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“Franco Fontana”

GEOPOLITICAL RISK OBSERVATORY

Cambodia

An overview

Luiss Guido Carli University

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Luiss
Libera Università Internazionale
degli Studi Sociali Guido Carli
Viale Romania 32, 00197 Roma
T +39 06 85222350
www.luiss.it

GRO Country Profile: Cambodia

GRO Country Profiles are neither extensive analyses nor news updates. Rather, they provide a general perspective on selected areas and issues, identifying a set of factors and variables that organizations should monitor in order to anticipate risks.

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Summary

- Cambodia is a constitutional monarchy dominated by the Cambodian People's Party (CPP). Since 2023, Prime Minister Hun Manet leads the government, while his father Hun Sen retains influence as Senate President. Political competition is severely limited, with policymaking concentrated within a CPP-connected elite.
- The economy depends on garment exports, tourism, and construction. China is the dominant source of FDI and diplomatic support - around 40% of foreign debt is owed to Beijing - while the US and EU remain key export markets. Since February 2026, Cambodian exports face a flat 10% US Section 122 surcharge, with a further 10% forced-labour Section 301 duty proposed in June 2026.
- Key business challenges include regulatory uncertainty from evolving US trade policy, pervasive governance and corruption risks - illustrated by April 2026 US sanctions on a sitting senator over scam-compound operations - and security uncertainty from the unresolved Thailand border dispute.

Basic Parameters

Indicator	2020	Latest value
GDP (PPP, USD bn)	70.0	150.0 (2025)
Share of income, top 10% (%)	n.d.	38.5 (2023)
Share of wealth, top 10% (%)	n.d.	59.3 (2023)
Population (mn)	16.7	18.05 (2026 proj.)

Population under 25 (% of total)	n.d.	43.2 (2024)
Population over 65 (% of total)	n.d.	5.1 (2024)
Urban population (% of total)	24.2	25.6 (2024)
Unemployment rate (% of labour force)	0.1	0.8 (2025)
Youth unemployment 15–24 (%)	n.d.	2.1 (2024)
CPI inflation (% annual average)	2.9	3.1 (2025 est.)
General government debt (% of GDP)	20.8	18.3 (2025)
FDI inward flows (USD mn)	3,566	3,617 (2024)
FDI growth rate (%)	n.d.	+6.8 (2023–2024)

Sources: IMF – World Economic Outlook, October 2025 (GDP PPP, population, unemployment, CPI inflation); IMF – Fiscal Monitor, October 2025 and Cambodia MEF – Public Debt Statistical Bulletin, March 2026 (government debt); World Inequality Database (income and wealth shares); World Bank – World Development Indicators 2025 (population structure, urban population); ILO – ILOSTAT (youth unemployment); UNCTAD – World Investment Report 2025 (FDI flows).

Historical context

Cambodia achieved independence from France in 1953 under King Norodom Sihanouk, who pursued a neutralist foreign policy during the early Cold War. The Vietnam War proved catastrophic: US bombing campaigns and the 1970 coup that ousted Sihanouk dragged the country into civil conflict, culminating in the Khmer Rouge seizure of power in April 1975.

The Khmer Rouge regime (1975–1979) under Pol Pot perpetrated one of the twentieth century's worst genocides, killing an estimated 1.5 to 2 million people – roughly a quarter of the population – through execution, forced labour, famine, and disease. Vietnamese military intervention ended the regime in January 1979, installing a Hanoi-backed government and initiating a decade of occupation and internal conflict.

The 1991 Paris Peace Accords and the subsequent United Nations Transitional Authority in Cambodia (UNTAC) mission produced the 1993 elections and a formal end to hostilities. Political violence nonetheless persisted: Hun Sen's 1997 coup, which eliminated co-Premier Prince Ranariddh, cemented Cambodian People's Party (CPP) dominance for the following three decades. The 2017 dissolution of the Cambodia National Rescue Party (CNRP) – the main opposition – by the Supreme Court effectively ended competitive multi-party politics. The 2023 transition from Hun Sen to his son Hun Manet as Prime Minister was managed as a controlled elite succession, preserving full structural continuity under CPP rule, with Hun Sen retaining a formal supervisory role as Senate President and informal influence over key personnel decisions.

Institutional Set-Up and Structural Challenges

Cambodia is a constitutional monarchy with a formally bicameral parliament: the National Assembly (125 seats) and the Senate (62 seats, mostly appointed). In practice, the CPP controls all significant state institutions; the judiciary lacks independence; and electoral competition is managed to preclude genuine challenges to CPP dominance. The 2023 elections returned the CPP with all 125 National Assembly seats. Freedom House classifies Cambodia as 'Not Free'.

Government stability under the CPP is structurally robust in the short term: no credible domestic challengers exist and the security apparatus is fully aligned with the ruling party. However, the succession from Hun Sen to Hun Manet introduces medium-term uncertainty. Hun Manet has yet to establish independent political authority, and his father's continuing role as Senate President creates a dual-leadership dynamic dependent on intra-CPP elite alignment. Long-term legitimacy deficits arising from socio-economic pressures among urban youth and the 2018–2023 civil society crackdown are managed through patronage and repression. Governance quality is among the lowest in Southeast Asia: Transparency International's 2024 Corruption Perceptions Index ranks Cambodia 158th out of 180 countries (score: 21/100), and the World Justice Project places it in the bottom global decile for rule of law. Corruption permeates customs, taxation, licensing, and the judiciary.

Economically, Cambodia's growth model rests on garment and footwear exports (approximately 70–80% of merchandise earnings, employing ~700,000 workers), FDI-led manufacturing, tourism, and construction. The model is structurally exposed to US and EU trade policy shifts; Cambodia lost some EU Generalised Scheme of Preferences (GSP) access in 2020 following human rights concerns. CPP-connected conglomerates dominate construction, banking, telecommunications, and natural resources.

China is Cambodia's most consequential external partner, and the relationship is one of structural dependency rather than balanced hedging. Beijing provides unconditional political support to the CPP — backing the ruling party through the 1997 coup, the 2017 CNRP dissolution, and subsequent Western sanctions — insulating it from international democratic pressure. Economically, Cambodia joined China's Belt and Road Initiative in 2013; Chinese-origin FDI (including Hong Kong and Taiwan) accounted for roughly 90% of total inward FDI in 2023, according to the US State Department, and around 40% of Cambodia's foreign debt is owed to Beijing. The flagship current project is the Funan Techo Canal, a 180-kilometre waterway linking Phnom Penh to the Gulf of Thailand (USD 1.7 billion), contracted to a Chinese state-owned enterprise and due for completion by 2028; its proximity to Ream Naval Base has raised dual-use military concerns, as China financed a comprehensive 2022–2025 upgrade of the base and, in April 2026, transferred the first of two missile corvettes to the Royal Cambodian Navy. Within ASEAN, Cambodia has consistently shielded Beijing on South China Sea disputes. The political economy linking elite power to illicit finance was illustrated in April 2026 when the US Treasury sanctioned a sitting CPP senator, Kok

An, and 28 associates for operating scam compounds – in casinos and commercial properties he owns – that defrauded American victims through forced labour and trafficked workers, with Cambodia's Senate citing his parliamentary immunity in response. The 2025–2026 border conflict with Thailand over the Preah Vihear region resulted in military confrontation before the 27 December 2025 ceasefire, which holds as of June 2026 under ASEAN Observer Team monitoring, though land border crossings remain closed and the underlying demarcation dispute is unresolved..

Business implications

Opportunities

Cambodia presents investment opportunities in export-oriented manufacturing, tourism, and government-priority sectors. The garment and footwear sector is the dominant manufacturing entry point: competitive labour costs, established export infrastructure, and residual Generalised Scheme of Preferences (GSP) access to EU markets make Cambodia attractive for apparel and leather goods producers, particularly as the flat 10% US Section 122 surcharge (replacing the previous country-specific reciprocal tariff after the February 2026 Supreme Court ruling) restores a degree of relative cost competitiveness versus some regional peers. The Special Economic Zones (SEZs) – over two dozen in operation – offer tax incentives, streamlined customs, and improved logistics; the Phnom Penh and Sihanoukville SEZs draw Japanese, Korean, Chinese, and European investors.

Tourism offers significant growth potential, anchored by UNESCO World Heritage sites at the Angkor Archaeological Park, although visitor numbers have remained well below pre-pandemic levels and are sensitive to perceptions of border instability. Airport expansion and hospitality investment sustain demand for hotel development and tourism technology. Digital economy and financial services are emerging sectors, supported by Cambodia's young demographics and high smartphone penetration; the Bakong digital payment system has achieved broad adoption and supports the National Bank of Cambodia's de-dollarisation strategy. Sub-Decree 52 (effective 1 April 2026) introduces customs duty reductions on electric vehicles (EVs) and consumer appliances, creating a concrete opening for relevant exporters.

Challenges

- *Security challenges:* Two risk vectors shape Cambodia's security environment. Internally, organised crime – drug trafficking, human trafficking, and the online scam industry concentrated in Sihanoukville and border casino towns such as Poipet and Bavet – creates operational risks for businesses with relevant supply chain or logistics exposure. The April 2026 US sanctioning of a sitting senator and his casino network for running trafficking-linked scam compounds illustrates the depth of political protection these operations enjoy and the limits of domestic enforcement. Externally, the 2025–2026 border conflict with Thailand over the Preah Vihear region resulted in military confrontation before the 27 December 2025 ceasefire. As of June 2026, the ceasefire holds under ASEAN Observer Team monitoring, but land border crossings remain closed, foreign travel advisories maintain a 50-kilometre no-go zone along the frontier, and sporadic incidents and landmine risks persist; the underlying demarcation dispute is unresolved and the risk of renewed limited hostilities within 12 months is assessed as material.

Cambodia's security risk is assessed as Band 3 (medium-to-high challenges).

- *Regulatory challenges:* Cambodia's regulatory environment is shaped by domestic unpredictability and evolving trade pressures. Inconsistent enforcement, discretionary rule application, and frequent changes to customs, taxation, and licensing create operational friction. Foreign land ownership restrictions constrain asset-heavy investments. On trade, the February 2026 US Supreme Court ruling striking down IEEPA-based tariffs replaced Cambodia's prior country-specific reciprocal rate with a flat 10% Section 122 surcharge, a net easing relative to the previous baseline. However, in June 2026 USTR proposed an additional 10% Section 301 duty on Cambodian goods following its forced-labour investigation, alongside a parallel inquiry into structural manufacturing overcapacity; both proposals are subject to comment and hearing procedures before any rate takes effect, but represent a credible risk of renewed tariff exposure for garment and footwear exporters over the 12-month horizon.

  Cambodia's regulatory risk is assessed as Band 3 (medium challenges).

- *Governance challenges:* Governance represents the most severe and structurally embedded business challenge in Cambodia. The CPP's total institutional dominance, the absence of judicial independence, and pervasive corruption create an environment fundamentally hostile to rule-of-law-based business practices. Courts cannot be relied upon to adjudicate commercial disputes impartially where CPP-connected interests are involved. International arbitration (Cambodia is a New York Convention signatory) is the standard recommended mechanism, but enforcement against state-connected entities remains uncertain. The April 2026 OFAC sanctions against sitting senator Kok An – whose Senate invoked his parliamentary immunity rather than supporting an inquiry – illustrate how political office can shield large-scale illicit enterprise from domestic accountability. Corruption permeates customs, licensing, tax, and regulatory interfaces more broadly. For companies subject to international anti-corruption standards (FCPA, UK Bribery Act), compliance exposure is significant, and preferential treatment for Chinese-linked investors and CPP-connected conglomerates further limits fair market access for new entrants.

Cambodia's governance risk is assessed as Band 4 (high challenges).

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