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FLASH

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Escalating Thai–Cambodian border tensions have disrupted trade, strained diplomacy, and shaken investor confidence. Although a ceasefire has been agreed, lasting peace remains elusive unless underlying issues are addressed. In any case, both diplomatic and economic recovery will likely take time.

Key event:

Escalating Thai–Cambodian border tensions disrupt trade and harm civilian safety.

Tensions along the Thai–Cambodian border escalated sharply on July 24, 2025, when the conflict intensified with both sides deploying heavier weaponry. On that day, Cambodian gunfire targeted not only Thai military bases but also struck civilian areas, raising concerns over civilian safety.

These clashes followed earlier tensions stemming from a border skirmish on May 28, 2025, in an unsettled area between Ubon Ratchathani (Thailand) and Preah Vihear (Cambodia). The incident prompted both countries to reinforce their military presence and, in the following weeks, led to the **closure of several border checkpoints—significantly disrupting bilateral border trade.**

Attempts made for ceasefire

A ceasefire has been called, though the causes of conflict remain unaddressed—let alone resolved.

On July 25, 2025, the UNSC held a private meeting at Cambodia's request to address the Thailand-Cambodia border clashes. Cambodia demanded an immediate ceasefire, while Thailand pushed for bilateral dialogue. The parties clashed over issues like the conflict's origin, landmine use, indiscriminate attacks, and cultural heritage damage. No resolution was passed, but the UNSC urged maximum restraint and diplomacy.

In addition, the U.S., China, the EU, Japan, and Malaysia offered mediation, with ASEAN Chair Anwar Ibrahim calling for an immediate ceasefire. **On July 27, U.S. President Donald Trump also urged both sides to halt hostilities, threatening to withhold trade tariff negotiations if the conflict persists.**

On July 28, Thailand and Cambodia reached an agreement on an immediate and unconditional ceasefire, effective at midnight local time, during talks hosted by Malaysia. The negotiations focused solely on the cessation of hostilities, with no discussion of border demarcation. The meeting was observed by representatives from the U.S. and China, reflecting international pressure to de-escalate the conflict. Although the recent ceasefire agreement marks a step forward, the situation remains precarious until substantive negotiations take place.

Cambodia remains committed to resolving the four remaining border disputes through the International Court of Justice (ICJ). The agreement to resume the General Border Committee (GBC) meeting on August 4, 2025, with Cambodia as host, signals its continued reliance on international forums to legitimize its position and achieve a favorable outcome on unresolved issues.

Economic impact

Cambodia is likely to face deeper economic impacts than Thailand, particularly due to disruptions in border trade and reduced remittances as migrant workers flee Thailand.

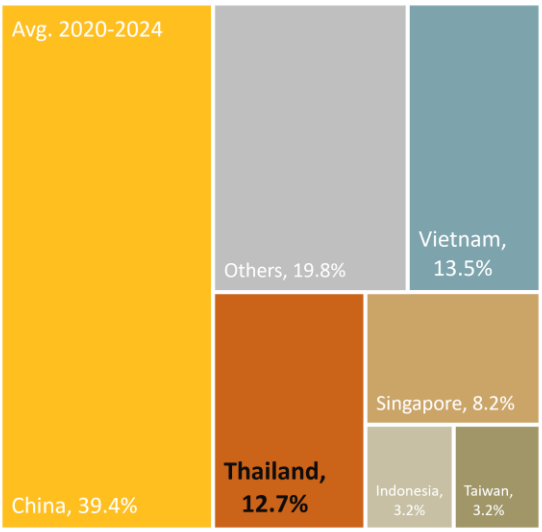
Trade

From a real-sector perspective, trade remains the most significant transmission channel for the possible economic disruption in Cambodia. Thailand is Cambodia's third-largest source of imports, following China and Vietnam, with border trade comprising approximately half of total bilateral trade. Prolonged border closures could result in supply chain disruptions and shortages, particularly given that cross-border flows are dominated by consumer goods and refined petroleum products.

In addition, Cambodian exporters are likely to be hit hardest, since over 90% of Cambodia's exports to Thailand rely on land checkpoints. **Furthermore, border closures and the ban on fuel imports will affect Cambodia's supply of essential goods and drive pressure on the cost of living**[1/]**.**

The impact on Thailand is expected to be limited. Exports to Cambodia make up less than 3% of Thailand's total exports, and imports from Cambodia account for only about 0.4% of Thailand's total imports. On the export front, Thai exporters still have alternative transport routes, though they may incur higher logistics costs. Nonetheless, some importers of raw materials from Cambodia could face short-term shortages.

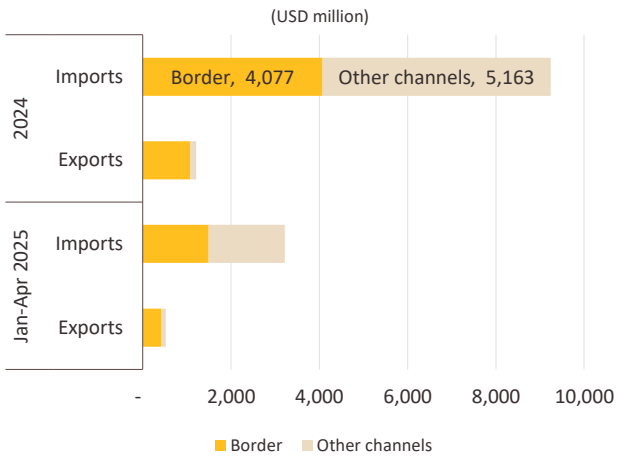
Share of Cambodia's total goods imports



Source: General Department of Customs and Excise of Cambodia, Krungsri Research

Cambodia's border trade with Thailand

In 2024, border trade between TH-KH accounted for 50% of the total trade between two countries.



Source: Department of Trade Negotiations of Thailand, Krungsri Research

1/ While Cambodian authorities have secured additional fuel imports from Singapore, expanding volumes remains challenging as Singapore previously accounted for only around 13% of Cambodia's fuel imports. In addition, Cambodia relies on Thailand for 20–40% of its electricity imports. In Cambodia's CPI basket, electricity, gas, and other fuels account for 9.63%, making energy supply disruptions a contributor to inflationary pressures.

Investment and Sentiment

On the investment front, Thailand's share of investment in Cambodia is modest, accounting for about 1% of Cambodia's total FDI over the past five years, ranking 12th in terms of FDI among all investor countries. Thailand was once among the top foreign investors in Cambodia, but strained bilateral relations over the past decade have hindered investment. Nevertheless, Thai investments has provided over 60,000 jobs across industry, agriculture, and services sector in Cambodia.

Thailand's Cumulative Investment and Employment in Cambodia

Sector	Cumulative Investment	Employment
Industry garments, food, beverages	**USD 294 million**	**11,575 jobs**
Agriculture rice mills, agro-processing	**USD 2,124 million**	**10,210 jobs**
Services hotels, banks, insurance, hospitals, construction materials, retail	**USD 1,366 million**	**40,948 jobs**

Source: Council for the Development of Cambodia (CDC), Matichon online, Krungsri Research

Even if tensions ease later, restoring trade and investment relations may prove more difficult than in the past. From a diplomatic perspective, restoring ties currently at Level 4 (with no ambassadors in either country) takes time. Escalation to Level 5 could halt bilateral talks or freeze agreements[2/], further impacting the investment climate. Major investors such as China, South Korea, and Singapore may also reassess risks if the conflict persists.

Overall, the direct impact on Thai businesses appears limited. However, prolonged tensions could weaken bilateral trade, discourage future Thai FDI in Cambodia, and further undermine investor confidence.

Labor

Cambodia has over 800,000 migrant workers in Thailand (both formal and informal), primarily employed in labor-intensive sectors such as construction, agriculture, and services. While a mass return of these workers is unlikely, given the significantly higher wages in Thailand, a potential decline in their presence would sharply reduce remittance inflows into Cambodia. Cambodian workers remit approximately THB 44 billion annually, constituting a critical source of income for many households. A substantial drop in remittances could therefore trigger broader economic repercussions for Cambodia.

The labor market in Thailand could also be affected, facing short-term labor shortages in those sectors.

2/ Under the 1961 Vienna Convention, diplomatic downgrades follow a structured escalation—from issuing formal protests (Level 1) and summoning ambassadors (Level 2), to recalling one's envoy (Level 3), declaring persona non grata (Level 4), and officially lowering diplomatic status (Level 5). The most extreme step is severing all diplomatic ties and closing embassies (Level 6).

Krungsri Research view:

The Thai–Cambodian conflict is rooted in longstanding territorial disputes, nationalist sentiments, and historical grievances; factors that have long served as *casus belli* (causes of war). These complex issues are unlikely to be resolved quickly. However, if left unaddressed, they may continue to threaten bilateral stability and could potentially affect broader regional dynamics, including trade, investment, and ASEAN unity.

In terms of economic implications, **Cambodia stands to suffer greater economic losses** due to its higher dependence on Thailand, especially in terms of trade and fuel imports. While Thailand is more resilient to short-term shocks, **if tensions persist, Thailand too could face consequences**, including weakened investor confidence and tourism, and broader instability in the ASEAN subregion. Looking at the big picture, the conflict further undermines ASEAN cohesion and unity; both critically needed to strengthen the region's leverage amid ongoing global trade tensions.

In the immediate term, although negotiations have taken place and a ceasefire has been declared, this does not necessarily signal a lasting resolution. Without addressing 'causes of war', a permanent ceasefire and broader peace process are unlikely to hold. **While it remains difficult to predict long-term developments, the current scale of damage and conflict suggests that both Cambodia and Thailand will not return to the status quo anytime soon. Economic and diplomatic recovery will require time and sustained effort from both sides.**

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