

Annex 2. Potential Impact of High US Tariffs on Cambodia's Economy: A Value-Added Perspective⁷⁷

The newly announced US tariffs on Cambodian products, combined with ongoing uncertainty, pose a notable challenge to Cambodia's economy. As a small open economy, Cambodia exports a significant share of its manufactured goods to the US, although the domestic value added remains relatively limited. A closer look at the domestic value added in Cambodia's production can provide insights into how different levels of tariffs—along with other assumptions—may affect the economy in varying ways.

Background

1. Cambodia has made significant progress in economic development over the past few decades, particularly in expanding its trade sector, with export growth often outpacing GDP growth (Figure A2.1). From a product composition perspective, garments, footwear, and travel goods (GFT) continue to dominate Cambodia's export portfolio. While the share of GFT has gradually declined amid increasing export diversification, it still accounts for more than half of all exports and has maintained double-digit growth in most years (Figure A2.2). From a market perspective, the US is not only Cambodia's largest export destination, but it has also become an increasingly dominant one (Figure A2.3). Notably, GFT products remain the mainstay of Cambodia's exports to US. While solar panel exports to the US surged sharply in 2022–2023, the trend reversed in 2024 and had nearly vanished by early 2025 following the imposition of US countervailing measures (Tep and Yang, 2024, and Figure A2.4).

2. The US tariffs on Cambodian products pose a considerable downside risk to Cambodia's economic outlook. Cambodia is faced with a 36 percent reciprocal tariff, one of the highest among ASEAN+3 economies.⁷⁸ Even when considering weighted tariffs that account for the exemption list, Cambodia still faces significantly higher tariffs compared with its ASEAN+3 peers (Figure A2.5). More concerning, Cambodia has a relatively larger share of exports to the US relative to its GDP, particularly when compared with other regional peers (Figure A2.6). Taken together, these two factors cast a cloud of uncertainty over Cambodia's economic outlook.

Figure A2.1. GDP Growth and Export Growth

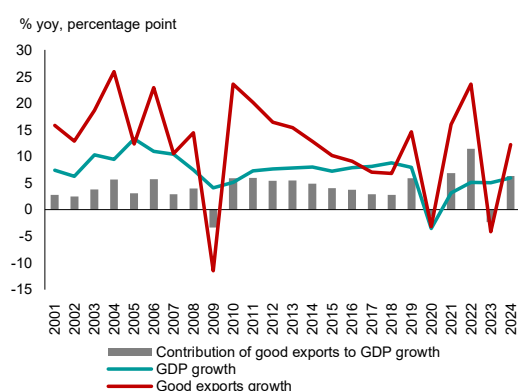
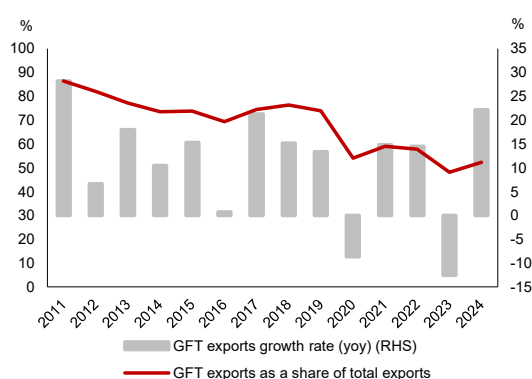
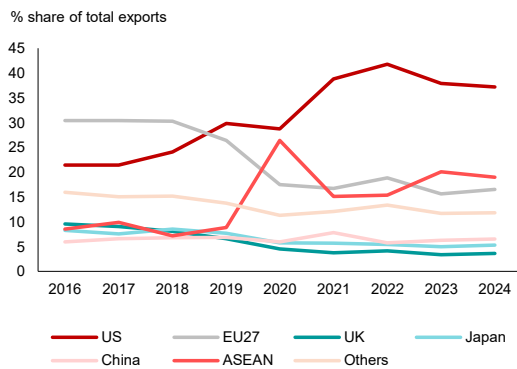


Figure A2.2. Garment Exports

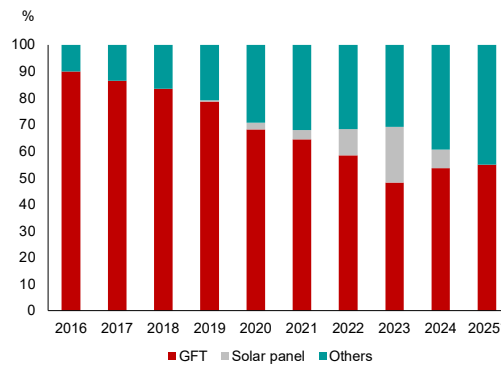


⁷⁷ Prepared by Chunyu Yang, Economist.

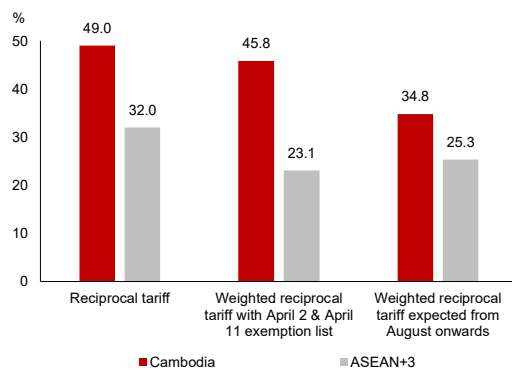
⁷⁸ On April 2, US announced a 49 percent tariff on Cambodian goods. Following negotiations, on July 7, the US notified Cambodia of revised tariff rates at 36 percent to take effect August 1, 2025.

Figure A2.26. Good Exports Destination

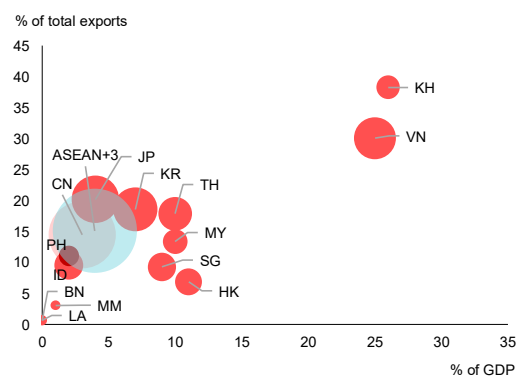
Source: General Department of Customs and Excise (GDCE); AMRO staff calculations

Figure A2.27. Composition of Exports to the US

Source: GDCE; AMRO staff calculations
Note: Data for 2025 is based on exports from January to April.

Figure A2.5. ASEAN+3 and Cambodia: US Tariffs Comparison by Various Measures

Source: S&P Global Trade Analytics; AMRO staff calculations
Note: Weighted reciprocal tariff excludes exempted products following White House Executive Order 14257 on April 2 and the clarification of exceptions on April 11 up to HS 6-digit codes.

Figure A2.6. ASEAN+3: Exports to the US

Sources: S&P Connect Global Trade Analytics; National authorities via Haver Analytics.
Note: The size of the bubble represents the size of each economy's exports to the US in year 2024. The share of exports shows the total exports to the US as a share of the economy's total exports in year 2024. The share of GDP shows the total exports to the US as a share of the economy's GDP in 2024.

Domestic Value Added in Cambodia's Gross Exports

3. Considering Cambodia's economic structure, this analysis adopts a domestic value-added (DVA) approach to assess the potential impact of US tariffs. Cambodia relies heavily on imported intermediate goods (Figure A2.7) in the production of its final export goods (Figure A2.8). As such, the DVA approach—which focuses on the value added by each country in the production process rather than the gross value of trade—is more appropriate for evaluating trade-related shocks. Although Cambodia has made efforts to deepen its integration into global value chains, the DVA gains in its exports remain modest. Indeed, Cambodia's exports are mainly composed of minimally processed products with low domestic value-added, according to an AMRO study (Vu, 2024). For example, according to OECD's Trade in Value-Added (TiVA) data, compared to other major textile-exporting economies, Cambodia's domestic value added⁷⁹ as a share of gross exports remains relatively low (Figure A2.9), reflecting its continued dependence on imported inputs such as fabrics.

⁷⁹ According to the OECD's definition, DVA in gross exports is an estimation of value added, by an economy, in producing goods and services for export, simply defined as the difference between gross output at basic prices and intermediate consumption at purchasers' prices.

Figure A2.7. Cambodia: Imports of Intermediate and Final Products by Source

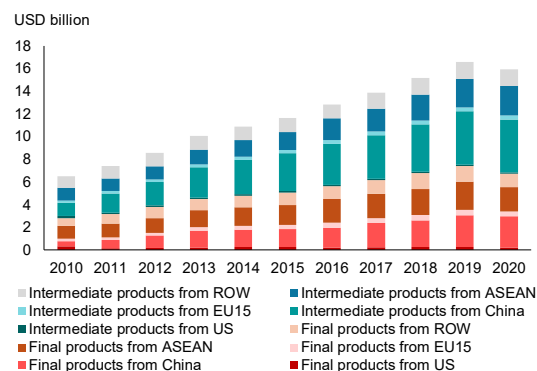


Figure A2.8. Cambodia: Exports of Intermediate and Final Products by Source

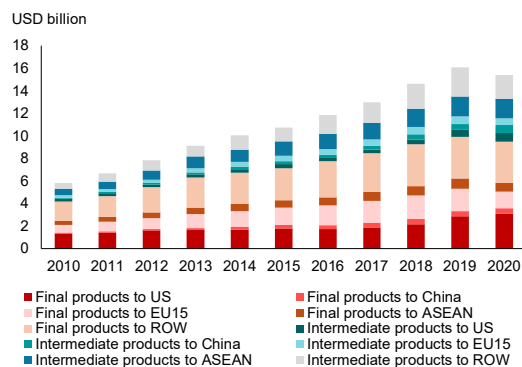


Figure A2.9. Selected Economies: DVA Share of Exports in Textile Manufacturing Sector

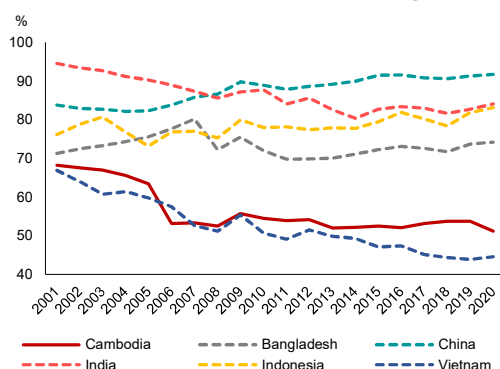
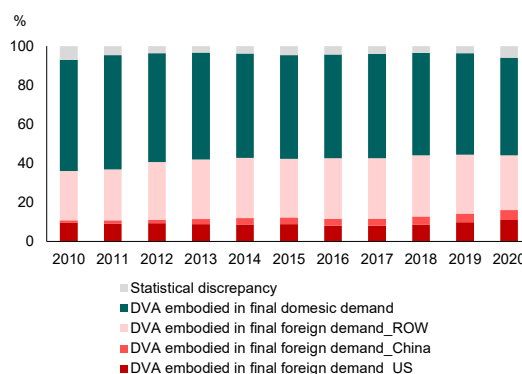
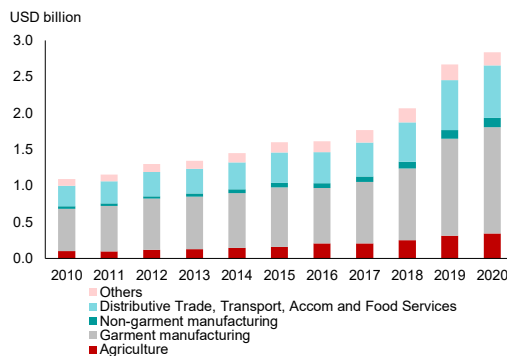


Figure A2.10. Cambodia: Nominal GDP Breakdown by DVA

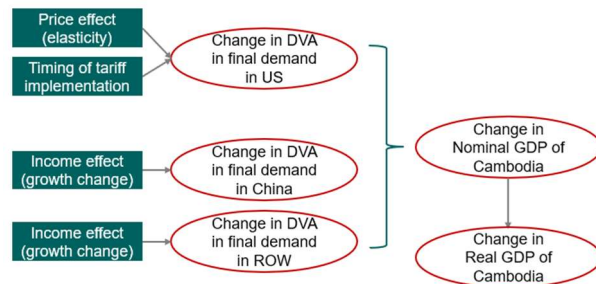


4. DVA indicators also reveal that while Cambodia exports a high volume of goods to the US, the actual domestic value embedded in those exports is relatively limited. The DVA embodied in final demand from the US accounts for only around 10 percent of nominal GDP (Figure A2.10), in contrast to the gross trade figures, where exports to the US appear large and account for 32 percent of nominal GDP. This reflects the country's limited participation in GVCs, but also suggests that its exposure to negative shocks from the US-imposed high tariffs may be relatively contained.

5. A breakdown by industry reveals that Cambodia's DVA embodied in final US demand is concentrated in the garment sector (Figure A2.11). The GFT goods alone account for more than half of the share, reflecting the dominance of apparel exports in Cambodia's trade with the US. Other manufacturing sectors contribute much smaller shares. Notably, although Cambodia experienced a sharp surge in solar panel exports to the US in 2022–2023, these shipments largely involved re-exports or reshipments with limited domestic value added. This sectoral concentration suggests that the adverse effects of US tariffs would be felt most acutely in Cambodia's garment exports and associated trade and logistics services.

Figure A2.11. Cambodia: DVA Embodied in Final Demand in the US by Industry

Source: TiVA OECD; MRO staff calculations

Figure A2.12. Cambodia: Nominal GDP Breakdown by DVA

Source: AMRO staff illustrations

Key Assumptions and Results Discussion

6. A simple and straightforward framework, based on several assumptions, is used to estimate the potential impact of the tariffs on Cambodia's GDP growth. As illustrated in Figure A2.10 and Figure A2.12, Cambodia's nominal GDP can be decomposed into DVA embedded in final demand across different destinations. Based on an assumed price elasticity of 0.5 in 2025 and 0.55 in 2026⁸⁰ and a tariff implementation timeline starting in August, the projected decline in DVA embedded in US final demand was estimated. In addition, slower economic growth in China and the rest of the world⁸¹ is expected to dampen external demand through income effects, leading to further reductions in DVA embedded in those markets. This DVA-based approach presents several advantages. It enables rapid analysis in response to evolving developments and provides a clear channel to trace the sources of impact. However, several caveats should be noted. The forecast relies on subjective assumptions, including the choice of price elasticity, a stable GDP deflator and exchange rates, etc. It also assumes a one-to-one relationship between external growth shocks and demand for Cambodian exports. Furthermore, the approach does not capture shifts in final domestic demand.

7. Scenario analysis suggests that Cambodia's growth outlook is highly sensitive to the magnitude of the tariffs, consumers' price elasticity and spillover effects, as suggested in Figure A2.13 and Table A2.1.

- In the baseline scenario, in which the US high tariffs take effect from August 2025, Cambodia's growth is expected to slow to 5.2 percent in 2025 and 4.7 percent in 2026.
- In an upside scenario, where a timely global agreement is reached, Cambodia's growth could range between 5.2 and 5.8 percent in 2025, and between 4.7 and 6.0 percent in 2026.

⁸⁰ The assumed price elasticity of demand of 0.5-0.55 for US imports of Cambodia's GFT products reflects several considerations: 1) GFT items are often considered necessities with relatively inelastic demand. Consumers tend to maintain their consumption levels despite price changes, especially for basic apparel items. 2) The US has minimal domestic production capacity in the GFT sector, necessitating a continued reliance on imports. This lack of domestic alternatives reduces the substitutability of imports, contributing to lower elasticity. 3) Other major GFT exporting countries also face US tariffs, limiting the availability of lower-cost substitutes and thereby reducing the price sensitivity of demand for Cambodian GFT products. 4) Relocating production facilities involves significant costs and time. Meanwhile, other factors such as Cambodia's highly dollarized economy, favorable tax incentives, and low labor costs enhance its attractiveness as a sourcing destination. Therefore, in the short term, firms are less likely to shift their sourcing away from Cambodia, making demand less responsive to price changes.

⁸¹ AMRO's in-house growth projections for China and the rest of world are used in this exercise.

- In contrast, a downside scenario—characterized by a higher price elasticity of demand, or a tariff rate on Cambodia exceeding 36 percent—would further dampen growth, pushing it to about 4 percent or less in both 2025 and 2026.

Figure A2.13. Cambodia: GDP Trajectories by Scenario

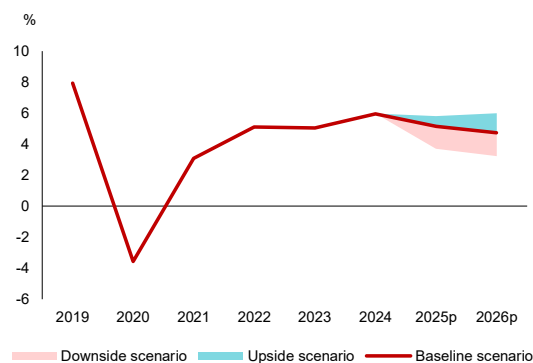


Table A2.1. Cambodia: Corresponding Scenarios and Changes in GDP Growth

	Key Assumptions			Results	
	Price Elasticity		Weighted Tariff	Growth Rate	
	2025	2026		2025	2026
Scenario 1	-	-	0	5.8	6.0
Scenario 2	0.5	0.6	10	5.6	5.5
Scenario 3	0.5	0.6	35	5.2	4.7
Scenario 4	0.5	0.6	70	4.3	3.9
Scenario 5	1.0	1.1	40	4.1	3.7
Scenario 6	0.5	0.6	90	3.8	3.4
Scenario 7	1.2	1.3	40	3.7	3.2

Source: AMRO staff illustrations
Note: To simplify, the assumptions for China's economic growth and for the rest of the world remain consistent across all scenarios.

8. This exercise underscores the urgency for Cambodia to diversify both its export products and destination markets by accelerating its efforts to move up GVCs. Ongoing trade negotiations have played a vital role in cushioning short-term shocks and providing time to adjust. However, the recent tariff hike serves as a reminder of Cambodia's continued vulnerability to external demand concentration, particularly its heavy reliance on the US market. It requires Cambodia to fully capitalize on existing FTAs and actively pursue the negotiation of new agreements. Meanwhile, diversifying FDI sources can also help broaden Cambodia's export destinations, as different source countries often specialize in distinct sectors and trade with different markets.

References

- Tep, V. and C. Yang (2024). "Cambodia's Solar Panel Exports at a Crossroads." *AMRO Annual Consultation Report on Cambodia - 2024 (Box C)*, pp.17-19, ASEAN+3 Macroeconomic Research Office.
- Vu, T. (2024). "Pathways for Diversifying Exports and Enhancing Comparative Advantages." *AMRO Annual Consultation Report on Cambodia - 2024 (Annex 3)*, pp. 63-72, ASEAN+3 Macroeconomic Research Office.