CAMBODIA

Cambodia's economic freedom score is 57.3, making its economy the 113th freest in the 2020 Index. Its overall score has decreased by 0.5 point because of a drop in the score for investment freedom. Cambodia is ranked 25th among 42 countries in the Asia–Pacific region, and its overall score is slightly below the regional average and well below the world average.

Economic freedom has been in decline in Cambodia since 2017, and this year, its economy is again considered mostly unfree. Economic growth, however, has benefitted from the openness of other countries, particularly the European Union, to exports of garments and strong demand for travel goods and remains strong at an average of 7.1 percent over the past five years.

Sustained growth over the long term will require the implementation of deep, broad, and well-institutionalized reforms to improve scores for judicial effectiveness and government integrity, as well as improved property rights and a better regulatory environment to enhance the domestic business environment.

BACKGROUND: Cambodia has been ruled by former Khmer Rouge member and now Prime Minister Hun Sen since 1985. In 2017, his Cambodian People's Party executed an unprecedented crackdown against the opposition Cambodia National Rescue Party (CNRP) in the lead-up to local elections, and the CNRP was later banned and dissolved by the Cambodian Supreme Court. Elections in 2018 confirmed Cambodia's status as a one-party state. The economy remains heavily dependent on tourism revenues and garment exports. More than half of the labor force is engaged in subsistence farming, and Cambodia remains one of Asia's poorest countries. The European Union, Cambodia's largest export market, is currently considering the imposition of trade sanctions against Cambodia because of the country's backsliding on democracy.

POPULATION: 16.3 million
GDP (PPP): $70.5 billion
7.3% growth in 2018
5-year compound annual growth 7.1%
$4,335 per capita

UNEMPLOYMENT: 1.1%
INFLATION (CPI): 2.4%
FDI INFLOW: $3.1 billion
PUBLIC DEBT: 29.4% of GDP

2018 data unless otherwise noted. Data compiled as of September 2019.
The majority of property owners lack documentation proving ownership, and the titling system is cumbersome, expensive, and subject to corruption. The judicial system, marred by inefficiency, poorly trained judges, and a lack of independence, is perceived as unreliable and susceptible to external political influence or bribery. Corruption is rampant in public procurement, tax administration, customs administration, and other state processes.

The top individual income and corporate tax rates are 20 percent. Other taxes include excise and value-added taxes. The overall tax burden equals 16.2 percent of total domestic income. Government spending has amounted to 23.2 percent of the country’s output (GDP) over the past three years, and budget deficits have averaged 1.5 percent of GDP. Public debt is equivalent to 29.4 percent of GDP.

Fees needed to obtain a building permit were reduced in 2018, but the government still does not consult the business community in advance of new economic policies and regulations. An ongoing consequence of the 1975–1979 genocide is the shortage of workers with higher education or specialized skills. In 2019, the government introduced $50 million in additional subsidies to reduce the domestic price of electricity.

The total value of exports and imports of goods and services equals 124.9 percent of GDP. The average applied tariff rate is 9.8 percent, and one nontariff measure is in force. State-owned enterprises distort the economy, preventing much-needed dynamic investment. Credit is generally allocated on market terms, but credit for entrepreneurial activity is limited by lack of access to the full range of financing instruments.