CAMBODIA

Cambodia’s economic freedom score is 57.3, making its economy the 118th freest in the 2021 Index. Its overall score is unchanged, with a decline in judicial effectiveness partially offset by an improvement in fiscal health. Cambodia is ranked 24th among 40 countries in the Asia-Pacific region, and its overall score is below the regional and world averages.

The trajectory of economic freedom in Cambodia, which has been in decline since 2017, has failed to reverse course, and the economy is still considered mostly unfree. In addition to improving the regulatory environment to enhance business freedom, sustained growth over the long term will require implementation of deep, broad, and well-institutionalized reforms to improve scores for judicial effectiveness and government integrity, as well as improved property rights.

IMPACT OF COVID-19: As of December 1, 2020, no deaths had been attributed to the pandemic in Cambodia, but the economy was forecast to contract by 2.8 percent for the year.

BACKGROUND: Former Khmer Rouge member and now Prime Minister Hun Sen has ruled Cambodia 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, partially suspended Cambodia’s preferential trade treatment in 2020 because of the government’s violations of human rights, including the 2017 crackdown.
Land rights are a contentious issue in Cambodia. Because of official policies and social upheaval during the Khmer Rouge era in the 1970s, most property holders do not have legal titles. The judiciary is characterized by corruption and a lack of independence. Judges have facilitated the government’s targeting of opposition politicians. Anticorruption laws are poorly enforced, and corruption is pervasive in public procurement and tax administration.

The top individual income and corporate tax rates are 20 percent. Other taxes include excise and value-added taxes. The overall tax burden equals 17.1 percent of total domestic income. Government spending has amounted to 22.9 percent of total output (GDP) over the past three years, and budget surpluses have averaged 0.1 percent of GDP. Public debt is equivalent to 28.5 percent of GDP.

Starting a business has become more expensive because of cost increases associated with business registration at the Ministry of Labor and Vocational Training. The government has been in discussions with businesses and labor unions about making the labor law more business friendly. Large and growing subsidies for public-private partnerships and state-owned enterprises are a growing threat to fiscal stability.

Cambodia has six preferential trade agreements in force, and its trade-weighted average tariff rate is 9.2 percent. One formal nontariff measure is in effect, but other impediments to trade flows persist. 100 percent foreign ownership of companies is permitted, but the lack of transparency in approval processes undermines inflows of new foreign investment. Banking has become more market-oriented, and credit is increasingly available to the private sector.