

APM Center Working Paper Series No. 2026-01

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# MSMEs Development in Cambodia: An Institutional Analysis through the Lens of the Developmental States

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January 2026

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**អង្គការបណ្ឌិតសភាចារ្យ អុន ព័ន្ធមុនីរ័ត្ន**  
Akkak Pundit Sapheachar Aun Pornmoniroth Center

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## Acknowledgement

The authors express our deepest gratitude to all individuals whose guidance and support made this research project possible.

First, we extend our deepest appreciation to **His Excellency Dr. Kao Thach**, Delegate of the Royal Government in charge as Chief Executive Officer of the Agricultural and Rural Development Bank (ARDB), whose leadership and commitment to fostering research and policy dialogue have provided invaluable opportunities for staff, especially young researchers, to engage in evidence-based inquiry.

We are profoundly grateful to **His Excellency Dr. Un Kheang**, Chair of the Board of Directors of the Akkak Pundit Sapheachar Aun Pornmoniroth (APM) Center for Policy Studies and Training of the ARDB and academic advisor for this paper, for his mentorship and intellectual guidance throughout this study. His Excellency's deep insights into developmental state theory, institutional reform, and Cambodia's evolving policy landscape have shaped the analytical framework and direction of this work, while his participation in the research project continues to inspire the authors to pursue academic rigor and excellence.

We also extend our sincere gratitude to the **Members of the Board of the APM Center, Advisors of ARDB, and ARDB Management** for their constructive guidance on the research proposal and working paper design, as well as for the valuable comments and insights shared during the consultation workshop, which substantially strengthened the overall quality of this paper.

Our heartfelt thanks go to **Mr. Sok Ousa**, Head of the Research and Development Department and Chair of the APM Center Research Working Group, whose coordination and support ensured the smooth and effective implementation of this research project.

Finally, we extend our sincere appreciation to all individuals within and beyond the institution who contributed their time, ideas, and encouragement to this endeavor.

## Abstract

Contrary to the traditional view that micro, small, and medium enterprises (MSMEs) lose relevance as economies mature, recent global data shows they remain central to development, accounting for 90 percent of businesses, 60 to 70 percent of employment, and around 50 percent of GDP worldwide. MSMEs also serve as drivers of competition, entrepreneurship, structural transformation, and poverty alleviation. In Cambodia, MSMEs form the backbone of the economy, yet they face persistent challenges, including limited access to finance, weak institutional support, skill deficits, informality, and fragmented market access. While such constraints are well documented, existing studies often overlook the deeper institutional and governance dimensions that shape MSMEs development.

This paper addresses that gap by applying developmental state theory to examine the institutional framework governing MSMEs development in Cambodia. Specifically, it investigates the extent to which Cambodia exhibits characteristics of a developmental state, identifies which attributes are present or absent, and explores why existing features fail to function effectively in practice.

The study adopts a qualitative research design grounded in a comprehensive desk review of academic literature, government policies, legal frameworks, and national strategies. The discussion begins with a comprehensive analysis of Taiwan, Hong Kong, and Singapore's state interventions to develop a conceptual framework that links core developmental state attributes (political will, bureaucratic competence, state autonomy, and embeddedness) as interrelated drivers of MSMEs development. This framework is then applied to an in-depth review of the Cambodian case to answer three key questions: (i) What attributes of developmental states does Cambodia share? (ii) What attributes does it lack? and (iii) Where such attributes exist, why do they not function effectively in the Cambodian context?

It should be noted that this paper does not aim to prescribe a uniform model or advocate for the replication of East Asian development models. Rather, the development state theory is used to offer a more nuanced analysis of state-led mechanisms shaping MSMEs development in Cambodia, an angle that has not been explored in existing literature. In doing so, this paper offers a deeper understanding of the political economy of enterprise development that is significantly relevant for public policy formulation and implementation in Cambodia and beyond.

## Section 1: Introduction

Micro, small, and medium enterprises (MSMEs) play a pivotal role in Cambodia's socio-economic development. In addition to being a major contributor to economic output, MSMEs are vital engines of job creation, poverty alleviation, improved living standards, and trade expansion. Their role is especially pronounced in rural areas, where they foster entrepreneurship, support household incomes, and stimulate local economic activity. Moreover, by diversifying Cambodia's industrial base and reducing dependence on large-scale enterprises, MSMEs contribute significantly to building economic resilience and promoting inclusive development (Thy, 2021).

According to the result of the 2<sup>nd</sup> Meeting of the SME Promotion Policy Committee under the Economic and Financial Policy Committee, the classification of MSMEs in Cambodia differs by sector: agriculture, industry, and services/commerce (SME Promotion Policy Committee, as cited in Thy, 2021). However, in light of shifting global economic dynamics and the evolving realities of MSMEs operations, concerns have emerged regarding the relevance and applicability of these criteria. In response, the Ministry of Economy and Finance launched a formal review on November 29, 2024, to reassess and revise the MSMEs definitions to better align with sectoral needs, implementation feasibility, and prevailing market conditions. Nevertheless, the revised definition has yet to be finalized.

**Table 1: The Definition of MSMEs in Cambodia**

Sector	Number of Employees				Turnover (in USD)				Asset (in USD)				
	Micro	Small	Medium	Large	Micro	Small	Medium	Large	Micro	Small	Medium	Large	
Agriculture	<5	5-49	50-199	>200	<249	62,250	250,001			50,001	250,001		
						-	-	>1,000,001	<50,000	-	-	>500,001	
Industry	<5	5-49	50-199	>200	And <250	250,000	1,000,000			250,000	500,000		
						62,250	400,001			50,001	500,001		
Service and Commerce	<5	5-49	50-99	>100	<250	-	-	>2,000,001	Or	<50,000	-	-	>1,000,001
						400,000	2,000,000			500,000	1,000,000		
Service and Commerce	<5	5-49	50-99	>100	<250	62,250	250,001			50,001	250,001		
						-	-	>1,500,001	<50,000	-	-	>500,001	
						250,000	1,500,000			250,000	500,000		

Turnover or assets are defined based on the number that represents the highest level.

Source: SME Promotion Policy Committee, as cited in Thy, 2021

The NIS (2023) reported that Cambodia was home to 752,147 MSMEs in 2022, accounting for 99.7 percent of all enterprises in the country and employing approximately 60.8 percent of the total labor force. Compared to data in 2014, the number of MSMEs increased by more than 40 percent. In 2022, MSMEs contributed 63 percent to national GDP, underscoring their central role as an economic engine of Cambodia (Ministry of Information, 2024).

**Table 2: MSMEs in Cambodia from 2009 to 2022**

	2009	2011	2014	2022
Number of MSMEs	376,069	462,582	512,870	752,147
MSMEs to Total Businesses (%)	99.8%	99.8%	99.8%	99.7%
Number of MSMEs Employees	1,099,647	1,158,871	1,345,100	1,811,477
MSMEs Employees to Total (%)	74.8%	72%	71.8%	60,8%

*Source: ADB, 2022; NIS, 2023*

Sectoral data indicate that, of the total estimated number of MSMEs, 13.9 percent operated in the manufacturing sector, 59.6 percent in wholesale and retail trade, and 26.5 percent in other services. In terms of employment, MSMEs accounted for 15.2 percent of jobs in manufacturing, 46.7 percent in wholesale and retail, and 38.1 percent in other services (ADB, 2024). Notably, approximately 61 percent of these enterprises were owned and operated by women, underscoring the critical role of MSMEs in advancing gender-inclusive growth, boosting household incomes, and fostering community resilience (IFC, 2019; UNESCAP, 2022a).

**Table 3: MSMEs Share by Sector**

Sector	MSMEs by sector (%)	Employee by Sector (%)
Manufacturing	13.9%	15.2%
Wholesale and Retail Trade	59.6%	46.7%
Other Services	26.5%	38.1%

*Source: ADB, 2024*

Over the past two decades, the Royal Government of Cambodia has demonstrated strong policy commitment to supporting MSMEs as a core driver of economic growth. Nonetheless, MSMEs continue to face a wide range of challenges. The existing body of literature has documented recurring constraints, such as limited access to finance, an inconsistent and burdensome regulatory framework, inadequate technical capacity and skills, weak institutional support, persistent informality, and barriers to market entry and expansion. While these studies offer valuable insights, they tend to concentrate on immediate symptoms of underdevelopment, without adequately probing the deeper institutional and governance dynamics that underpin policy design and implementation. Critically, there is a notable absence of research that applies a developmental state lens to assess how the bureaucratic structure and developmental commitment shape the outcomes of MSMEs development efforts. Although institutional weaknesses are often referenced, few studies explore the underlying political economy conditions that impact MSMEs development in the Cambodian context.

This study seeks to address the critical gap by applying the developmental state framework to analyze Cambodia's approach to MSMEs development. Its central objective is to critically examine the institutional foundations of Cambodia's MSMEs development strategy, assessing the extent to which the Kingdom exhibits the characteristics of developmental states and exploring how these attributes function—or fail to function—within the Cambodian context. To this end, the paper is guided by three interrelated questions: (1) What attributes of developmental states does Cambodia share? (2) What attributes does it lack? and (3) Where attributes are present, why do they not operate effectively in the Cambodian setting?

In addressing these questions, this study makes several important contributions. First, it moves beyond the conventional cataloguing of MSMEs constraints and policy interventions by situating the analysis within the broader developmental state discourse, thereby offering a more critical examination of political will, bureaucratic competence, state autonomy, and embeddedness as interrelated drivers of MSMEs development. Second, it contributes to wider scholarly debates by challenging the persistent tendency to treat MSMEs as marginal or transitional actors within the development process. Third, while leaning toward theoretical inquiry, this paper also lays the groundwork for future empirical research that can test the causal linkages between developmental state attributes and MSMEs outcomes, allowing for a more comprehensive understanding of underlying institutional factors influencing MSMEs development.

Throughout this paper, the terms “MSMEs” and “SMEs” will be used interchangeably, in recognition of the variation in terminology and classification standards used across different countries and institutions. Additionally, it is important to clarify that MSMEs development, as understood in the context of this research, does not solely refer to the transformation or scaling up of enterprises from micro or small to large. Rather, it encompasses a broader process of addressing the barriers that hinder MSMEs’ capacity to contribute to national development. This perspective is grounded in the notion that MSMEs will remain vital and relevant actors in the economy, even as it matures and undergoes structural changes.

After this section, the paper is organized into four interconnected parts. The following section offers a critical review of existing literature on MSMEs development in Cambodia, identifying key research gaps, and presents the developmental state framework as the guiding lens for analysis. It also examines the experiences of three selected cases, namely Taiwan, Hong Kong, and Singapore, to conceptualize how attributes of developmental state promote MSMEs development. The subsequent section outlines the methodology, scope, and limitations of the study, followed by a detailed analysis of Cambodia’s approach to MSMEs development through the lens of developmental state theory. The final section synthesizes the main findings and draws policy implications in support of Cambodia’s MSMEs development efforts.

## **Section 2: Literature Review**

### **2.1. MSMEs Development in Cambodia**

The literature on MSMEs development in Cambodia spans several thematic areas—policy and institutional constraints, economic contributions, support mechanisms, gender dynamics, and comparative analyses. Collectively, these studies underscore both the structural importance and persistent vulnerabilities of Cambodia’s MSMEs sector.

A dominant theme concerns financial constraints, consistently identified as the foremost barrier to MSMEs growth (Bailey, 2008; Ung & Hay, 2011; Ky, 2020; Nuppun Institute for Economic Research, 2020; Chhim & Lay, 2021; Thorsteinsdóttir et al., 2021; UNESCAP, 2022a; Sorn & Fu, 2023). Early works often attributed this issue to weak legal frameworks, limited collateral, and low financial literacy among MSMEs owners (Bailey, 2008), while more recent analyses

continue to highlight high collateral requirements and interest rates that constrain formal credit access (UNESCAP, 2022a). Although alternative instruments, such as credit guarantees, venture capital, and fintech solutions, have emerged, their adoption remains limited.

Some studies also highlight deficits in technical capacity, human capital, and innovation, as well as constraints on productivity and integration into regional value chains due to limited use of technology and over-reliance on simplified business processes (Ky, 2020; Narjoko, 2020; Thorsteinsdóttir et al., 2021; Sorn & Fu, 2023). Limitations in institutional support and regulatory environment are also often cited as a key barrier for MSMEs, with several studies underscoring the lack of coherent legal and institutional frameworks (Bailey, 2008; Nuppun Institute for Economic Research, 2020; Thorsteinsdóttir et al., 2021; Hing et al., 2023; Sorn & Fu, 2023). Moreover, persistent mistrust and regulatory burdens were also cited as one of the main reasons causing the continued large share of informality in the MSMEs sector (Nuppun Institute for Economic Research, 2020). Sorn and Fu (2023) emphasize that the lack of reliable data limits the ability of policymakers and financial institutions to design, implement, and monitor targeted support programs.

High input costs and inadequate infrastructure are additional recurring challenges that erode profit margins and reduce competitiveness of MSMEs, particularly in agriculture and manufacturing (Nuppun Institute for Economic Research, 2020; Sorn & Fu, 2023). While Cambodia has made significant progress in securing duty free access to export markets through free trade agreements, Thangavelu et al. (2017) found that larger firms are more likely to benefit from such arrangements as they have more access to skilled labor, use of digital technologies, experience in export markets, and strong business networks. Recent scholarship discusses the structural vulnerabilities within the MSMEs sector, especially during the COVID-19 pandemic, observing that Cambodian MSMEs faced numerous challenges during the crisis, including restricted access to finance, weakened market competitiveness, and disruptions from government-imposed measures such as lockdowns and curfews (Chhim & Lay, 2021).

Overall, the literature provides valuable insights into operational constraints but offers limited analysis of the institutional and governance dimensions shaping MSMEs development. Few studies systematically examine how state structures, bureaucratic capacity, and policy coherence influence outcomes. This study

addresses that gap by applying a developmental state institutional framework to examine Cambodia's MSMEs development strategy aimed at generating deeper insights into the political and organizational enablers and constraints of MSMEs development, while offering context-sensitive lessons from international experiences to inform more coherent policy design.

## 2.2. Developmental State Theory

Developmental state theory is one of several major economic and political economy frameworks that analyzes state intervention as a driver of development. The rationale for state intervention is grounded in the insights of early development economists. Scholars such as Rosenstein-Rodan (1943) and Scitovsky (1954) introduced the concept of the "Big Push," emphasizing the role of the state in coordinating large-scale investment decisions. Gerschenkron (1962) extended this logic by highlighting the need for state-led industrial financing in contexts where private capital markets were inadequate to support the growing scale and complexity of modern industrial enterprises. Collectively, these thinkers converge on the view that economic development is not a spontaneous outcome of market forces alone, but requires an institutionalized state apparatus capable of development coordination, long-term planning, and effective policy enforcement. In this view, the developmental state functions as a central architect of economic transformation, shaping industrial policy, guiding capital allocation, fostering technological upgrading, and mediating socio-political conflicts in pursuit of national development goals.

Contemporary discourse on the developmental state, however, is largely shaped by Chalmers Johnson's seminal study of Japan in his book, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925–1975*. Johnson (1982) attributes Japan's "economic miracle" to what he termed the developmental state model, characterized by four key features: (1) an elite bureaucracy staffed by highly competent officials, (2) a political system that grants the bureaucracy sufficient autonomy to take initiative and act effectively, (3) market-conforming methods of state intervention, and (4) the existence of a competent pilot agency such as the Ministry of International Trade and Industry (MITI). Building on this foundation, Peter Evans (1995) introduced the concepts of autonomy and embeddedness in his work *Embedded Autonomy*. Autonomy refers to the state institutions having sufficient coherence and cohesiveness so that they did not simply respond to the

demands of individual capitalists. Embeddedness, on the other hand, denotes the state's ability to maintain close ties with industrial actors so that it would have the information that would allow joint decisions that reflected the realities of the industrial challenges being confronted, thereby gaining the sector-specific information necessary for informed policymaking.

Amsden's (1985) study of Taiwan's postwar development demonstrates the application of this theory in the case of Taiwan's industrial transformation. Under the Kuomintang (KMT) regime, the state evolved into a technocratic entity that actively directed capital accumulation and industrial growth. Through a combination of import protection, export promotion, subsidized credit, and coordinated mechanisms such as export cartels, the Taiwanese state maintained significant control over both capital and labor, enabling it to guide industrial policy with a high degree of autonomy. State-owned enterprises were also central to this strategy, particularly in key sectors like steel and petrochemicals. Amsden also emphasizes the role of Japanese colonial legacies, such as a competent bureaucracy, commercialized agriculture, and a relatively educated population, which provided the institutional and human capital foundations necessary for Taiwan's industrialization. Amsden's analysis was further reflected in Chang (1999), who has identified four core functions through which developmental states enable sustained structural change: coordination, vision-setting, institution building, and conflict management.

Expanding on this, Vu (2007) made a significant contribution by distinguishing between developmental structures (state capacity) and developmental roles (political will and strategic vision), arguing that a developmental state must not only possess bureaucratic competence, autonomy, and embeddedness, but also have the developmental vision and political commitment to use these capacities for economic development (Fritz & Menocal, 2007; Routley, 2012). Moreover, Routley's (2012) synthesis of developmental state literature adds further nuance by exploring the conditions that enable a state to be developmental, highlighting the importance of colonial legacies, security concerns, land reform, and global context. A central historical factor is the institutional legacy of colonialism; in East Asia, for example, Japanese colonial rule in Korea and Taiwan left behind relatively capable bureaucracies that became instrumental in post-war state formation. Furthermore, agricultural and land reforms were also found to play significant roles in reducing

poverty and inequality as well as expanding economic opportunities for smaller producers and entrepreneurs. Relatedly, security threats, both external and internal, were pivotal in shaping elite commitment to national development. Scholars argue that the existential threats posed by civil war, external aggression, or internal unrest, such as in South Korea and Taiwan, generated elite cohesion and state-society alignment around developmental objectives (Woo-Cumings, 1999; Doner et al., 2005). The global geopolitical environment also played a critical role: the Cold War context, strategic U.S. alliances, and access to American and Japanese markets provided South Korea, and Taiwan with diplomatic, financial, and military support that underpinned their early industrialization efforts (Pempel, 1999; Leftwich, 2008).

Taken together, the developmental state framework emphasizes the important role of state capacity or structure and developmental roles or commitment in promoting industrial development, while also highlighting the importance of contextual conditions in shaping the emergence of developmental states. With this conceptual foundation established, the next section turns to three East Asian developmental states—Taiwan, Hong Kong, and Singapore—to examine how these economies have operationalized said structures and roles in their efforts to promote MSMEs development.

### *2.2.1. MSMEs Development in Taiwan, Hong Kong, and Singapore*

MSMEs constitute the backbone of the economies of Taiwan, Hong Kong, and Singapore. As of 2023, Taiwan reported over 97,500 SMEs, accounting for 99.9 percent of all enterprises and employing approximately 79.5 percent of the national workforce (SMESA, 2024a). These firms are predominantly concentrated in wholesale and retail trade (45.5 percent), followed by accommodation and food services (11.6 percent), construction (9.8 percent), and manufacturing (8.6 percent). In Hong Kong, SMEs comprised 98 percent of all enterprises—roughly 356,000 firms—as of March 2025, employing 44.3 percent of the total workforce (Trade and Industry Department, 2024; SUCCESS, 2025). Notably, 97.5 percent of Hong Kong’s SMEs operate in the services sector, reflecting the territory’s services-dominated economic structure. In Singapore, there were approximately 354,600 SMEs in 2024, representing 99 percent of total enterprises and accounting for 70 percent of enterprise employment (sectoral breakdowns of SMEs in Singapore are not reported in official statistics) (Department of Statistics Singapore, 2025).

Given their disproportionate share of enterprises and employment, the governments of all three economies have long recognized MSMEs as pivotal to national development. However, due to their inherent characteristics, MSMEs often face significant disadvantages in both domestic and international markets. In Taiwan, Hong Kong, and Singapore, these challenges typically center on four key issues: limited human capital, constrained access to finance, restricted market access, and insufficient capacity for innovation (Law & Leung, 2017; ERIA/OECD, 2024; SMESA, 2024b). The next section will discuss state interventions in these three economies to uncover how the key features of the developmental state, namely developmental structure and developmental roles, have been leveraged to support MSMEs development in their respective contexts.

### **2.3. Developmental Structure or Capacity**

#### *2.3.1. Competency of Bureaucracy and State Institutions*

A competent and professional bureaucracy lies at the core of the developmental state framework as outlined by Johnson (1982), who attributed Japan’s rapid industrialization in large part to the institutional capacity of MITI. In his view, MITI operated as a competent “pilot agency” that guided the course of development and employed a range of policy tools to achieve national development goals, including through encouraging technological adoption, industrial upgrading, and long-term planning. Competence, in this sense, derives not only from meritocratic recruitment and technical expertise but also from the institutional prestige and internal coherence that confer bureaucratic legitimacy and authority (Johnson, 1982; Evans, 1995; Kasahara, 2013). In MSMEs development, bureaucratic competence often manifests through networks of specialized pilot agencies, working in specific policy domains to address key barriers, including access to finance, innovation promotion, human capital development, and market access (Woo, 2016).

In Taiwan, the Council for Economic Planning and Development (CEPD) initially served as the state’s central pilot agency during the 1960s before its industrial policy functions were absorbed by the Ministry of Economic Affairs (MOEA). The MOEA, through the Small and Medium Enterprise and Startup Administration (SMESA), continues to lead MSMEs promotion by enhancing innovation capacity, financial access, and competitiveness, supported by other state and quasi-state institutions such as the Ministry of Science and Technology, the Institute for Information Industry (III), and the Industrial Technology Research Institute (ITRI).

In Hong Kong, the Commerce and Economic Development Bureau (CEDB) steers industrial and MSMEs policy through the Trade and Industry Department (TID) and the SME Committee, which advises the Chief Executive on enterprise development issues (Law & Leung, 2017; Woo, 2019). Complementary agencies such as the Commission on Innovation and Technology (CIT), and its successor, the Innovation and Technology Commission (ITC), coordinate R&D, academic collaboration, and technology diffusion for MSMEs upgrading (Baark & Sharif, 2006; Liu, 2008).

In Singapore, the Economic Development Board (EDB) has historically driven industrial transformation, while Enterprise Singapore (EnterpriseSG) serves as the principal agency for MSMEs development. Both the EDB and EnterpriseSG operate as statutory boards under the Ministry of Trade and Industry (MTI). EnterpriseSG was formed in 2018 through the merger of SPRING Singapore and International Enterprise (IE) Singapore, serving as a centralized agency coordinating financing, capability development, and internationalization efforts, while also participating in co-developing national strategies such as the Singapore Economy 2030 Vision (Ministry of Trade and Industry, 2013; National Library Board, 2025).

Although assessments of bureaucratic competence within MSMEs development agencies are limited, broader insights can be drawn from the institutional legacies and governance traditions of Taiwan, Hong Kong, and Singapore. In Taiwan, the postcolonial bureaucracy inherited from Japanese rule was consolidated under Chiang Kai-shek, who strategically appointed technocratic elites to key positions, fostering a development-oriented state apparatus capable of driving industrial transformation, including MSMEs promotion (Amsden, 1985). At present, Taiwan's government remains anchored by a capable bureaucracy (supported by close networks with academics and civil society), which tend to prioritize long-term national objectives over short-term political gains (Bertelsmann Stiftung, 2024a). In Hong Kong, British colonial administration institutionalized a form of "indirect rule" centered on a lean, technocratic bureaucracy renowned for its efficiency, neutrality, and procedural discipline (Scott, 1989; Burns, 2004). Despite post-handover political tensions, the territory continues to operate as an effective administrative state governed by a relatively competent and insulated group of technocrats, who face ongoing pressure to uphold the city's global competitiveness and appeal to investors (Woo, 2019). In Singapore, bureaucratic competence is deeply rooted in the coherence and pragmatism of its developmental elite, particularly within the People's Action Party (PAP). Pragmatism enables policy

adaptation based on effectiveness rather than ideology (Schein, 1996; Perry et al., 1997; Tan, 2012), while a rigorously meritocratic civil service, where recruitment and promotion are performance-based, has cultivated a highly skilled and professional bureaucracy (Hamilton-Hart, 2000; Tan, 2008; Jones, 2016).

These administrative traditions underpin effective policymaking and targeted interventions across all three economies. This is evident in the capacity of their respective pilot agencies to shape policies and deliver targeted interventions addressing key barriers faced by MSMEs. In Hong Kong, the Trade and Industry Department (TID) addresses MSMEs constraints through a broad suite of financial and advisory mechanisms, including the SME Financing Guarantee Scheme, which has expanded access to credit for high-risk and vulnerable sectors (Hong Kong Monetary Authority, 2024). Similarly, assessment by Chu (2019) finds that the Taiwanese state elites exercise developmental leadership and competence by deploying a variety of policy tools to steer industrial upgrading, including targeted MSMEs support. In 2023 alone, the MOEA disbursed approximately USD 910 million in funding to support SME development, significantly increasing the availability of credit for small enterprises (SMESA, 2024b). In Singapore, EnterpriseSG delivers integrated support through capacity-building initiatives such as the Enterprise Leadership for Transformation and Management Associate Partnership programs, reinforcing its role as the principal agency for SME promotion (ERIA/OECD, 2024).

Collectively, these cases underscore the importance of technocratic, meritocratic, and development-oriented bureaucracies in shaping MSMEs outcomes. While the internal capacities of specific agencies are difficult to quantify, the breadth and coherence of their interventions indicate strong institutional capability and resource access. These bureaucracies have effectively translated national development visions into targeted programs addressing MSMEs' structural constraints, including lack of finance, skills, and innovation, thereby reinforcing the state's capacity to guide markets and sustain growth.

### *2.3.2. State Autonomy*

Another key feature of developmental states is that their bureaucracies operate with significant insulation from societal and political pressures, enabling the state to formulate and implement long-term industrial strategies relatively free from rent-seeking demands (Johnson, 1982; Evans, 1995). Bureaucratic autonomy, therefore, is imperative for enhancing bureaucratic effectiveness, particularly in selecting and

directing state resources toward priority sectors (Wade, 1990; Lockwood, 2005; Chang, 2006; Musamba, 2010). While many developmental states, including South Korea, Taiwan, and Singapore, exhibited varying degrees of authoritarianism, particularly in the early phases of industrialization, autonomy in this context denotes institutional and functional independence, rather than political oppression (Routley, 2012).

Taiwan offers an important example of bureaucratic autonomy in MSMEs development, shaped by its colonial legacy and the power that state held over capital and labor, particularly during the early stages of industrialization. Taiwan inherited a tradition of state-led industrialization and interventionist governance, reinforced by the Kuomintang's (KMT) militaristic and centralized rule (Woo, 2019). Moreover, the state retained significant control over key sectors of the economy, while foreign firms and banks were largely absent during the early phases of development. Combined with the absence of organized labor unions, partly because Taiwan was in a state of war, this environment allowed the state to pursue developmental goals with minimal resistance from labor or capital (Amsden, 1985). Under these conditions, Taiwan implemented ambitious industrial policies, including import substitution, export quotas, unified pricing systems, and the tolerance of cartels, that laid the foundation for rapid industrialization and MSMEs growth (Amsden, 1985). The state also expanded financial access by establishing eight SME banks by reorganizing savings and loan institutions, as well as by tolerating unregulated curb markets that provided flexible credit to small firms (Park, 2001).

In Hong Kong, bureaucratic autonomy evolved more gradually, emerging from a colonial legacy of administrative efficiency and non-interventionism. Prior to 1997, state capture concerns arose from the dominance of private-sector interests on advisory boards, which opposed interventionist policies, including support for MSMEs. The post-handover period, however, allowed for greater state discretion and a reinterpretation of the non-interventionist ethos. Following the 1997 Asian Financial Crisis, the Chief Executive publicly challenged conservative lending practices and initiated SME support schemes in 1998. Although early programs were short-lived, they paved the way for more institutionalized SME promotion (Law & Leung, 2017). At present, Hong Kong's bureaucracy retains significant autonomy and continues to operate as an administrative state steered by a technocratic elite responsible for economic governance (Woo, 2019).

Singapore's bureaucracy demonstrates one of the highest degrees of autonomy among developmental states, enabled by political dominance, institutional design, and technocratic pragmatism. Since independence, the People's Action Party (PAP) has maintained centralized control over political processes while fostering a rationalized, merit-based bureaucracy (Quah, 2010; Woo, 2014). The state's public service structure, comprising core ministries and semi-autonomous statutory boards such as the EDB and EnterpriseSG, grants these agencies considerable managerial discretion within defined specialized domains (Quah, 2010; Woo, 2014). Civil society remains comparatively weak and highly regulated, providing further insulation from external pressures and more leeway for the state to exercise control over economic governance (Chua, 1997; Woo, 2019). This autonomy has allowed the government to respond swiftly to shifting economic conditions. For instance, during the 1985 recession, when it redirected focus from attracting foreign investment and multinational corporations to actively promoting local enterprises, particularly SMEs.

Although the three cases display varying degrees of autonomy shaped by distinct colonial legacies and institutional architectures, they collectively affirm that bureaucratic autonomy is indispensable to MSMEs development. Autonomy enables state agencies to insulate policymaking from vested interests and short-term political pressures, allowing the sustained reallocation of public resources toward small firms that typically lack the influence to shape policy or secure targeted support. As discussed earlier, pilot agencies in Taiwan, Hong Kong, and Singapore have designed and implemented complex interventions to address financing gaps, human capital constraints, and technological deficits. In each context, bureaucratic autonomy enables the state to justify and sustain long-term, resource-intensive investments in MSMEs development.

### *2.3.3. Embeddedness*

While state autonomy is necessary for effective developmental governance, it is not sufficient. It must be complemented by embeddedness or the state's capacity to sustain dense networks of ties with key economic actors (Evans, 1995). Embeddedness ensures that bureaucratic elites remain attuned to private-sector partnership, facilitating policy feedback, coordination, and co-production. These ties are cultivated through formal consultative bodies, advisory committees, and informal networks that constitute the "social infrastructure." Across the three cases examined, efforts to institutionalize embeddedness that supports MSMEs

development are most evident in areas such as policy design, credit access, human capital development, and innovation promotion.

Embeddedness is institutionalized through formal and informal mechanisms that facilitate state-business interaction. In Singapore, private-sector participation occurs through state-led consultation platforms such as the Economic Review Committee, where firms engage directly with developmental elite, comprising political leaders, senior bureaucrats, and statutory board officials, in policy co-creation processes (Woo, 2016). Woo (2019) argues that private-sector participation in policy processes is largely state-driven aimed at ensuring that regulatory frameworks, infrastructure, and incentives are aligned with broader national development goals. Personnel circulation between public and private sectors, reinforced by the presence of government-linked corporations (GLCs) and statutory boards, further promote and institutionalize state-business relations (Hamilton-Hart, 2000). In Hong Kong, embeddedness takes a more corporatist form through functional constituencies in the Legislative Council (LegCo) and the Election Committee, which is responsible for selecting the Chief Executive. While such arrangements risk state capture, Leung (1990) argues that they function as mechanisms of elite cooperation. By integrating divergent economic interests into intermediate formal structures, the system absorbs potential dissent and maintains political stability while preserving a degree of bureaucratic autonomy. In the case of Taiwan, MOEA and other specialized agencies actively engage with industry associations such as the National Association for Small and Medium Enterprises. These consultative relationships extend beyond formal advisory bodies; they often involve collaborative industrial research and policy analysis undertaken in partnership with individual firms or business consortia. Chu (2019), in recounting a field visit to MOEA and the Industrial Technology Research Institute (ITRI) in 2011, also observed a high level of engagement with private-sector actors, reflecting the close working relationship between Taiwan's bureaucracy and the private sector.

A critical dimension of state-industry relations, especially in capital-scarce environments, is the allocation of capital, often through credit mechanisms that allow the state to selectively nurture priority sectors (Evans, 1995). These financial linkages are often accompanied by the development of close, sustained relationships between government ministries and major industrialists (Evans, 1995). Across the three economies, diverse financing schemes and credit guarantees address structural

barriers in MSMEs lending. Hong Kong has developed an extensive financing ecosystem encompassing over seventy government-backed schemes targeting export promotion, R&D, technology commercialization, and green innovation (SME Link, 2025). Risk-sharing instruments such as Hong Kong's SME Financing Guarantee Scheme, Singapore's Enterprise Financing Scheme (EFS), and Taiwan's SME Credit Guarantee Fund (SMEG) mitigate lender risk and expand access to working capital, fixed-asset loans, and venture financing, particularly for high-risk or early-stage enterprises (Association of Trade and Commerce, 2024; SMESA, 2024b; SME Link, 2025).

Embeddedness also extends to human capital development and innovation promotion, institutionalized through training programs, collaborative research, and state-led technology transfer. In Taiwan, ITRI and its affiliate ERSO have played pivotal roles in facilitating technology transfer, training engineers, and fostering spin-off enterprises that integrate domestic firms into global value chains (Fuller, 2002). The Hsinchu Science Park functioned as a high-tech cluster promoting the university-industry-government linkages, while initiatives such as the Industrial Technology Graduate Program and Industry-Academia Collaboration Project 2.0 strengthen alignment of education with industrial needs (Lee & Yang, 2000; Hu, Lin, & Chang, 2005; SMESA, 2024b). Hong Kong's University-Industry Collaboration Programme (UICP) under the ITF promotes joint R&D between firms, including SMEs, and universities, complemented by the Applied Science and Technology Research Institute (ASTRI), which translates academic research into affordable technologies for SMEs (Liu, 2008). In Singapore, universities and polytechnic partner with SMEs on applied research and customized workforce training (Tan, 2007).

Through these formal and informal mechanisms, all three states have cultivated embedded networks that strengthen trust, feedback, and policy coordination, thereby enhancing the responsiveness and effectiveness of MSMEs support systems. Nonetheless, state capacity alone does not guarantee developmental outcomes; without a strong developmental commitment, such capacity may remain underutilized. These commitments will be examined in greater detail in the following section.

## 2.4. Developmental Roles or Commitments

Developmental roles or commitment refers to the determination of political and bureaucratic elites to pursue a long-term vision of structural transformation and improved living standards (Wade, 1990; Fritz & Menocal, 2007). Such commitment often takes the form of a hegemonic or revolutionary project, or what Johnson (1999) terms “revolutionary legitimacy” in which the state mobilizes collective effort toward developmental goals. Nationalism has frequently served as a unifying force in this process, legitimizing state-led interventions and fostering broad societal support.

Across Taiwan, Singapore, and Hong Kong, developmental commitment is reflected in sustained high-level prioritization of MSMEs as key drivers of economic development. In Singapore, the PAP’s commitment to MSMEs development is rooted in the state’s pursuit of economic growth, resilience, and legitimacy. Since achieving independence in 1965, the government has framed economic performance as central to its legitimacy, emphasizing the state’s capacity to deliver public goods, social stability, and sustained development outcomes (Woo, 2019). Early strategies (1965–1985) focused on attracting foreign direct investment and multinational corporations, but the 1985 recession revealed the fragility of external dependence. This prompted a pivot toward domestic enterprise development, culminating in the establishment of the Economic Committee and the first SME Master Plan. Following the 1997 Asian Financial Crisis, MSMEs were increasingly recognized for their adaptability and role in sustaining growth. As Singapore transitioned toward a “New Economy” driven by innovation and technological upgrading, MSMEs became integral to long-term competitiveness inclusive growth, and innovation capacity (Lee & Tan, 2002; Woo, 2019).

In Taiwan, development has historically been framed as a shared national mission (Pempel, 1999). The development of MSMEs has been central to achieving this national goal since 1949, when Taiwan was forced to turn inward as the economy was experiencing structural challenges such as the loss of protected export markets in China and Japan (Amsden, 1985). Taiwan’s support for MSMEs is also political in nature. Park (2001) argues that Taiwan’s relatively balanced support for both SMEs and large enterprises also reflects the KMT’s political strategy and interest in curbing the rise of large indigenous and mainland-linked capitalists that would pose threats to KMT’s rules and political stability. The commitment endures today: the

National Development Plan (2021–2024) and forthcoming National Development Plan (2025–2028) reaffirm MSMEs revitalization as a pillar of industrial upgrading, innovation, and equitable growth (National Development Council, 2021; 2024).

The Hong Kong political leadership only started voicing their strong support for MSMEs development after the handover in 1997, when the Chief Executive publicly pledged greater support for SMEs, along with subsequent SME support schemes that were introduced in the later years (Woo, 2019). Successive Chief Executive's Policy Addresses, including that of 2024, have reaffirmed this commitment, positioning SME development as a key pillar of economic resilience (Chief Executive's Office, 2024). While the government continues to adhere to the principle that it should intervene only when the market fails, scholars argue that Hong Kong still has strong incentives to support MSMEs. These policy interventions are seen as critical for preserving the city's attractiveness as a global business and investment hub, where economic freedom and market stability are key value propositions (Jao, 1997; Schenk, 2002; Woo, 2016).

In sum, the governments of Taiwan, Hong Kong, and Singapore have emphasized MSMEs development as part of their broader pursuit of sustained economic growth, particularly in response to intensifying global economic challenges and competition. Given that MSMEs account for the vast majority of enterprises and contribute significantly to employment and overall economic activity, prioritizing their development is both a logical and strategic policy choice. Furthermore, it is evident that the governments of these economies are motivated by the imperative to sustain growth and uphold their status as attractive hubs for business, trade, and investment. These efforts are closely linked to what Woo (2019) terms performance legitimacy or the notion that political legitimacy is derived not from democratic processes alone, but from the state's ability to deliver economic prosperity, stability, and tangible development outcomes.

### **Section 3: Methodology**

The study adopts a qualitative research design grounded in a comprehensive desk review of academic literature, government policies, legal frameworks, and national strategies. Quantitative data, where available, will be referenced and used descriptively rather than for econometric or statistical analysis. The emphasis remains on interpretive, context-sensitive inquiry, appropriate for understanding the institutional and policy dynamics shaping MSMEs development in Cambodia.

To systematically explore how bureaucratic capacity and political commitments interact to influence MSMEs outcomes, the study employs the Process Tracing Method as a key analytical approach. Process tracing is a qualitative technique used to uncover and test causal mechanisms linking causes and outcomes within a specific case (George & Bennett, 2005; Beach & Pedersen, 2013). It allows for a detailed within-case analysis to identify the sequence of decisions, actions, and contextual factors that explain how and why particular policy outcomes occur. To this end, policy documents, institutional reports, and elite statements will be used to inform the narrative of causal relations. Complementing process tracing, the study is informed by the analytical principles of Historical Institutionalism, which emphasizes how institutional arrangements evolve over time and how past decisions condition present policy trajectories (Thelen, 1999; Pierson, 2000; Hall & Taylor, 1996).

Developmental state theory is the guiding framework for analysis. Often framed within the broader discourse of industrial policy, the concept is here refined through a synthesis of the experiences of Taiwan, Hong Kong, and Singapore. Drawing on Vu (2007), Fritz and Menocal (2007), and Routley (2012), the framework advances two interdependent pillars—developmental structure (state capacity) and developmental commitment (political will and strategic vision)—while recognizing the historical and contextual conditions shaping state intervention outcomes.

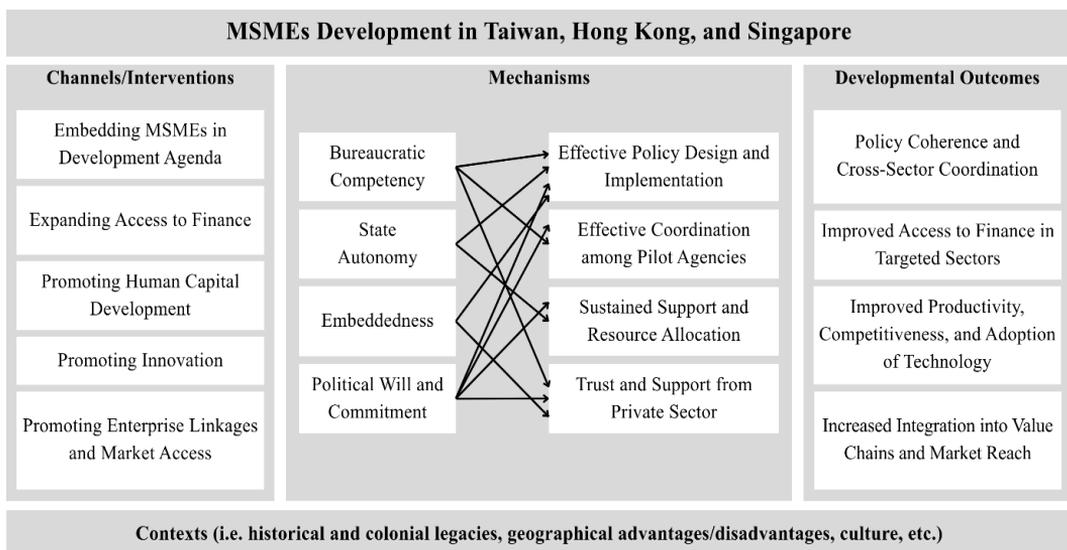
The first pillar, developmental structure, captures the bureaucratic capacities that enable the state to design and implement coherent industrial strategies. Following Johnson (1982), Evans (1995), and Wade (1990), this structure rests on three interrelated attributes: bureaucratic competence, autonomy, and embeddedness. Competence is reflected in professional, merit-based bureaucracies, often organized through empowered pilot agencies, that coordinate policy across ministries, influence resource allocation, and sustain long-term planning. The bureaucratic professionalism of these pilot agencies is attributable to merit- and performance-based recruitment and promotion systems that can ensure the staffing of developmental elites and technocratic professionals. Additionally, autonomy entails preserving a central role for the state in steering and allocating resources to support the development of key sectors by incentivizing or disciplining private actors and other key stakeholders to support national development goals. This dimension also entails pilot agencies maintaining a certain level of authority over resource allocation to ensure sustained fundings of their policies and programs.

Embeddedness denotes institutionalized linkages between the state, financial institutions, training providers, and enterprises coalesce through formal consultation mechanisms, sustained and targeted funding arrangements, and collaborative innovation and human capital development systems.

The second pillar, developmental commitment, refers to the political will and consistency in pursuing long-term goals (Wade, 1990; Fritz & Menocal, 2007). Strong commitment is demonstrated when MSMEs development is integrated into national strategies and supported by sustained fiscal, human, and institutional investment. Conversely, weak commitment manifests in ad hoc, donor-dependent initiatives and the disjuncture between developmental rhetoric and actual fiscal prioritization.

Finally, consistent with Routley (2012), the framework situates these structural and political dimensions within Cambodia's historical and contextual factors, including colonial legacies, security imperatives, land and agricultural reforms, and globalization, which condition the evolution of state capacity and developmental intent. This approach allows for a more nuanced assessment of how institutional arrangements and political priorities shape the effectiveness of Cambodia's MSMEs development strategy.

**Figure 1: Conceptual Framework for MSMEs Development in Developmental States**



Source: Authors' conceptualization based on existing literature.

**Table 4: Indicators for Assessing MSMEs Development in Developmental States**

<b>Pillar 1: Developmental Structure or Capacity</b>		
<b>Dimensions</b>	<b>Strong</b>	<b>Weak</b>
Competency of Bureaucracy and State Institutions	<ul style="list-style-type: none"> <li>Existence of a clearly mandated and empowered pilot agency or a network of pilot agencies equipped with technical capabilities and institutional prestige that can coordinate across ministries/institutions and influence resource allocation and long-term planning.</li> <li>Bureaucratic professionalism, characterized by recruitment and promotion systems grounded in merit and performance, ensuring that pilot agencies are staffed by developmental elites and technocratic professionals committed to public service and national objectives.</li> </ul>	<ul style="list-style-type: none"> <li>Absence or fragmentation of pilot agencies, overlapping mandates, and limited capacity to coordinate or shape resource allocation and strategic planning.</li> <li>Weak bureaucratic professionalism, characterized by patronage-based recruitment and promotion, producing a civil service with weak technical capacity, limited developmental orientation, and inconsistent performance standards.</li> </ul>
State Autonomy	<ul style="list-style-type: none"> <li>The state retains a central role in steering key sectors, directing finance, and shaping development priorities through targeted interventions that may involve disciplining or incentivizing private actors to align with national development goals.</li> <li>Pilot agencies have authority over resource allocation and can mobilize or redirect funds toward strategic priorities, guaranteeing stable funding to ensure continuity of developmental programs.</li> </ul>	<ul style="list-style-type: none"> <li>State agencies lack authority or instruments to discipline or incentivize market actors, while economic and development priorities are largely shaped by private or external interests.</li> <li>Pilot agencies lack authority to sustain or expand developmental initiatives, and funding is volatile, donor-driven, or subject to political patronage.</li> </ul>
Embeddedness	<ul style="list-style-type: none"> <li>Existence of institutionalized platforms for dialogue and joint policy formulation between the state and private sector, with inclusive representation of MSMEs.</li> <li>Presence of targeted, state-coordinated financing mechanisms, credit guarantee schemes, and risk-sharing instruments that link ministries, financial institutions, and MSMEs in continuous collaboration.</li> <li>Institutionalized collaboration between government agencies, training institutes, and enterprises for workforce upskilling, entrepreneurship training, and research and development.</li> </ul>	<ul style="list-style-type: none"> <li>Absence or irregular operation of consultation platforms that are dominated by larger enterprises.</li> <li>MSMEs support limited to short-term donor or politically driven schemes; weak linkages between state-coordinated financing mechanisms and MSMEs.</li> <li>Fragmented or one-off training initiatives; low commercialization of academic research; MSMEs lack access to R&amp;D ecosystems.</li> </ul>
<b>Pillar 2: Developmental Role or Commitment</b>		
	<b>Strong</b>	<b>Weak</b>
	<ul style="list-style-type: none"> <li>MSMEs are formally embedded in national economic strategies, laws, and institutional frameworks, reflecting recognition of their role in economic development.</li> <li>The state consistently allocates fiscal, human, and institutional resources toward MSMEs development and industrial upgrading; funding is predictable, substantial, and sustained.</li> </ul>	<ul style="list-style-type: none"> <li>MSMEs development remains ad hoc, project-based, or donor-driven; and are not recognized as a key driver of economic development in national economic strategies.</li> <li>Limited or volatile funding; MSMEs initiatives underfunded or reliant on external assistance; developmental rhetoric not matched by fiscal commitment.</li> </ul>

*Source: Authors' conceptualization based on existing literature.*

### **3.1. Scope and Limitations**

This study focuses exclusively on state-led initiatives in Cambodia's MSMEs development landscape. While the critical role of market-driven mechanisms is fully acknowledged, the analysis deliberately centers on government interventions to better understand how institutional structures and developmental commitment shape MSMEs outcomes. This scope reflects the study's objective to examine state capacity and commitment through the lens of developmental state theory and does not imply a dismissal of other influential factors in enterprise development.

The adoption of developmental state theory as the conceptual framework provides a valuable analytical lens for assessing the institutional arrangements underpinning MSMEs development. However, it is not intended to be prescriptive or to promote the replication of the selected developmental states. The study remains mindful of the unique historical, political, and economic conditions that shape Cambodia's development trajectory and avoids one-size-fits-all recommendations.

The sole reliance on secondary data entails clear limitations: access to the most current or granular data remains constrained; institutional performance and policy implementation cannot be fully observed on the ground; and the quality of secondary sources may reflect bias, inconsistency, or selective reporting. To address these challenges, the study employs a triangulation strategy, systematically cross-referencing information across multiple data sources if available. Reports from international organizations, independent evaluations, and local research institutes are used to complement official narratives and strengthen the robustness of the analysis. While fieldwork lies beyond the scope of this study, future research could deepen and validate these findings through interviews, surveys, and institution-level case studies.

## **Section 4: Analysis of the Cambodian Case**

### **4.1. Developmental Roles or Commitments**

The analysis starts with a review of developmental roles or commitments, or the willingness of top leaders and political elites to articulate and pursue a long-term developmental vision, mobilizing institutions and resources toward structural transformation. In the three selected cases of Taiwan, Hong Kong, and Singapore, their MSMEs development efforts can also be attributed to sustained political will

as their leaders embedded MSMEs into national strategies as indispensable drivers of industrial upgrading and economic diversification.

In Cambodia, political will and commitment to MSMEs development are demonstrably strong and consistent when measured against the indicators of developmental commitment defined in this study. MSMEs development has been formally integrated into national strategies, legislation, and institutional frameworks, signifying a high level of political recognition. In the early years of development, the Royal Government consistently recognized the need to provide an enabling business environment, promote business linkages, and improve access to finance for small enterprises (RGC, 2002). This commitment is further institutionalized as MSMEs being consistently framed as the backbone of the economy, vital for employment, poverty reduction, and stability in major national strategies, including the Rectangular Strategy—Phase IV, which emphasized job creation, poverty alleviation, and financial inclusion through the creation of the SME Bank and National Entrepreneurship Fund (RGC, 2018a). The subsequent Pentagonal Strategy—Phase I further expands the focus to include startups, entrepreneurship, and the informal economy (RGC, 2023). The National Strategic Development Plan (NSDP) 2014-2018 and the Industrial Development Policy (2015–2025) also positioned MSMEs as key to modernization, industrial competitiveness, and global value chain integration (RGC, 2015; RGC, 2019b). In 2005, the government formed the SME Sub-Committee, and the SME Development Framework was adopted with the main purpose of reducing the costs of doing business for smaller enterprises, and the Ministry of Industry, Science, Technology & Innovation (MISTI) has drafted a policy on MSMEs development, which is awaiting further review and approval (UNESCAP, 2022a). These efforts illustrate how MSMEs have been woven into the country’s developmental vision, not as peripheral actors but as an indispensable foundation for economic transformation.

This high-level commitment has also been translated into various supporting mechanisms, including tax incentives, financing schemes, and training and development initiatives. A series of sub-decrees and *prakas* have sought to incentivize and support small business owners. These include income and customs tax exemptions for enterprises in priority sectors such as agro-processing, local manufacturing, IT services, and recycling, as well as additional deductions for investments in skills development, digital accounting, and innovative equipment

(RGC, 2018b; RGC, 2019c). At the same time, regulatory instruments have been used to incentivize voluntary tax registration, thereby encouraging formalization while offering financial assistance (RGC, 2017). Moreover, the government has institutionalized financing mechanisms in support of MSMEs, including the Agricultural and Rural Development Bank (ARDB), SME Bank of Cambodia, and the Credit Guarantee Corporation of Cambodia (CGCC), all of which have channeled significant public resources to MSMEs in priority sectors such as agriculture, manufacturing, and food processing, while providing credit guarantees for enterprises lacking collateral. Beyond financial mechanisms, the state has invested in entrepreneurship and skills development programs to strengthen complementary capacities within the MSMEs ecosystem through initiatives such as Khmer Enterprise, the Entrepreneurship Development Fund, and the Techo Startup Center, while the Skill Development Fund co-finances demand-driven training programs with the private sector to address enterprise-specific skill gaps. A high-level SME Promotion Policy Committee was established under the umbrella of the Economic and Financial Policy Committee to coordinate inter-ministerial policy, monitor implementation, and engage development partners (RGC, 2020), while the designation of a National Day of Micro, Small, and Medium Enterprises on June 27 symbolically enshrines and reminds stakeholder of MSMEs' place in the country's development vision (RGC, 2024c).

Notably, at key critical junctures, this political will has been further reinforced and actualized into further support for MSMEs development. The COVID-19 pandemic served as a pivotal moment when the government intensified its efforts to support MSMEs through targeted interventions, including the establishment of the SME Bank and CGCC, alongside direct government capital injections aimed at helping enterprises recover from pandemic-related shocks and build long-term resilience (MEF, 2022a). Similarly, the Cambodia-Thailand border clashes created an unexpected opportunity for MSMEs growth. The disruption of cross-border trade and the temporary boycotts of Thai goods led to a surge in demand for Cambodian products, both domestically and in neighboring markets such as Vietnam, offering local MSMEs a window to expand, diversify, and upgrade product quality in response to shifting market conditions (Ousa, 2025). Together, these moments demonstrate how crisis conditions can harden and activate existing political will, allowing state agencies to leverage heightened public attention and mobilize additional resources for MSMEs development.

## 4.2. Developmental Structure or Capacity

### 4.2.1. *Competency of Bureaucracy and State Institutions*

Bureaucratic competency is a cornerstone of developmental state theory, denoting the presence of a capable bureaucracy of the pilot agency that is selected through meritocratic processes and is able to design and implement policies with consistency and developmental purpose (Johnson, 1982; Evans, 1995). In this study's framework, strong bureaucratic competency is reflected in a clearly mandated and empowered pilot agency (or network of agencies) with technical expertise, institutional prestige, and the capacity to coordinate across ministries, influence resource allocation, and guide long-term planning. It also entails high bureaucratic professionalism, where recruitment and promotion are based on merit, technical skill, and performance, and pilot agencies are staffed by developmental elites committed to national objectives.

Cambodia relies on a network of specialized agencies to promote MSMEs development. The Ministry of Industry, Science, Technology and Innovation (MISTI) was designated in 2014 as the lead body for MSMEs policy formulation and entrepreneurship promotion (Ratana, 2020). However, the institutional landscape shifted in 2020 with the creation of the inter-ministerial SME Promotion Policy Committee, mandated to design and implement MSMEs development strategies, coordinate inter-ministerial actions, monitor sectoral performance, and foster collaboration. Chaired by the Minister of Economy and Finance (MEF), the committee underscores the growing influence of MEF in steering MSMEs-related policy. MEF has also been a leading actor in establishing and coordinating state-led mechanisms to support the sector. This study focuses primarily on MEF, situating it within Cambodia's broader bureaucratic architecture, as its functions and initiatives closely mirror the institutional features observed in the three selected developmental states.

Formally mandated as the government's supreme financial authority, MEF exercises control over fiscal resources, budget preparation, revenue management, public financial inspection, and macroeconomic policy. Sub-Decree No. 43 ANKR.BK further clarified its authority, granting responsibility not only for financial management but also for promoting economic development and improving livelihoods in line with market principles and social equity (MEF, 2025). In practice, MEF also oversees and manages issues relating to macroeconomic stability and

economic development by formulating and implementing sectoral policies mainly to improve business and investment environment and promote private sector development. In this regard, MEF plays an essential role in MSMEs development, including promoting entrepreneurship, simplifying public services, establishing SME Clusters, fostering innovation, advancing public-private partnerships, and enhancing fair competition (World Bank, 2023).

MEF's mandate gives the ministry unique advantages and a central role in shaping economic policies that directly influence the business and investment environment. MEF's fiscal power further enhances its bureaucratic weight as a large share of government expenditure is often absorbed by the ministry (World Bank, 2019). These advantages have translated into concrete achievements in the field of MSMEs development. MEF has piloted and institutionalized key initiatives, including the Entrepreneurship Development Fund, Khmer Enterprise, the Techo Startup Center, and the Skills Development Fund. It has also spearheaded financial mechanisms such as the SME Bank, ARDB, and CGCC. These initiatives have been transformed into tangible instruments of support for MSMEs, particularly during moments of crisis such as the COVID-19 pandemic, when rapid deployment of SME-targeted funds cushioned vulnerable enterprises (Thy, 2021; Daiju, 2021; UNESCAP, 2022a; ERIA/OECD, 2024).

Comprehensive studies of the bureaucratic competency of MEF are not available for analysis, but scholars have pointed to the important role of technocratic leadership, particularly His Excellency Aun Pornmoniroth, Deputy Prime Minister, Minister of Economy and Finance. As a technocrat with strong political ties, international credibility, and extensive policy experience, he embodies the qualities often associated with developmental leadership. Holding a PhD in Philosophy and Political Science from Moscow State University, His Excellency Aun Pornmoniroth has held senior government positions since 1993 and has emerged as one of Cambodia's a respected technocrat, representing the Prime Minister on major international platforms such as the ASEAN Summit, and chairing inter-ministerial bodies including the SME Promotion Policy Committee (RGC, 2020; Ministry of Information, 2020; Bertelsmann Stiftung, 2024b). His leadership has reinforced MEF's prestige and capacity to initiate and institutionalize reforms. The high level of competence and prestige at the leadership level has also been expanded to the lower level of the MEF's bureaucracy through key reforms and initiatives.

Efforts to institutionalize meritocracy and institutional effectiveness within MEF have been evident. According to MEF's Vision 2030, the Ministry aims to become an institution of excellence that holds the competency and capacity to fulfil its core missions and contributes to achieving the government's ambitions (MEF, 2022b). While aspirational, this vision signals a recognition within the Ministry of the need to institutionalize meritocratic practices and deepen professional competency. However, the extent to which these ambitions are being realized remains to be fully understood, as systematic monitoring and evaluation data are still limited and not yet widely accessible to the public.

In the broader context of Cambodia's political-administrative system, evidence suggests an incremental evolution toward more effective, accountable, and performance-oriented governance. Historically, the Cambodian bureaucracy was characterized by personalized, patronage-based networks that shaped state-society relations, particularly throughout the 1990s and early 2000s (Verver, 2016; Petersson, 2019; Bertelsmann Stiftung, 2024b; Verver, Dahles, & Danilov, 2024). In such a setting, scholars argued that transitions toward meritocracy and technocratic governance would necessarily be gradual and constrained (Te, 2007; Niazi, 2011; World Bank, 2020a). These systemic features have long hindered bureaucratic effectiveness needed to foster long-term developmental strategies, an issue that has been widely recognized by the Cambodian government and ruling elites (Warr & Menon, 2016). Former Prime Minister and current Senate President Samdech Techo Hun Sen's repeated declaration that "Reform is a life-and-death issue for Cambodia" since early phases of development encapsulates this awareness (RGC, 2002). This commitment was subsequently reiterated and promoted in later years, including when the former Prime Minister introduced an analogical approach related to good governance, namely "self-reflection, showering, scrubbing, treatment, and survey," which was later incorporated into the Pentagonal Strategy–Phase I and reaffirmed by the current administration (RGC, 2023). This set of principles serves as a reminder for public sector leaders and officials to reflect, improve, and uphold their responsibilities to public service, thereby reinforcing the foundations and grounds for public sector reforms. Henceforth, Cambodian government has demonstrated commitment and embarked on a series of public sector reform, mainly motivated by mounting pressures to reassure foreign investors, maintain economic competitiveness, and consolidate central party oversight over a diversifying economy, as well as to respond to growing public expectations for improved service

delivery (Baker & Milne, 2019; Kong, n.d.). These dynamics indicate increasing importance given to performance-based legitimacy, where political stability increasingly depends on demonstrable governance outcomes.

Reform efforts in Cambodia have often been described as “liberal” in character as the main aim has been predominantly to achieve political-economic objectives and secure international legitimacy (Baker & Milne, 2019). Anti-corruption reforms, in particular, have featured prominently in government agendas. These include the establishment of institutions such as anti-corruption agencies, the decentralization of public finance management, and the introduction of horizontal accountability and quality assurance mechanisms. Moreover, the Royal Government has consistently stressed the importance of good governance, efficiency, and anti-corruption (Baker & Milne, 2019). While scholars have noted the political use of such institutions, they have nonetheless been attributed to the reduction in petty corruption in recent years (Bertelsmann Stiftung, 2024b). The government’s commitment to cut red tape and improve governance has also been widely credited with lifting Cambodia’s economic performance over the past decade (ADB, 2014). For MSMEs, these reforms can contribute to establishing more predictable business environment, improved regulatory clarity in certain areas, and easier access to state-led support programs and initiatives.

Moreover, bureaucratic reforms since the early 1990s have sought, with varying success, to build the capacity and effectiveness of the public sector. The first phase (1993–1995) focused on national reconciliation and unification, consolidating 25,000 civil servants into a unified system while eliminating 17,685 ghost workers from the payroll. A second phase (1995–2002) emphasized strengthening administrative foundations, including another 10,000 removals of ghost workers following a civil service census in 2000. From 2004 to 2008, reforms deepened with the introduction of merit-based performance incentives in select agencies, signaling an attempt to move beyond payroll rationalization toward improving service delivery. Between 2008 and 2012, reforms expanded in scope, with greater emphasis on operating efficiency and the establishment of One Window Service (OWS) offices to streamline citizen–state interactions. The most recent phase (2015–2018) consolidated around three pillars: pay and remuneration, human resource management and development, and service delivery through e-governance and institutional modernization (Baker & Milne, 2019). More recently, the 2025 civil servant census, combined with requirements for ministries to verify employment

records and digitize personnel databases, signals continued momentum toward reducing bloated and misaligned ministry staffing, as well as promoting institutional rationalization and data-driven management (Chhem, 2025).

These reforms have altered the incentives underpinning Cambodia's bureaucracy. According to World Bank assessments, a decade of salary reform resulted in public sector wages surpassing private sector averages, with the wage bill rising from 4.4 percent of GDP in 2011 to 7.2 percent in 2021—among the highest shares in the region. The wage premium compared to the private sector improved from -38.4 percent in 2003 to +18.8 percent in 2019, outstripping Thailand, Indonesia, and the Philippines (World Bank, 2023). High wage bills represent a deliberate strategy to reduce moonlighting, increase retention of skilled workers, and make government service more attractive for young graduates (World Bank, 2023). For bureaucratic competency, this marks a notable shift: an underpaid and disengaged civil service, once a hallmark of inefficiency, is gradually being transformed into a relatively better-compensated workforce with higher potential to perform developmental functions.

Alongside these reforms, efforts have increasingly incorporated elements of New Public Management (NPM), emphasizing results-based performance and accountability while maintaining respect for Cambodia's consideration core principles of the career system. This system is encapsulated in Samdech Techo Hun Sen's guiding principle of "Keeping the Old, Increasing/Developing the New," which gives importance to seniority but is complemented by competency, merit, and overall performance as additional criteria for promotion (Kong, n.d.). The Action Plan to Implement Key Measures for Public Administration Reform of the Seventh Legislature of the National Assembly 2024-2028 reinforces this orientation, prioritizing transparent recruitment, institutional capacity development, and performance-linked incentives (MCS, 2024). The adoption of Sub-Decree No. 37 ANKR.BK dated February 19, 2024, on Standard Operating Procedures for Civil Service Recruitment also represents a renewed commitment to transparency and fairness in public sector recruitment, encapsulated in the current Prime Minister's principle of "Pass with Honor, Fail with Dignity" in public sector recruitment (Khmer Times, 2024a). Their introduction signals an acknowledgment of the importance of meritocratic recruitment for enhancing state capacity and a commitment to further public sector reforms (Khmer Times, 2025).

#### 4.2.2. *State Autonomy*

Another key component of developmental capacity is the extent to which bureaucracy is insulated from narrow rent-seeking pressures while still remaining responsive to broader national development objectives (Johnson, 1982; Evans, 1995; Wade, 1990). In this study, autonomy is evaluated by two key criteria: first, the degree to which the state retains a central role in shaping MSMEs development priorities and mobilizing private sector collaboration; and second, the extent to which pilot agencies possess authority over resource allocation and long-term planning.

MEF, as previously discussed, stands at the core of Cambodia's developmental structure for MSMEs development. With its mandate as the government's supreme financial authority, MEF also has substantial influence over national budgeting, revenue management, and financial oversight. Its guardianship of key pilot agencies supporting MSMEs development, including ARDB, SME Bank, and CGCC, has given MEF a unique coordinating advantage, ensuring that public financing mechanisms, such as credit guarantees, concessional loans, and development funds, are aligned toward common developmental objectives. This fiscal and institutional leverage has also enabled MEF to mobilize resources rapidly during crises, as evidenced by its deployment of special-purpose loans and recovery funds for MSMEs during the COVID-19 pandemic. Such responsiveness underscores the state's ability to intervene in strategic sectors, maintaining policy continuity and funding predictability—both hallmarks of state autonomy (MEF, 2022a). Overall, MEF's capacity to design, fund, and sustain MSMEs-focused programs positions it as a functional pilot agency with substantial authority over resource allocation.

In parallel, the Cambodian state, particularly a small circle of leaders, has retained a central role in shaping and implementing the development agenda, including MSMEs development, owing to the highly personalized bureaucratic traditions observed in the Kingdom (Verver, 2016; Petersson, 2019; Bertelsmann Stiftung, 2024b; Verver, Dahles, & Danilov, 2024). In this context, the involvement of key figures, especially the Prime Minister, has been crucial in ensuring policy outcomes, as illustrated during the COVID-19 pandemic when Cambodia outperformed expectations in delivering social assistance under the leadership of former Prime Minister and current Senate President Samdech Techo Hun Sen, who called for greater professionalism across the public service (Bertelsmann Stiftung, 2024b).

Such personalization of authority carries important implications for MSMEs development, placing significant weight on the leadership of top political figures and designated pilot agencies. The following discussion examines how these leaders exercise their authority to engage the private sector in advancing national development priorities.

A major actor that the government seeks to manage and engage in MSMEs development agenda is the network of business tycoons formally recognized through the *Oknha* system. Historically, the title *Oknha* was a royal honor bestowed for exceptional service to the throne, but since the 1990s it has been reintroduced and linked to financial and material contributions to national development projects (Verver, 2016). Most recently, Sub-Decree 129 ANKR.BK (dated June 4, 2024) codified this practice by formalizing a tiered system of contributions as detailed in the table below (RGC, 2024a).

**Table 5: Donation/Contribution by Title**

<b>Title/Tier</b>	<b>Donations/Contributions</b>	<b>Annual Contributions</b>
Lok Neak Oknha	16 Billion Riels	400 Million Riels/Year
Neak Oknha	4 Billion Riels	60 Million Riels/Year
Oknha	2 Billion Riels	32 Million Riels/Year

*Note: Additional terms and conditions apply as outlined in Sub-Decree 129 ANKR.BK (2024a).*

In Cambodia, the *Oknha* system has become an essential component of state-business relations. On one level, the system functions as a critical mechanism for mobilizing financial resources to support state capacity in a context where the formal tax system remains weak (Verver, 2016). Business tycoons holding the *Oknha* title have long been key contributors to national projects, including sponsorship of the Cambodian armed forces, rural development initiatives, and humanitarian efforts such as those led by the Cambodian Red Cross, the country's largest humanitarian organization. The *Oknha* network also plays a significant intermediary role in Cambodia's MSMEs ecosystem. Many titleholders occupy leadership positions in business associations and chambers, such as the Federation of Associations for SMEs of Cambodia (FASMEC), the Young Entrepreneurs Association of Cambodia (YEAC), the Cambodian Women Entrepreneurs Association (CWEA), the World Union of Small and Medium Enterprises (WUSME), and the Samdech Techo Foundation Association for the Development of Small and Medium Enterprises in

Cambodia (CWEA, 2025; KhmerSME, 2025; WUSME, 2025; YEAC, 2025). Through these platforms, business elites serve as intermediaries between the state and the MSMEs community, advocating for sectoral needs, facilitating policy dialogue, and mobilizing capital and networks in support of government initiatives, thereby reflecting emerging institutionalized practices of cooperation and consultation between the government and *Oknha*-led organizations.

Developmental state literature demonstrates that close state-business relations can, under certain conditions, generate mutual gains and facilitate industrial upgrading. In Taiwan, Hong Kong, and Singapore, state agencies relied heavily on alliances with private sector actors to support MSMEs, particularly by integrating them into export-oriented production networks. The key distinction, however, lies in the orientation of these ties. As Verver, Dahles, and Danilov (2024) argue, developmental states utilize state-business relations and elites networks to selectively favor firms to advance national objectives and deliver broad-based benefits.

A review of the evolution of the *Oknha* system reveals a gradual shift toward more purposeful and state-directed engagement. In the early post-conflict decades, *Oknhas* accumulated substantial influence across key industries, particularly in natural resources and construction, sectors reflecting Cambodia's low industrial base during the 1990s and early 2000s. Early studies raised concerns about concentration of wealth and the distortionary effects of elite dominance (Ear, 2011). Yet, recent evidence suggests the government has increasingly sought to discipline and channel big business participation toward national priorities, including MSMEs development and industrial diversification. For instance, efforts have been made by high-level leaders to redefine the title holders, expanding it to cover those who share their success with society and contribute to humanitarian works, as well as to encourage these tycoons in engaging in national development projects (Office of the Council of Ministers, 2025).

A striking example is the development of Cambodia's first SME Cluster, spearheaded by WorldBridge International Group, an *Oknha*-led conglomerate. The WBID 4.0 SME Cluster in Kandal Province, which began operation in 2021, aligns closely with the government's policy of promoting industrial clustering and value-chain integration. Designed to host enterprises in agritech, waste transformation, value-added agricultural processing, and related industries, the 23-hectare complex

offers shared logistics, digital infrastructure, and training facilities, reportedly reducing operating costs for MSMEs by 35 to 70 percent (WorldBridge, 2025; Khmer Times, 2024b). While it is still too early to empirically assess the project's developmental impacts, it illustrates how state-guided collaboration with elite conglomerates can support MSMEs upgrading.

Further evidence of this institutional turn is seen in the formalization of the *Oknha* system as a mechanism for managing and channeling the influence of big businesses in support of public interests and national development goals. The inauguration of the Cambodian Oknha Association (COA) in 2022 marked an important step in this direction. Established with the stated aim of upholding *Oknha* honor and excellence through contributions to inclusive development, peace, and improved living standards, the association represents an effort to institutionalize elite participation in the country's development agenda (Cambodian Oknha Association, 2025). The COA was formally recognized in 2023 by Royal Decree No. NS/RKT/1024/1309 as the sole body representing titleholders. Its mandate is far-reaching: vetting applications for new titles, promoting economic and investment activities, and supporting government programs. By December 2024, the association reported 441 members, though independent media outlets suggested that more than 1,000 *Neak Oknhas* and *Oknhas* were active nationwide by early 2023 (Ministry of Information, 2023). Alongside this development, the government has introduced more explicit procedures for the awarding and revocation of *Oknha* titles in response to public concerns about corruption and misconduct. This includes a Royal Decree stipulating clear eligibility requirements, obligations, and revocation conditions, including the failure to make required contributions, criminal convictions, and fraudulent petitions (RGC, 2024b). Although the COA remains a new and largely untested mechanism, its creation signals a strategic attempt to institutionalize and manage state-business relations.

While Cambodia's recent reforms and institutional efforts represent meaningful progress, autonomy under the developmental state framework also entails consistent and coordinated mechanisms through which the state can mediate between large enterprises and smaller firms. The presence of large firms will continue to be essential for economic development because they can generate developmental spillovers through increased productivity, technological upgrading, improved worker benefits, and job creation at scale (Ciani et al., 2020). The three selected

developmental states—Taiwan, Hong Kong, and Singapore—demonstrate the importance of state’s mediation in promoting synergies or linkages across firms of varying sizes. Such synergies foster sustainable operations for MSMEs

and facilitate spillover effects, enabling domestic firms to absorb productivity gains, access new technologies, and integrate into global markets by linking with larger domestic and foreign enterprises (Javorcik, 2004). In Taiwan, the dynamism of the manufacturing sector can be attributed to the involvement of Taiwanese MSMEs in the export industries as subcontractors, producing components for larger firms engaged in final assembly (Chu, 2003). These relationships, while often informal and nonexclusive, were relatively stable and enabled MSMEs to benefit from technological upgrading, economies of scale, and access to global markets.

These experiences highlight a key lesson for Cambodia’s manufacturing sector: large firms and business conglomerates can catalyze MSMEs development through subcontracting, clustering, and value-chain integration. The core challenge, however, lies not in the absence of large enterprises but in the weak linkages connecting them to MSMEs—the “missing middle” in Cambodia’s industrial structure. Despite subsequent reforms and improvements in the business environment, MSMEs continue to face difficulties integrating into production networks. The World Bank (2020b) reports that foreign-invested firms import over 90 percent of their inputs, with limited technology or knowledge transfer to local suppliers. Although many foreign firms express interest in local sourcing, they cite Cambodian MSMEs’ low competitiveness relative to regional counterparts. Cambodia thus remains the region’s most import-dependent economy in key sectors such as apparel and tourism (Winkler, 2022). Similarly, Sok et al. (2020) found that only 22 percent of MSMEs export, 11 percent subcontract to foreign firms, and 11 percent invest abroad, largely due to constraints stemming from information gaps, regulatory barriers, and limited access to buyers. A related survey of firms in garments, electronics, and light manufacturing revealed that MSMEs remain largely unprepared for global value chains, hindered by weak technical capacity and the high costs of meeting international standards (Sok et al., 2020).

#### *4.2.3. Embeddedness*

If autonomy is concerned with the state’s ability to resist capture, embeddedness encompasses its capacity to remain sufficiently connected to businesses and key

actors to access information, coordinate strategies, and secure cooperation for developmental goals (Evans, 1995). This study measures embeddedness using three indicators, namely the existence of institutionalized public-private consultation platform, presence of targeted, state-coordinated financing mechanisms, and university-industry-government collaboration for training, entrepreneurship promotion, and research and development.

The Cambodian Government-Private Sector Forum (G-PSF), established in 1999, represents the state's most prominent mechanism for public-private dialogue. Structured around a national plenary chaired by the Prime Minister and 16 sectoral working groups, the G-PSF provides the private sector with a formal avenue to raise concerns and propose reforms. Its decisions carry the same weight as those of the Council of Ministers. The Council for the Development of Cambodia (CDC) acts as the government secretariat, while the Cambodian Chamber of Commerce (CCC) serves as the private sector secretariat. International observers have described the forum as one of the most effective dialogue platforms for private sector development in an emerging market (Brew, 2024).

While offering an essential platform for building state-MSMEs relations, the representation of MSMEs in the G-PSF is still an open and critical question. Under the G-PSF, Working Group 3/C on “Manufacturing, Small and Medium Enterprises and Services” is co-chaired by a business tycoon and has advanced proposals such as the “One Window Service” to simplify business registration (UNESCAP, 2022a). Yet, unlike some other working groups, Working Group 3/C does not publish reports in the public domain, and recent published reports prepared by the CDC highlight broad and horizontal reform packages that may not effectively capture outcomes for MSMEs. In 2024, the CDC reported that 57 percent of measures endorsed by the 19<sup>th</sup> G-PSF had been fully implemented in the first half of the year, with progress strongest in tax and customs reform, finance, and trade facilitation (CDC, 2024). These reforms undoubtedly address some of the structural pain points for MSMEs. However, the absence of MSMEs-specific monitoring makes it difficult to assess whether the forum has substantively addressed the constraints that smaller enterprises face. Coordination challenges persist as well with secretariats often lack the analytical capacity to translate discussions into actionable reforms (UNESCAP, 2022a).

Access to finance remains one of the most significant levers through which developmental states cultivate embeddedness between the state and industry. In Cambodia, this role has been institutionalized through a network of state-coordinated financial mechanisms, notably ARDB, SME Bank, and CGCC, as previously discussed. Collectively, these institutions embody the state's sustained commitment and growing capacity to mobilize and channel credit toward priority sectors while mitigating market failures that restrict MSMEs' access to finance due to collateral shortages and high borrowing costs. The scale of these interventions is notable. In 2024, ARDB's loan portfolio nearly reached USD 475 million, SME Bank over USD 211 million, and CGCC reported an outstanding guaranteed loan portfolio of USD 151.7 million as of August 2025 (ARDB, 2025; SME Bank, 2025; CGCC, 2025). Yet, meeting the total MSMEs financing needs, estimated at between USD 7.7 billion and USD 10.5 billion (ADB, 2021; Matsuno et al., 2024), will require greater efforts to mobilize private funding, while simultaneously assessing the developmental impacts and implementation challenges of these state-led financing mechanisms to address both supply- and demand-side constraints.

To complement efforts in expanding access to finance for MSMEs, MEF has also launched several programs designed to build human capital, foster a culture of entrepreneurship, and improve access to essential information, which is another important element of embeddedness in developmental states. Khmer Enterprise, the Entrepreneurship Development Fund, and the Techo Startup Center were all established to provide capacity development opportunities, mentorship, and ecosystem-building for MSMEs and start-ups, with Khmer Enterprise later formalized as a government trust (RGC, 2019a; Khmer Enterprise, 2025; Techo Startup Center, 2025). The Skill Development Fund (SDF), first piloted by MEF and subsequently institutionalized as a trust, seeks to expand demand-driven training markets by co-financing joint training proposals submitted by businesses and training providers to address enterprise-specific skill gaps in the private sector, including for MSMEs (Skill Development Fund, 2025). To encourage MSMEs to participate in the digital economy in line with the national digital transformation agenda, Enterprise Go Digital (EGD) Program was launched to promote awareness and training on digital transformation (Enterprise Go Digital, 2025). Parallel to these efforts, one-stop platforms, such as Startup Cambodia and KhmerSME, were introduced to address information asymmetries that often inhibit MSMEs growth.

While these interventions demonstrate the growing importance of state-led interventions in building the MSMEs development ecosystem, experiences of the three selected case studies highlight that they may not be sufficient if there is weak progress in research and development. Here, Cambodia lags far behind its regional peers. The Global Innovation Index 2024 ranked Cambodia 103rd of 133 economies, and near the bottom among both lower-middle-income economies and ASEAN peers (WIPO, 2024). While the report notes that Cambodia performs “as expected” given its income level, the country produces significantly fewer innovation outputs relative to its investments. To this end, historical legacies of genocide and prolonged conflict has constrained human capital development, while contemporary challenges—such as limited access to databases, donor-driven funding models, language barriers, political sensitivities, and a lack of incentives for academic research—continue to inhibit the development of a robust research culture (UNESCAP, 2022b). As a result, both academics and professionals remain poorly positioned to contribute to innovation or to translate research outputs into industrial upgrading.

The government has taken steps to address these gaps through various policies and strategies, including the Policy on Research Development in the Education Sector (2010), the Master Plan for Research Development (2011–2015), the National Research Agenda 2025, and most recently the National Research and Development Management System Blueprint (2025) (UNESCAP, 2022b). Incubators and start-up centers have been launched in universities, such as, the Royal University of Phnom Penh and the Institute of Technology of Cambodia. Moreover, the newly adopted Law on Investment also highlights the sectors that are entitled to receiving investment incentives, including, among others, high-tech industries that work related to innovation or R&D and SMEs in priority sectors and clusters, industrial parks, and STI parks (RGC, 2021). Despite these efforts, significant limitations persist. UNESCAP (2022b) notes a persistent mismatch between research priorities defined in government strategies and the projects undertaken by universities or the private sector. Moreover, academia-industry collaboration remains weak as many incubator activities are one-off events with limited follow-through, and there are few incentives for researchers to commercialize their work or partner with firms.

## Section 5: Conclusion and Policy Implications

The Cambodian case echoes the experiences of the three selected developmental states in its sustained and purposeful use of state institutions and state-led mechanisms to promote MSMEs development. Guided by a conceptual framework of the developmental state, synthesized from the experiences of Taiwan, Hong Kong, and Singapore, this study examined the extent to which Cambodia shares, lacks, and effectively operationalizes the core attributes of developmental states in its MSMEs development efforts. While existing research on MSMEs development in Cambodia has largely focused on proximate challenges, such as access to finance, limited technological capacity, and regulatory burdens, this study advances the literature by analyzing the political and bureaucratic foundations of MSMEs development, all of which will be essential for providing a complementary theoretical lens for informing policy and program designs.

Cambodia exhibits several core attributes commonly associated with developmental states. The most evident strength lies in its enduring developmental commitment. Political will toward MSMEs development is explicit, consistent, and repeatedly reinforced at critical junctures, including during the COVID-19 pandemic and the Cambodia-Thailand border shocks. MSMEs are deeply embedded in national strategies, such as the Rectangular Strategy—Phase IV, Pentagonal Strategy—Phase I, the NSDP, and the Industrial Development Policy, and are supported through tangible policy instruments—tax incentives, formalization measures, targeted finance (via ARDB, SME Bank, and CGCC), and capacity-building programs (Khmer Enterprise, EDF, Techo Startup Center, and SDF). By the study's commitment indicators, Cambodia performs strongly, showing that political elites view MSMEs as central to national development, employment, and competitiveness. Moreover, this sustained commitment seems to be motivated by a combination of developmental goals—to attract investment and sustain growth—and a growing concern for performance-based legitimacy, where effective delivery enhances political credibility. This reflects what Johnson (1982) termed as a developmental commitment, where political leaders articulate a long-term vision linking growth to political legitimacy.

In terms of developmental structure, MEF shares the organizational foundations of a pilot agency, a hallmark of developmental states. MEF functions as a pilot agency, equipped with fiscal authority, technical capacity, and institutional prestige. It has

spearheaded key financial instruments and coordinated the most consequential MSMEs promotion programs, giving it the central steering and allocative authority typical of developmental bureaucracies. MEF's oversight of other pilot agencies engaged in MSMEs development also echoes Taiwan's CEPD/MOEA-SMESA nexus (buttressed by ITRI and the Institute for Information Industry), Singapore's EDB and Enterprise Singapore (statutory boards under MTI that pair investment policy with SME upgrading), and Hong Kong's CEDB/TID-ITC complex (which couples trade, finance, and innovation policy). Moreover, ongoing public administration reforms, such as merit-based recruitment, standardized pay systems, and performance-oriented promotion, mark important steps toward institutionalizing bureaucratic professionalism and improving public sector performance. This development embodies efforts to promote what Johnson (1982), Evans (1995), and Kasahara (2013) describe as a competent bureaucracy equipped with merit-based recruitment practices, professionalized staff, and institutional prestige.

In the area of state autonomy, the state retains a central steering role in shaping development policies, including MSMEs development policies, while MEF's fiscal authority and oversight of key institutions—including ARDB, SME Bank, and CGCC—enable it to mobilize and redirect funds toward strategic sectors, an essential characteristic of pilot agencies in developmental states as highlighted by Wade (1990), Chang (2006), Lockwood (2005), and Musamba (2010). Recent development also points to purposeful efforts from the state to manage and engage big business leaders to achieve broader development goals, including MSMEs development. However, the contribution of large business tycoons to MSMEs development may be constrained by the state's limited capacity to promote linkages between major enterprises and smaller firms. To realize the full potential of these partnerships, the state must address longstanding systemic challenges on both the supply and demand sides, promoting formalization and ensuring that MSMEs are meaningfully integrated into broader economic structures rather than operating in isolation.

On embeddedness, Cambodia performs moderately well in establishing institutional linkages but falls short in ensuring MSMEs representation and strong university-industry-government linkages. The G-PSF provides a longstanding, institutionalized platform for policy dialogue, an important feature of embedded developmentalism,

but MSMEs' participation in agenda-setting and follow-up processes question and remains weak and in a nascent stage. The government's establishment of state-coordinated financing mechanisms, notably ARDB, SME Bank, and CGCC, demonstrates its growing capacity to mobilize public finance and risk-sharing tools for MSMEs. However, in an effort to increase the scale and scope of these state-led institutions, empirical studies should be conducted to provide evidence to inform policy and program improvement. The weakest dimension of embeddedness lies in university-industry-government linkages. While programs such as Khmer Enterprise, the Entrepreneurship Development Fund, and the Skill Development Fund have broadened entrepreneurial support, university-industry-government collaboration remains underdeveloped, limiting technology diffusion, standards upgrading, and innovation-driven MSMEs growth.

### **5.1. Policy Implications**

The findings of this study underscore that Cambodia's experience shares many institutional features of developmental states in its efforts to promote MSMEs development, with political will and commitment being the most prominent. Nonetheless, adopting a clear national MSMEs development strategy that clarifies institutional mandates, establishes joint performance targets, and guarantees predictable, multi-year action plan and budget for key state-led pilot agencies will be an essential propeller for ongoing efforts. The ongoing drafting of the MSMEs development strategy to be officially adopted is indeed a positive sign. Furthermore, critical junctures such as the Thai–Cambodia border conflict present an opportunity to convert short-term disruption into long-term developmental momentum. By strategically leveraging nationalist sentiment and domestic solidarity, the government can reinforce MSMEs resilience through targeted support for local producers, import substitution, and innovation in product development. A “Made in Cambodia” campaign, if paired with capability upgrading and quality assurance, could strengthen public buy-in while fostering industrial diversification and MSMEs competitiveness.

Nonetheless, while political will and commitment is evident, more efforts are still needed to enhance the bureaucratic and state capacity in actualizing such developmental visions. To this end, comparative evidence illuminates that bureaucratic professionalism and autonomy are the bedrock of effective bureaucratic governance. While MEF has exhibited significant technocratic

capacities, autonomy, prestige, and commitment to further expand meritocratic and professional bureaucratic practice to the lower level, the country's developmental capacity will depend on expanding this technocratic ethos beyond the central ministry into a coordinated network of specialized agencies. In addition to its role as the financial and technical guardian of state-led pilot agencies, MEF can also play larger role in promoting information feedback loops, performance evaluation, and inter-agency learning.

Equally important, the concept of embedded autonomy, central to Evans (1995), emerges as a critical lens for Cambodia. The experiences of the three developmental states demonstrate that achieving growth with equity depends on the state's capacity to engage with, coordinate, and, when necessary, regulate powerful business actors while cultivating linkages with smaller enterprises. Cambodia's *Oknha* system has become an influential actor in supporting MSMEs development efforts and could be further leveraged if the state maintains adequate insulation from private interests, while continuing efforts to address the "missing middle" challenge to enable smaller enterprises to engage more productively and meaningfully with larger firms.

Finally, the analysis reaffirms that developmental embeddedness is highly dependent on university-industry-government linkages. Across the three selected case studies, the integration of universities, research institutes, and industry actors into the policy process was vital for innovation diffusion, skill formation, and technology transfer. Cambodia's weaker university-industry-government linkages represent a missing element of this triangle. For the country to meaningfully develop competitive and resilient MSMEs, MSMEs development must be reframed as part of a broader knowledge and capability-building agenda.

This study has also opened several promising avenues for future research. Further inquiry could empirically test the causal mechanisms proposed in this study to better understand how political commitment, bureaucratic competency, state autonomy, and embeddedness interact to shape developmental outcomes and facilitated by what contextual factors. Moreover, there remains substantial opportunity to deepen empirical knowledge on the developmental impacts of Cambodia's state-led pilot agencies, particularly regarding how financial instruments and coordination mechanisms translate into productivity, innovation, and resilience among MSMEs. Similarly, the emerging SME clusters, such as the WorldBridge WBID 4.0 cluster in Kandal Province, present valuable cases for assessing whether these initiatives can

generate the same clustering synergies achieved in Taiwan, Hong Kong, and Singapore, where strategic state-led coordination enabled technology diffusion and integration of MSMEs in the broader value chains. Another promising line of research lies in exploring how university-industry collaboration can be further developed to strengthen Cambodia's innovation ecosystem.

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