Determinants of Inward Foreign Direct Investment from China, South Korea and Japan and its contribution to Economic Growth in Cambodia

Puthiphan K.¹

Abstract

Foreign direct investment (FDI) has increased globally since the late 1980s. It increased rapidly in Cambodia in the past two decades. This paper aims to examine the determinants of inward FDI from China, South Korea and Japan and its contribution to economic growth in Cambodia during 1994-2014. The results of the first regression show that bilateral trade between the countries, exchange rate, inflation rate, and labor force are statistically significant and have positive impact on inward FDI flows into Cambodia, and inward FDI from those three investing countries contribute to Cambodia’s economic growth respectively. The findings from the second regression indicate that there is a positive relationship between inward FDI and Cambodia’s economic growth. Trade openness, labor force and domestic investment are also important factors leading to economic growth. Besides, Cambodian policy makers should focus more on the policies that are friendly and attractive to inward FDI. Moreover, to attract more inward FDI, the government should promote encouraging environment for trade and investment for both local and foreign investor, remove restrictions against FDI and develop physical infrastructure. Finally, policy makers should not forget the development of human capital because the variable represents the absorption capacity of the economy.

Keywords: foreign direct investment, economic growth

¹ Faculty of Economics, Chulalongkorn University Email: kanphanputhi@yahoo.com

*Corresponding author: Puthi Phan Kan, Faculty of Economics, Chulalongkorn University, 254 Phayathai Road, Pathumwan, Bangkok, Thailand, 10330. Tel: +66950929347, Email: kanphanputhi@yahoo.com
INTRODUCTION

There are research studies investigating factors affecting FDI and the impact of FDI on economic growth in Cambodia. According to the findings of (Suon, 2005), he studies key factors affecting the inflows of FDI in Cambodia. He explores the problems faced by foreign investors and identifies determinants of FDI in Cambodia. The author finds that there are many key factors affect the performance of FDI in Cambodia such as domestic market, export market, transportation cost, political instability and risk, government incentive and economic policy have positive relationship with the performance of FDI in Cambodia. Regarding to the problems of doing business in Cambodia, the author finds that legal system/bureaucracy and tax regime are the most problems for the foreign investors in Cambodia. Insufficient of investment incentive, local infrastructure, economic situation, clarity and validity of information on investment, political and social situation, lower labor skill, small local market, country image and exchange rate are the high problems for doing business in Cambodia. Behavior of local worker, local transportation, development local banking, competition, linkage of business network, expiry of GSP and firm’s financial restriction indicate medium problem. Regarding to the performance of FDI in Cambodia, he finds that in term of sale growth from 2000 to 2004, most of companies performed well by increasing their sale from 1% to over 27%, except the sale of 12 firms had been decreased and only 1 firm had been stable. Moreover, the findings of Cuyvers et al. (2011) studying about “Determinants of FDI in Cambodia” show that home country’s economic growth rate, the exchange rate and bilateral trade are determinants of FDI flows into Cambodia, showing a significant positive effect, while geographic distance as a determinant has a significant negative impact. He also claims China’s WTO membership and the Asian Crisis have both adversely affected Cambodia’s ability to attract FDI inflows. Other variables such as the relative lending interest rate and inflation rate are not significantly different from zero at any conventional significant level, which suggests that these are not FDI determinants in the country.

Regarding the relationship between FDI and economic growth, Seng (2017) conducts a study about “Causality between FDI and Economic Growth in Cambodia as well. He examines the causal link between two variables over the period 1980-
2014 by using Granger causality test based on the Vector Error Correction Model. Based on his empirical results provide a strong evidence on the causal impact on FDI on Cambodia’s economic growth (GDP). However, his study does not confirm the causality to run from GDP to FDI, and he just concludes that the growth impact of FDI is sufficiently supported in Cambodia. Besides that, Lim and Pahlaj (2013) study about “The Relationship between GDP and FDI: The Case of Cambodia” over the period of 1993-2011. They use simple regression analysis, Augmented Dickey-Fuller test, Durbin-Watson test, Breusch-Godfrey Serial Correlation LM test, Breusch-Pagan-Godfrey test, and Jarque-Bera test. They find that there is a positive relationship between FDI and GDP in the long in Cambodia, which is also supported by qualitative studies that is based on the collection of existing studies from recognized domestic and international institutions, people in senior positions and researchers. They claim that FDI positively affects GDP, and most significantly to the employment opportunities generated for local people, and in the long run help unemployment and poverty reduction in Cambodia.

Clearly, the interest on analyzing the FDI in Cambodia is increasing and we want to learn more about the topic by using the more recent data and separation the FDI from different investing countries. We are going to study the determinants of inward FDI and to find out whether inward FDI can significantly promote country economic growth in Cambodia. In this research paper, we analyze the FDI from different countries namely, China, South Korea and Japan. These three home countries also have had a strong and good relationship with Cambodia. One cannot deny the fact that China has become a dominant world economic power, and also that South Korea and Japan are technologically advanced countries in Asia deserving the utmost attention in our study.

There are four main objectives of this research paper in order to collect and compile information of economic relationships between Cambodia and investor home countries (China, South Korea and Japan) within special focus on inflow FDI from the home countries and economic growth in Cambodia. (1) to explore the determinants of inward FDI in Cambodia from China, South Korea and Japan. (2) to investigate the impact of inward FDI from China, South Korea and Japan on economic
growth in Cambodia. (3) to compare both the determinants and the impacts of inward FDI from different home countries and (4) to find policies for attracting FDI to Cambodia and allowing FDI to promote economic growth.

Overview of Economic and FDI characteristic in Cambodia

_Gross Domestic Product_

According to the statistics and updated information of the Council for the Development of Cambodia (CDC), we can notice that Cambodian economy enjoyed rapid growth with an average of 7.6 percent per annum from 1993 to 2003, and continued to reach the high growth of over 10 percent per annum in between 2004 and 2007. Due to the global financial crisis of 2009, the trends went down from 6.7 percent in 2008 to 0.1 percent in 2009. Moreover, understanding from the source that in October 2014, the World Bank named Cambodia to join the Olympians of Growth in its economic update and claimed “Cambodia has grown at a yearly average growth rate of 7.7 percent for two decades now making it the sixth fastest growing country in the world over that time period”. The Asian Development Bank (ADB) has been projecting for Cambodia to enjoy healthy growth at 7.3 percent in 2015 and 7.5 percent in 2016, while maintain the stable trade deficit per GDP at around 13.7 percent in 2015 and manage the inflation for 2016 and 2017 to be within the range of 3 to 5 percent.

_FDI Inflows into Cambodia

Based on the finding of the CDC also showed that the amount of committed investments in Cambodia grew significantly since 2012, a 24% increasing from US $2.9 Billion in 2012 to US$3.6 Billion in 2016. Over the five-year period, invested capital by local investors accounted for approximately 54% of total investment. Among foreign investors, Chinese investors were the most active. Over the years, almost 90% of total foreign investments came from Asia.
Some theoretical background of FDI, Economic Growth and hypothesis

1. Determinants of inward FDI

What are the specific determinants of a host country that attract FDI? Different theoretical frameworks analyze the motivations, characteristics, and determinants of FDI inflows, and numerous theories have developed to investigate the existence and the growth of the international operations of multinational corporations via FDI. Such theories include international product life-cycle theory by Vernon (1966), substitute theory of FDI for trade by Mundell (1968), industrial organization theory by Hymer (1976), complement theory of FDI for trade by Kojima (1973 & 1985), OLI or eclectic theory of the new investment development (Dunning, 1981), vertical and horizontal investment theory of FDI by Markusen (2000), and so on. These theories attempt to analyze the determinants of inward FDI under different assumptions and frameworks.

FDI and Real GDP

A larger market size has better prospects for market growth, higher degrees of development, and higher per capita GDP growth are factors taken into account when investors consider locating in a foreign country. Thus, countries with attractive market opportunities allow MNCs to utilize their ownership advantages and to gain from economies of scale (Wei and Liu, 2001). The market size of the host countries assumed to capture demand and scale effects. For example, there must be adequate domestic demand for final goods in the host country (Davidson, 1980).

**Hypothesis 1:** An increasing ratio of GDP of Cambodia relative to the home country’s GDP, results in more FDI flowing into Cambodia.

FDI and Real Exchange Rate

The exchange rate between the host and source country commonly measures the cost of production inputs during a firm’s production process. Clegg and Scott-Green (1999) and Halicioglu (2001) showed that a home country’s currency appreciation causes an increase in inward FDI to the host country since it is cheaper to employ a given amount of labor. In contrast, when the exchange rate of the host country appreciates, FDI is deterred. In addition, a real depreciation of currency of the host country would lead to inward FDI as foreign firms may be interested in gaining benefits
and taking advantage of lower local labor costs. However, despite the positive conclusions discussed above, many studies find that the exchange rate has a negative impact on FDI inflows (Froot and Stein, 1991; Aristotelous and Foundas, 1996; Grosse and Trevino, 1996; and Baek and Okawa, 2001; Wei and Liu, 2001).

**Hypothesis 2:** The higher the currency depreciation of Cambodia is relative to the home country’s currency, the higher the level of FDI flows into Cambodia is.

**FDI and Trade Openness**

Asiedu (2002) states that the share of trade to GDP is the most widely applied variable to calculate the degree of openness. Trade volumes assume to have a positive relationship with FDI. Thus, countries that wish to attract more FDI should increase trade volumes. The effect of openness on FDI can have a positive sign in the case of FDI being export-oriented and have a negative sign in the case of FDI being tariff jumping. Generally, firms have different entering modes into a foreign market including setting up production processes via FDI or extending markets by exporting.

However, international trade and FDI are also complementary. The relationship between trade and FDI complementarities explained by the theory of the production life cycle (Vernon, 1966). The formal theoretical study of export-platform FDI that incorporating both horizontal and vertical FDI done by Ekholm, Forslid and Markusen (2007). The empirical results on the linkage between FDI and trade are mixed. Among others, the study by Hejazi and Safarian (2001) and Marchant et al. (2002) support FDI-trade complementarity.

**Hypothesis 3:** The higher the external trade and bilateral trade between Cambodia and the home country are, the higher the FDI flows into Cambodia.

**FDI and Inflation Rate**

Foreign investors will choose to invest in a host country where there has economic stability and a low degree of uncertainty. Therefore, the inflation rate is expecting to have a negative relationship with inward FDI. Many empirical studies support the hypothesis and find that the inflation rate has a negative impact on FDI inflow (Kahai, 2004; Onyeiwu and Shrestha, 2004; Asiedu, 2006). Therefore, to encourage foreign investment, stability of the inflation rate is important.
Hypothesis 4: The smaller the difference between Cambodia’s and the home country’s inflation rate is, the more Cambodia will be attractive to inward FDI.

**FDI and Labor Cost**

A cheaper cost of workers in the host country relative to the source country makes it more attractive to inward FDI (Dunning, 1998; Navaretti and Venables, 2004; Dunning and Lundan, 2008). For example, Wei and Liu (2001) apply panel data analysis for the determinants of FDI flows in China and find that wage rates have a strongly negative effect on inward FDI, implying that a cheaper labor is a determinant of FDI inflows in China. However, some researchers do not find strong support for a negative relationship between FDI and labor costs in the host economies (Jun and Singh, 1996; Wezel, 2003). Based on this assumption, if the host country has lower labor costs compared to the home country’s labor costs, more FDI inflows are likely into the host country.

Hypothesis 5: the lower the ratio of the real wage rate in Cambodia is to the home country’s real wage rate, the higher the inward FDI is in Cambodia.

3.2. Relationship of FDI toward Cambodia’s Economic Growth

Besides investigating the important determinants of inward FDI flows into Cambodia, we also review the impact of FDI on Cambodia’s economic growth. In order to explore the impact of FDI on Cambodia’s economic growth, some control variables and its interaction terms with FDI are also important to list down in the equation and regression in order to estimate for the results as well.

In order to set up and select the control variables beside FDI to stimulate economic growth, we followed the study of Kotrajaras et al. (2011). They study about the impacts of FDI in groups of 15 East Asian countries from 1990 to 2009 classified by level of economic development, using panel data analysis together with co-integration methods. Domestic investment (K), labor (L), foreign direct investment (FDI), level of human capital (HK), level of infrastructure (IF), trade openness (TRADE), financial development index (M2/GDP) (FD), corruption perceptions index (COR) are the variables presenting in the regressions in order to find out the effect of those variables on economy of the host countries. The interaction terms of some variables
and FDI (HK*FDI, IF*FDI, TRADE*FDI, FD*FDI and COR*FDI) are also included. The results in their study show that FDI has a positive relationship with economic growth in high-income countries (Hong Kong, Japan, South Korea, Singapore and Taiwan) and also in the middle-income countries (China, India, Indonesia, Malaysia, the Philippines and Thailand), yet the high-income countries will benefit more than the middle-income countries. The low-income countries (Cambodia, Laos, Myanmar and Vietnam) tend to benefit less from FDI because low-income countries do not have appropriate facilities from government spending on investment, low degree of trade openness, low level of public investment on education, low level of financial development and high level of corruption. Finally, they concluded that the low-income economies are not capable of absorbing the benefit from FDI.

**Economic Growth and FDI**

In order to find the relationship between FDI and a host country’s economic growth, we look at trends of GDP growth, FDI and other economic conditions. Some empirical studies noted that FDI seems to boost growth only in economies that have appropriate initial conditions, including high levels of human capital, financial sector development and policies that promoted international trade. For instance, Wei et al. (2001) and Bende-Nabende and Ford (1998) reveal that there are empirical evidences indicating that FDI can stimulate economic growth through technology transfer and spillover effects. Alfaro et al. (2004) states that FDI promotes economic growth where financial markets are sufficiently developed.

**Hypothesis 1:** The higher amount of inward FDI flows into Cambodia will bring the higher proportion to stimulate the economic in Cambodia.

**Economic Growth and Labor**

Lower wage rates make countries with abundant skilled and/or unskilled workers more competitive and attractive more investor, and are likely to encourage efficiency-seeking FDI inflows that can stimulate the economic growth (Jun and Singh, 1996). Lo (2007) finds that based on a labor-intensive growth path, China was able to achieve both rapid economic growth and rapid employment expansion in the first half of the reform era.
Hypothesis 2: the lower of the real wage rate or labor cost in Cambodia comparing to others country, the higher proportion to stimulate economic growth of the country and attracting more investor to invest in.

Economic Growth and Domestic Investment

Levin and Raut (1997) and Zhang (2003) indicate that FDI apply to growth models in two ways, depending on different assumptions. First, FDI can postulate to cause growth directly or alternatively, hypothesized to affect growth through the spillover effects. Second, in the case that we assume FDI will directly cause growth, the capital stock in the Solow production function assumes to consist of two components: domestic and foreign owned capital stock. In addition, Romer (1990) stated that increasing in physical capital leads to rise in return to scale which can speed up growth.

Hypothesis 3: the higher domestic investment in Cambodia will tend to increase the economic growth and will attract to the higher inward FDI to invest in Cambodia.

Economic Growth and Human Capital

Borensztein et al. (1998) indicates that FDI promoted economic growth only in countries with a high level of human capital. Levin and Raut (1997) and Roy and Berg (2006) conclude that levels of human capital and infrastructure can increase technology of production. When the interaction term between FDI and the level of human capital is positive and statistically significant, it will indicate that the countries with high level of human capital would receive higher benefits from FDI in encouraging the economic growth.

Hypothesis 4: the more skilled workers and highly educated employers of Cambodian results in more percentage for Cambodia to have a better economic growth.

Economic Growth and Infrastructure

Physical infrastructure is not only an important pillar of economic development, but also impact on the ability of business to operate successfully from a small economy (Wint, 2003). Balasubramanyam (1990) also finds that good
infrastructure facilities help FDI to contribute more growth. The results coincide with Kose et al. (2006) shows that appropriate economic conditions play an important role in enabling FDI to stimulate economic growth.

Hypothesis 5: the more accessible from physical infrastructures in Cambodian results in more growth of Cambodia’s economy.

Economic Growth and Trade

Levin and Raut (1997) finds that high degree of trade and education expenditure contributed to economic growth in 30 semi-industrialized developing countries. Hoang et al. (2010) tried to examine the effect of FDI inflow on economic growth in Vietnam. They included the degree of trade openness, the level of human capital and the domestic investment in Vietnam, the interaction term between FDI with trade, human capital and domestic investment, and the result of significant and positive coefficient of FDI suggested that FDI has a positive effect on Vietnamese economic growth.

Hypothesis 6: The higher level of local, external and bilateral trade between Cambodia and the home country, the higher rate of economic growth in Cambodia will be.

Estimation Models and Data Sources

This study is a modest attempt to examine the determinants of inward Foreign Direct Investment (FDI) from China, South Korea and Japan and its contribution to Economic Growth in Cambodia covering annual data from 1994 to 2014 (over 21 years).

Quantitative approach will be carried out by regressions analysis and within this research study, and it will be separated into two main equations – the first equation is for the determinants of inward FDI from China, South Korea and Japan to Cambodia, and the second equation is for the economic growth which is contributed from FDI. Eviews8 statistical program is the tool that we are going to use for running regression to get results.
1. First equation (Determinants of FDI)

The determinants of inward FDI flows from China, South Korea and Japan that will be analyzed are market size, exchange rate, trade relation, inflation rate, labor costs, and other variables. The relationship between FDI and its influencing factors in Cambodia is modelled as follows:

\[
FDI = f(RGDP, RER, RTRADE, DINFLA, RLP, ASEAN, CRISIS_{1997-98}, CRISIS_{2008-09})
\]  
(1)

Where: FDI is the annual inflows of real FDI in Cambodia; RGDP is the ratio of real Cambodian GDP to the home country’s real GDP; RER is the ratio of real exchange rate of the US$ to the home country currency; RTRADE is the real Cambodia’s external trade (exports and imports) to and from the home country; DINFLA is the difference between the inflation rate in Cambodia and the home country; RLP is the ratio of labor productivity in Cambodia to the home country; ASEAN is the dummy for the number of years when Cambodia becomes a member of ASEAN (1999-2014); CRISIS1997-98 and CRISIS2008-09 are the dummies for the number of years during the Asian Crisis and Global Financial Crisis, defined as being equal to 1 and zero otherwise.

The relationship between the dependent variable and the explanatory variables in equation (1) can be re-written explicitly in the following log-linear form:

\[
\begin{align*}
\ln FDI_i & = \alpha_1 \ln RGDP_i + \alpha_2 \ln RER_i + \alpha_3 \ln RTRADE_i + \alpha_4 \ln DINFLA_i + \alpha_5 \ln RLP_i \\
& + \alpha_6 \text{ASEAN}_{1999-14} + \alpha_7 \text{CRISIS}_{1997-98} + \alpha_8 \text{CRISIS}_{2008-09} + \epsilon_i
\end{align*}
\]  
(2)

\[i = 1,2,...,N \text{ and } t = 1,2,...,T \text{ (from 1994 to 2014, inclusive)}
\]

The subscripts \(i\) and \(t\) refer to the home country and time, respectively. \(\epsilon_i\), denoting a composite error term, is equal to \(\alpha_i + \mu_i\), where \(\alpha_i\) is host country-specific The subscripts \(i\) and \(t\) refer to the home country and time respectively, accounting for the unobserved heterogeneity among the host countries, and \(\mu_i\) is a white noise. The model choice in equation (2) is in line with the current theoretical and empirical literature on the determinants of FDI flows (see e.g. Wei and Liu, 2001; Pan, 2003; Bevan and Estrin, 2004; Gao, 2005). In equation (2), both the dependent variable and the explanatory variables are in logarithms and differences, and denoted by \(\ln\) and \(D\), respectively.

2. Second equation (Economic Growth)
In the second equation, the study focuses on finding out the contribution of inward FDI from China, South Korea and Japan on economic growth in Cambodia as a recipient country as mentioned above from the annual data from 1994 to 2014 based on CEIC database.

Therefore, in this study, we postulate that the level of human capital (HK), the level of infrastructure (IF) and international trade policy (TRADE) have an impact on technological capability or total factor productivity as well. The dummy variables may effect on growth are also added in the study. Substitute the technology function into the production function and then take the logarithm, the function will be:

\[
\ln(Y_{it}) = b_0 + b_1 \ln(L_{it}) + b_2 \ln(K_{it}) + b_3 \ln(FDI_{it}) + b_4 \ln(HK_{it}) + b_5 \ln(IF_{it}) \\
+ b_6 \ln(TTRADE_{it}) + b_7 D97_{it} + b_8 D08_{it} + u_{it}
\]

(1)

Based on studies mentioned earlier which stressed out that initial threshold conditions and spillover effects from FDI can stimulate economic growth in a country. By noticing this relationship, we also study how the interaction between FDI and each initial condition variables could affect growth into the equation. The interaction terms between FDI and these variables \( \ln(HK_{it})*\ln(FDI_{it}) \), \( \ln(IF_{it})*\ln(FDI_{it}) \) and \( \ln(TTRADE_{it})*\ln(FDI_{it}) \) are added in next equation, so the equation will be:

\[
\ln(Y_{it}) = b_0 + b_1 \ln(L_{it}) + b_2 \ln(K_{it}) + b_3 \ln(FDI_{it}) + b_4 \ln(HK_{it}) + b_5 \ln(IF_{it}) \\
+ b_6 \ln(TTRADE_{it}) + b_7 D97_{it} + b_8 D08_{it} + b_9 \ln(HK_{it})*\ln(FDI_{it}) \\
+ b_{10} \ln(IF_{it})*\ln(FDI_{it}) + b_{11} \ln(TTRADE_{it})*\ln(FDI_{it}) + u_{it}
\]

(2)

The subscripts \( i \) and \( t \) refer to the home country and time from 1994 to 2014, respectively.

where: \( Y \) is denoted as country’s GDP (million USD), \( L \) as labor (thousand person), \( K \) as domestic investment (million USD), FDI as foreign direct investment (million USD), HK as public expenditure on education (million USD), IF as public investment in infrastructure (million USD). TRADE as trade to and from the investor country, dummy variable (D97) is used to capture the impact of Asian Crisis in 1997 and 1998, dummy variable (D08) is used to capture the impact of Global Financial Crisis in 2008 and
2009, defined as being equal to 1 for 1997 and 1998 and 2008 and 2009, and zero otherwise.

Results

1. First equation (Determinants of FDI)

**FDI from countries without Dummies**

The estimated regression results in which how determinants of inward FDI from China, South Korea and Japan are different without dummy variables, and how they impact on inward FDI, respectively. As we can notice that FDI from China has positive relationship with Trade and Inflation Rate of the host country at 5% level of significance, while GDP, Real Exchange Rate and Relative Labor Productivity just had some impacts on FDI but not statistically significant. For South Korea, Trade and Real Exchange Rate have significant influence on FDI at 5% level of significance, while other variables just have some positive impacts but not significant. Not like China and South Korea, only Relative Labor Productivity has positive relationship with the FDI at 10% level of significance from Japan, and other factors were not statistically significant.

**FDI from countries with Dummies**

When we put all dummies (ASEAN, CRISIS97 and CRISIS08) into the regression estimation for each country, we can get the results that inward FDI from home countries got differently affects. China’s inward FDI has positive and statistically significant with only Trade during the global financial crisis in 2008. It is different from China, Exchange Rate and Trade have positive relationship with the South Korea’s inward FDI at 5% level of significant when using the dummies in the regression. It means that Real Exchange Rate and Trade are the most determinants to attract FDI from South Korea when Cambodia become the member of ASEAN and during the crises period. With dummies in the inward FDI regression for Japan, when Cambodia becomes a member of ASEAN, Relative Labor Productivity is the only one determinant can attract inward FDI. It has positive impact but not significant. In conclusion, after we tested several set of regressions for each country, we can notice that we can get the best results to estimate when we put only dummy CRISIS08 in to the regression.
We see that FDI from China has significantly impact from Trade, and FDI from South Korea has positive relationship with Trade and Real Exchange Rate, but that is not happen at all for Japan.

2. Second equation (Economic Growth)

The results of the regression of each country, and they indicate that which inward FDI from what country contributes to economic growth in Cambodia the most among these three investor countries. We can interpret the result that economic growth in Cambodia receiving inward FDI from China really based on Labor, Domestic Investment because they had positive relationship with economic growth in the country at 5% level of significance, and all interaction terms have positive relationship that may support FDI in promoting the economic growth. Furthermore, Labor does not have any relation with economic growth in Cambodia when receiving FDI from South Korea, and FDI has positive relationship with Cambodia’s economic growth but it was not significant. We can also notice that South Korea’s Trade between Cambodia also has positive significant at level 10%, and all interaction terms have positive relationship that may support FDI in promoting the economic growth. Domestic Investment of Cambodia has significant at level 10% when Cambodia received inward FDI from Japan. It is not different from other two investing countries, inward FDI from Japan also have positive relationship with economic growth in Cambodia, but it is just not significant. The interaction terms between FDI and public expenditure on education and trade openness are statistically significant supporting FDI to promote economic growth, but not with government investment. Based on the regression results, we can answer one of the questions in the objectives whether FDI from which country can contribute to Cambodia’s economic growth the most. So we can notice that inward FDI from China contributes to the economic growth the most and follows by South Korea and Japan because the regression of China estimation has the Highest Adjust R-square and lowest and Akaike Info Criterion.
Conclusion

According to the results of the estimation then we can understand that the determinants of inward FDI from China, South Korea and Japan have significant and impact on the inward FDI inflows differently. We found out that Trade between China and South Korea to Cambodia was the most important determinant and had significantly affect to FDI inflow in to the country while there was just only positive impact on FDI for all the determinants in Japan. Besides that, Inflation and exchange rate also had positive impacts and significantly on FDI from China and Korea as well, while Relative Labor Productivity was the only determinant that had significant on inward FDI from Japan to Cambodia. For equation of determinants of FDI, after testing several set of estimation regressions for each country, we can get a notice result. When using dummy (CRISIS08) in to the regression, we can find that FDI from China has positive relationship with only Trade, and South Korea has positive relationship with Trade and Real Exchange Rate at 5% level of significance, but it does not happen at all for Japan. For equation 2, we find that economic growth in Cambodia which receiving inward FDI from China really based on Labor and Domestic Investment, and they have positive effects and significant to economic growth. Only Labor does not have any relationship with FDI in order to promote economic growth in Cambodia from South Korea regression, but FDI has positive relationship with economic growth but not significant. We can also notice that South Korea’s Trade to Cambodia also has positive significant at level 10%. All interaction terms between FDI from China and Korea have positive relationship that may support FDI in promoting the economic growth. Domestic investment of Cambodia has significant at level 10% when received inward FDI from Japan, and it is not different from other two countries above inward FDI from Japan also has positive relationship with economic growth in Cambodia, but it was also not significant. The interaction terms between FDI and public expenditure on education and trade openness are positively significant that may support FDI in promoting the economic growth, but not with government investment. This suggests that FDI would have a positive relationship with the economic growth in Cambodia that has appropriate economic conditions. In conclusion, based on the regression
results, we can answer one of the questions in the objectives whether FDI from which country can contribute to Cambodia’s economic growth the most. So we can notice that inward FDI from China contributes to the economic growth the most and follows by South Korea and Japan because the regression of China estimation has the Highest Adjust R-square and lowest and Akaike Info Criterion.

According to the findings, it stated that International trade is the major factor impact on the inward FDI inflows from the recipient countries. Therefore, to have good strategy incentives in order to promote and facilitate all kind of liberalization of Cambodia’s international trades to attract all the foreign investors is the most priority phase that Cambodian Government needs to focus on. Moreover, the host country’s government also needs to maintain for a better exchange rate and lower inflation rate within the country. These two are also the vital indicators to attract more investors consider to invest in when the country has a good rate to set off their investment costs which can promote to economic growth in the country and reduce unemployment and poverty reduction in the developing country like Cambodia. Domestic investment are the important driving force of FDI inflows, thus Cambodian Government needs to conduct many profitable investment incentives to encourage and protect the domestic investors as well. Besides, Cambodian policy makers should focus more on the policies that are friendly and attractive to inward FDI. Moreover, to attract more inward FDI, the government should promote encouraging environment for trade and investment for both local and foreign investor, remove restrictions against FDI and develop physical infrastructure. Finally, policy makers should not forget the development of human capital because the variable represents the absorption capacity of the economy.

Lastly, we would like to inform in this conclusion that the results of data regression are just our first attempt in this research study, and we are willing to study more in the nearest future when we can access to get more update data to prove the regression results. The fact, some data of Cambodia is restricted and not updated. More research findings are already included in the papers in order to support the results from the regression of this research paper as well, but there are not many because of the format limitation.
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