastructure requirements and has led the country to continually downgrade its dependence on foreign aid. Fiscal reform in parallel to the general increase in national income has led to the RGC relying principally on domestic taxes for funding (Chean, 2019). As such, it increasingly funds its projects without any reliance on foreign sources. In 2040, foreign aid to Cambodia from all sources reflects its status as an upper-middle-income country (defined by the World Bank as a GNI per capita between US\$4,046 and US\$12,535). In general, foreign aid focused on large scale projects such as poverty reduction and food security have given way to more targeted programs.

OECD measures put net official development assistance (ODA) as falling to 3% of central government expenses for the past five years, comparable to several Eastern European States in 2020. While ODA from all countries has decreased significantly, the most significant change is the decrease in foreign aid from China. Chinese aid, notoriously hard to track and taking on the forms of interest-free loans, grants, concessional loans, as well as more ambiguous financial support in the form of foreign direct investment (FDI) and infrastructure contracts to Chinese state-owned enterprises (SOEs), dramatically fell over the course of the 2030s.

While China is still Cambodia's most important trading partner and provides some aid, Cambodia has significantly reduced its use of Chinese loans and

conditional aid for infrastructure projects. China's aid in practice diverges from the best practices for ODA set forth by the OECD Development Assistance Committee (DAC). While advertised as coming with "no strings attached," in reality Chinese aid often privileged Chinese interests over local ones. It also greased the wheels for other investments, with the promise of aid acting as protection money for Chinese companies. This led to sub-par outcomes, with communities feeling left out of the political process. Some decision-makers, profiting from the new projects, felt less accountable to their constituents. This vicious cycle was recognized by the RGC as creating many social and political pathologies, and was disrupted.

In 2040, this has led to many positive outcomes. Private capital investments have dramatically increased with the reduction of crowding-out effects and the political uncertainty caused by outsized Chinese influence. Rather, the more targeted and limited aid signals stability to investors, who are more willing to embark on public-private partnerships and long-term projects. They are able to engage with Cambodia's special economics zones (SEZs) and expanded ports without fear of politics disrupting business (Sok, 2019).

It also has stabilized the RGC's relationship with China. The negative effects of perceived linkages between Chinese aid and political favors has fallen away, and an even playing field has ensued between the essential trading partners. Chinese firms compete on this level playing field, and can no longer rely on aid to ease mistakes or local disapproval; rather, they must demonstrate their benefit to the Cambodian communities they work in.

Aid and support from other countries has also decreased over time, though gradually. In the 2020s, a new spirit of cooperation meant the EU, under the Everything but Arms scheme, and the US, under the Generalized System of Preferences, maintained preferential trading agreements, and allowed Cambodia to continue its rapid pace of growth until the agreements were phased out in 2030. This lessened the pressure on Cambodia toward Chinese assistance and allowed the RGC to strike harder deals to direct aid money into Cambodian hands and point infrastructure projects under the Belt and Road Initiative (BRI) towards solving more urgent social problems. By separating

politics from aid, the RGC was able to ensure Chinese investment did not significantly disrupt local communities or go against the public interest.

Over time, the mitigating of the most critical issues, like food security, lessened the need for aid and diverted what remained to more targeted issues. With an RGC-established “social protection floor” providing access to basic healthcare, income security, and other public goods for all Cambodian citizens, programs and NGOs that focus on stop-gap measures and relief are increasingly unnecessary (You, 2019). ODA that still flows in this category is extremely targeted, focusing on smaller pockets of poverty in rural areas and more niche challenges that were unevenly addressed as national income and industry grew. Blanket poverty reduction or food security is no longer a large concern, but the programs that do remain are addressed to local disaster relief or recently graduated areas to prevent backsliding.

One area of targeted relief involves extending Cambodia’s technological innovations to the last unreached corners of the agriculture sector (Phu, 2019). These programs help poor farmers overcome the initial investment costs of technology. With the technology in hand, farmers can take advantage of to-the-minute information concerning weather, market and price information, geographical information, and new agricultural techniques. The resulting efficiency gains, in addition to increasing quality of life increase for the farmers, have spillover effects into local communities. While this aid functions by linking farmers into existing Cambodian networks, much of it is motivated by the potential for this increased prosperity to facilitate cross-border trade and cooperation with farmers in surrounding countries.

Cambodia has gradually but surely graduated from its previous aid dependence and shifted to other sources of investment. Most aid has shifted to knowledge and advisory services that build domestic capacity so Cambodia can engage in the global economy on its own terms. These programs aim to assist Cambodia’s explosion of civil society organizations, as well as small and medium enterprises taking advantage of the digital economy.

This shift to civil society support and knowledge transfer is one of the more significant developments in Cambodia’s relationship with foreign aid. Foreign

donors increasingly invest in building human capital and sharing their specialized knowledge with Cambodian experts. This empowers them to further develop institutions to make Cambodia globally competitive. Supported by aid focused on building good governance, these experts and community leaders increasingly aim at tackling inequality and creating accountability mechanisms to ensure human rights are respected and public good provision continues equitably.

Interest by young people and leaders in local communities has prompted international culture organizations to support intercultural exchange opportunities throughout Cambodia, including forums of youths from numerous countries and cultural pride events. 2040 also sees a number of partnerships with organizations promoting the Khmer language and culture internationally, as well as focused campaigns to continue to preserve national monuments and practices for future generations (Kruy, 2019). The RGC's national policy on incorporating the positive elements of other cultures has been met with acclaim from various human rights organizations who have offered continued capacity building and resources via various online platforms.

Other aid programs partner with Cambodian professional organizations to help civically-minded young Cambodian professionals build the skills necessary to analyze government policy, propose solutions, and hold leaders accountable. This has led to a series of independent watchdog organizations that provide free and unbiased information to the public. Through these watchdogs, communities feel heard, and are more willing to engage in local politics. This has the further effect of reassuring international businesses of Cambodia's commitment to the rule of law, transparency, and the diminishing of corruption

With increased accountability and civic organizations has also come a range of new opportunities to continue building Cambodia's green economy and climate resilience, supported not just by aid, but by FDI. Partnerships between the RGC and international organizations aimed at promoting public awareness have informed the majority of Cambodia's population on climate change issues, and created public support for green policies (Oung, 2019). Public transportation is run with clean, renewable technology, funded in part by foreign sources. These

projects aim to make sustainability a norm, to ensure Cambodia does not repeat the mistakes of other industrializing economies, keep its air and water pure, and keep in compliance with international standards. Ambitious but realistic goals, such as renewable energy being 35 percent of national supply, are aided by technology and knowledge transfers from countries interested in cooperation to tackle climate change (Heng & Boyle, 2019).

About a quarter of aid from all sources still goes to infrastructure, including energy, a constant demand in the booming economy. However, unlike in previous decades, these projects are not tied to political concessions, natural resources, particular companies, or particular countries. This infrastructure support proceeds in a much more open process, with various sources and vendors, and is tailored to address the particular needs of the growing middle class. More advanced rail and public transport are the main concerns, though the expansion of Cambodia's ports is always on the table.

II. Scenario Space and Key Factors: Foreign Aid

Scenario Space

Since the signing of the Paris Peace Agreements in 1991, foreign aid has played an important role in Cambodia's development. From 1992 to 2018, Cambodia received official development assistance of more than US\$20 billion (Council for Development for Cambodia, 2018). This aid has, in part, taken Cambodia to where the kingdom is today: a country at peace and with room for growth. From 1994-2015, the country's economy grew at an average rate of 7.6%, making the Kingdom 6th in the world for economic growth (World Bank, 2018). GDP per capita rose from US\$229 in 1993 (Ministry of Economics and Finance, 2016) to US\$1,548 in 2018 (National Strategic Development Plan, 2019). The country's poverty rate declined from 63.3% in 2004 to 13.5% in 2014 (Ministry of Planning, 2016).

Cambodia currently receives significant foreign aid from various sources to fund a variety of projects ranging from infrastructure investment to social services to programs designed to promote the development of civil society. In 2018, some estimates put aid from donors represented between 30% and 40% of the RGC's

budget (US State Department, 2018). The precise percentage is difficult to calculate, however, due in part to the different types of aid Cambodia receives.

Official Development Assistance

The most widely known and internationally approved form of foreign aid is official development assistance, or ODA. ODA is aid that fits a particular definition aimed at ensuring best practices are followed; ODA is defined as “flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25 percent.” (OECD, 2019). Importantly, it specifically excludes lending for the purpose of promoting foreign exports to the recipient country. The Development Assistance Committee (DAC) sets the standards for ODA standards and goals, which include “sustained, inclusive and sustainable economic growth, poverty eradication, improvement of living standards in developing countries, and to a future in which no country will depend on aid.” (OECD, 2020). Because of this, ODA is considered the “gold standard” of foreign aid. Since ODA's recent peak in 2012 at 54% of central government expense, Cambodia has seen a steady decline in ODA to 20% in 2018 (World Bank, 2020). This should be seen as a good sign, but a mitigating factor is the influx of non-ODA aid into Cambodia, and its primary source, China. In some cases, a decline in ODA is not due to economic growth or the finding of successful solutions, but the replacement or crowding out of ODA by China's “no strings attached” aid policy - the strings being oversight and accountability (Burgos & Ear, 2010).

Chinese Foreign Aid

Chinese aid does not hold to DAC guidelines, and follows its own internal rules. It also makes little effort at transparency in its foreign aid programs. This means that Chinese aid is not counted as ODA, and is a separate and significant source of aid to Cambodia. China is the single largest donor to Cambodia, with its aid coming in three forms: “grants, interest-free loans and concessional loans managed by the EXIM bank.”(Ky, Lee & Stauermann, 2012). Unfortunately, various organizations provide differing estimates of Chinese aid (compare statements from the Chinese embassy vs the Council for the Development of

Cambodia) (Heng, 2012). Comparing Chinese aid with that of other nations is also complicated because some money goes to sectors excluded by ODA. For example, China is a large contributor to the Cambodia military (Heng, 2012).

Further complicating the matter are the links between Chinese aid and FDI. Chinese aid and investment are not only a strategic pairing of tools, but interact within Cambodia to leverage Chinese interests. Peou (2019) argues that Cambodia's new deals with China "cemented Cambodia's growing dependence on China, not only for economic development but also for political protection and security. In spite of China's well-known claim about giving aid without any strings attached, the new agreements can be viewed as a foreign policy tool that both countries use to accomplish their political ends." Chinese investment uses political links from aid to overcome Cambodia's objectively poor investment market. Chinese aid and loans are "sometimes essential" in securing RGC protection for Chinese investments, particularly SOE projects (O'Neill, 2014). O'Neill also notes that China's history of loan forgiveness makes Chinese loans more preferable and gives China increased leverage.

The political and economic effects of this type of aid can be far reaching, and are explored elsewhere, but suffice it to say that the political nature of Chinese aid, in addition to the kinds of loans it foments, are uniquely unlikely to be the kind of aid that achieves the goal of ODA, that is, to reach a "a future in which no country will depend on aid."

Aid in Lower-Middle Income vs Upper-Middle Income Countries

While a future without aid is the ultimate goal for Cambodia, even with significant economic growth, aid will still be a relevant factor in 2040. Much, if not most, ODA and other types of aid is directed not at lower-income countries (LICs), but at the large group of middle-income countries (MICs). As of 2019, Cambodia is classified by the World Bank as a lower-middle income country (LMIC). By 2040 or sooner Cambodia is likely to become an upper-middle income country (UMIC), a category that includes a broad sweep of countries (defined by the World Bank as those with a GNI per capita between \$4,046 and \$12,535). Relevant to note is that states classified as UMIC's still receive aid under various schemes. However, aid is typically a small portion of government expenditure,

and the aid that remains is focused on specific projects or initiatives. It aims to, for example, consolidate social gains made and prevent backsliding, increase knowledge in technical areas, especially those relating to the international financial system, or reach “pockets” of poverty left behind as most other incomes increase (Glennie, 2011). The future of aid in Cambodia can be examined through several key factors, the status of which will help indicate trends and trajectories. In addition, policies crafted to address deficiencies in these key factor areas should help to lay the groundwork for an ideal foreign aid situation in 2040.

Key Factors

Reliance on non-ODA Aid

As previously noted, reliance on Chinese aid has the potential to sabotage gradual dependence-reduction and cause various other political and social challenges. Shifts away from the relative accountability of ODA, as well as the politically-driven nature of many Chinese projects, has the potential to exacerbate a form of so-called “Dutch disease,” in which “aid crowds out other sectors, becoming a tradable sector financed by “revenues” in the form of aid,” and “state capacity is weakened [because] the best and brightest are neither entrepreneurs nor government policy wonks.”(Ear, 2013). While ODA is not immune to this problem, the political and opaque nature of Chinese aid is uniquely susceptible to it. The degree to which ODA and competitive investment is displaced by Chinese aid and investment linked to it will be a key indicator of an unhealthy relationship to foreign aid.

Human Capital Development

The World Bank’s Human Capital Index for 2020 (pre-Covid-19) sums up Cambodia’s current situation: “A child born in Cambodia today will be 49 percent as productive when she grows up as she could be if she enjoyed complete education and full health” (Emphasis in original) (World Bank, 2020). This metric puts Cambodia below average for its region (but better than the average for LMICs). One notable weakness is in net secondary enrollment for secondary-aged children, with only 38% of children enrolled. The regional average is 72%,

and the LMIC average is 57%. The development of human capital, such as a highly-educated citizenry, is essential for Cambodia to graduate to the kinds of aid UMIC countries receive. Without basic guarantees of social services, food, education, and healthcare, foreign aid is unlikely to shift to the kinds of programs that build globally-competitive technical expertise and support a robust and sustainable civil society. This factor also brings into relief the difference between DAC ODA, which focuses on health, governance, education, and infrastructure, and Chinese aid, which goes primarily to infrastructure and often privileges hiring Chinese workers in its construction. Cambodia's human capital baseline will be an important signal to aid donors and organizations as to where their money will be best spent. The more the RGC can assume the burden of basic social services, the more specialized and focused aid can become.

Sustainable Growth

While aid can undoubtedly do good, countries must exercise caution when partaking. Much criticism, leveled by authors such as William Easterly and Christopher Coyne have highlighted numerous problems in current systems of aid that result in suboptimal or even negative effects despite good intentions.¹⁰ In short, they and similar authors argue traditional aid is inflicted as abstract, top-down planning that fails to take into account local knowledge and conditions. "Ineffective generalists" run broad and overly optimistic projects with serious opportunity costs, and in some cases actual harm (Easterly, 2006). Further, aid is often administered through local leaders and can create opportunities for corruption. Even if corruption does not occur, the costs of monitoring against it can divert talent (both local and international) into compliance roles and away from productive roles. In fact, scholars have suggested Cambodian officials prefer Chinese aid because it requires less administrative work (Sato, Shiga, Kobayashi & Kondoh, 2011). While the work of Coyne and Easterly targets definitionally philanthropic DAC ODA-style aid, their

¹⁰ See William Easterly's *The White Man's Burden* and Christopher Coyne's *Doing Bad by Doing Good*

criticisms apply equally if not more so to Chinese aid. As Cambodia continues to make use of aid in the near future, observers should note to what degree aid programs are eventually phased out or made domestically viable versus remain interminably reliant on foreign funds. The latter will be an indicator of a lack of sustainable growth and an unhealthy relationship with aid.

Economic Freedom/Openness

Economic freedom or openness, broadly defined, refers to the ability of individuals and firms to conduct business and make transactions in the market. Economic freedom strongly correlates to prosperity, and generally reflects healthy and functional domestic institutions. The *Economic Freedom of the World* Annual Report for 2020 measures economic freedom in five primary areas: size of government, legal system and property rights, sound money, freedom to trade internationally, and regulation (Fraser Institute, 2020). While Cambodia has improved overall between 2010 (with a score of 6.96 and 75th in the world) and 2018 (7.28 and 63rd), the gradual reduction of aid will depend on the maintenance of its relative openness. Several entries into the *Cambodia 2040* project directly dialog with the ideal future for these areas of economic freedom in more detail than this chapter will, but there are a few of particular relevance in the context of Cambodia's current relationship with foreign aid.

Research has shown the mixed impacts that foreign aid can have on the health of these factors in a country, particularly in creating opportunities for corruption and allowing governments to maintain their power through aid funding instead of satisfying the demands of their constituents. Observers should attend to potential negative effects of ODA, but particularly Chinese aid and investment, on maintaining strong property rights (business guarantees and protection linked to aid instead of rule of law), the size and quality of governance (loans for projects by Chinese companies, aid-reliance as alternative to serving constituents), and regulation (aid as insurance for Chinese SOEs). As an example, likely reflecting these various events tied to aid and investment, Cambodia's score on the perceived impartiality of public administration under regulation fell from 3.03 in 2010 to 1.37 in 2018. Its score on the legal enforcement of contracts fell from 2.44 in 2010 to 1.82 in 2018.

III. Policy Recommendations

Looking forward to 2040, as foresighting recognizes, it is difficult to predict accurately what the aid landscape is going to look like in Cambodia in light of the sheer number of variables. However, as noted above, foreign aid may continue to have crucial roles for the development of Cambodia in twenty years. The important question one may need to ask is to what extent Cambodia is going to be aid-dependent by then. Undoubtedly, it is the RGC's official policy that the country does not want to stay dependent on aids in the future as indicated in its vision of aspiring to become an upper middle income country by 2030 and a high income country by 2050 (Royal Government of Cambodia, 2018). It is also an ambitious dream of many Cambodians to see the country becoming a prosperous country that is able to stand firmly by its own with pride and dignity in the near foreseeable decades.

Being aid-dependent or not depends largely on what Cambodia itself is going to perform on both internal and external fronts in the next few decades. Below are recommendations suggested for RGC for considerations:

Internal Front

- RGC needs to continue to have a sustained commitment to implementing core national development policies it has set out namely the Rectangular Strategy Phase IV and its 2050 Vision (Royal Government of Cambodia, 2018). To ensure effectiveness of executing these national policies, consistent and rigid monitoring and evaluating mechanisms need to be in place in order for real progress to happen on the ground and for Cambodians to receive the real fruits of development.
- Deep reforms towards capable, effective and efficient governance should continue to be expedited. RGC should be well applauded for setting out various reform programs to reduce corruption and administration inefficiency, especially since 2013 (Royal Government of Cambodia, 2013). These important efforts need to be continuous and persistent to further combat root causes confronting Cambodia's development.

- There is a need for Cambodia to continue to further expedite its endeavors to diversify its economy. RGC has set out various policies to address this matter as enshrined in its Rectangular Strategy Phase IV. However, to do so requires a great deal of patience, resources and continuous efforts committed by RGC. Cambodia has so far found difficulties in moving beyond three narrow-based sectors namely construction, garment and tourism which all heavily rely on foreign capitals. In 2018, Cambodia's domestic saving was only 13% of its GDP (World Bank, 2018). Furthermore, to keep itself attractive to foreign companies, Cambodia has so far not been able to make any laws to prevent capital flights. Therefore, the country's economy is prone to surprised external shocks. To be less aid-dependent in the near future, Cambodia has to diversify its economy to other broad-based sectors such as agriculture and manufacturing.
- Cambodia needs to further improve its business and investment climate to attract rules-based capitals from various legitimate entities, both local and abroad. According to Transparency International, Cambodia is one of the most corrupt countries (Transparency International, 2019). The World Bank said Cambodia's ease of doing business is one of the lowest in the region (World Bank, 2019). If continued and tangible commitment and implementation to reform are not in place, many good ideas and legal capitals of business and investments would be unlikely to come to Cambodia, and the country would continue to depend on foreign aid.
- Cambodia should reinforce efforts to ensure essential public services (i.e. public administration, education, healthcare and social protection) are better delivered to its own people. Placing its own people among top priority is a commendable step taken by RGC as indicated in its top national development policy. Yet, there remains large rooms for improvement to which the government needs to attend to in terms of public service deliveries with due diligence as there are considerable areas in Cambodia that these services are not sufficiently and effectively provided. In some countries, poor public service delivery causes

discontent among the people which has implications on the countries' peace and development.

External Front

- Cambodia should strictly commit and adhere to its constitutional principles with regards to its foreign policy, particularly “neutrality” and “non-alignment” (Constitution of the Kingdom of Cambodia, 1993). RGC has so far made efforts to be in line in this endeavor by claiming that Cambodia is making friends and welcoming cooperation as well as partnership with all countries. With the power rivalry between the US-China has been intensifying, siding with either one of them would risk its relationship with the other. Cambodia has to be careful of not siding with any superpowers. All matters related to the two have to be handled with due diligence and careful considerations to avoid unnecessary diplomatic incidents which would eventually prove costly for Cambodia and the Cambodian people. Otherwise, it would mean Cambodia would need to depend on that particular superpower and definitely would depend on it and its aids which extend to dangerous elements beyond the scope of ODA.
- Cambodia needs to further be proactive and supportive of multilateralism through multilateral institutions such as ASEAN and the UN. Through skillful and mature diplomatic missions and personalities, the country should be bold in initiating various practical projects to win formidable and long term friendship with mutual trust and benefits that go beyond materialistic incentives. These kinds of friendship with as many countries as possible would improve Cambodia's standing on the international stage that would generate tremendous opportunities such as diverse sources of investments and businesses influxing to the country in return.

IV. Foreign Aid in Cambodia in the Baseline Scenario: Business as Usual in 2040

Under the baseline scenario, foreign aid to Cambodia continues funding a wide array of services and organizations, with net official development assistance staying steady at around 20% of central government expenditure. Foreign aid from China also continues to be significant, as well as a source of corruption and popular discontent when projects linked to it disrupting local communities.

A combination of top-down planning and aid-corruption feedback loops means projects aimed at solving infrastructure problems have been much less effective than desired. Many of these infrastructure projects have been driven by Chinese political pressure and the interests of Chinese SOEs, rather than local Cambodian interests. In some cases, this has left local companies locked out from natural resources and retarded firm growth.

In both cities and rural areas, the protection of various business ventures depends on political connections to foreign aid. The uncertainty caused by these actions continues to make investors wary of committing resources. In addition, these projects have required the long-term cooperation of the Cambodian government, and in some cases have left the RGC with the ownership of expensive failures. These distractions have diverted attention and resources away from basic social service provision, continually widening the urban-rural divide. ODA and NGOs attempt to address these issues, but they are piecemeal, and the patchwork of programs has left many Cambodians without a sure social safety net. Civil society groups have attempted to call attention to these failures and establish accountability mechanisms, but with limited connection to and interest from international partners, they have been unable to build large-scale and self-sufficient organizations.

While GDP has grown steadily, increasing inequality has remained a challenge. Most non-Chinese foreign aid is still directed at alleviating rural poverty and providing basic services, while urban projects tend to be captured in favor of elites and proceed without external accountability. While education and human capital has improved, Cambodian industry still remains heavily dependent on foreign experts, which restricts its ability to expand. While some NGOs attempt

to bridge the expertise gap between themselves and international financial systems, too much attention is diverted elsewhere to make any serious impact. Chinese aid continues to be a vehicle for funneling FDI into Cambodia, greasing the wheels for SOE contracts. While most FDI depends on signals of stability and accountability, the close cooperation between Chinese aid and SOEs bucks this trend and acts as a hedge against political risk that firms from other countries do not have. Further, the lack of “strings” attached to Chinese loans, as well as their history of loan forgiveness, have crowded out alternatives and led to China’s increasing dominance as a source of funds. As a consequence of the uncertain investment environment and the continual crowding effect of Chinese projects, foreign investment has not dramatically increased and Cambodia finds itself in a state of dependence. While there is continued interest in Cambodia’s various export industries, the looming presence of China and the lack of stability signals scares investors away from long-term deals, slowing growth and locking Cambodia in a low-level equilibrium trap.

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