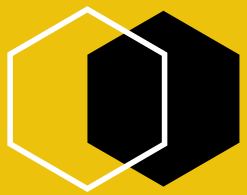


Competition Policy
and
MSME Development

Presented by:

*Dr. Teerawat Charoenrat
Khon Kaen University
Thailand*

This material has been reproduced in the language and form as it was provided. The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.



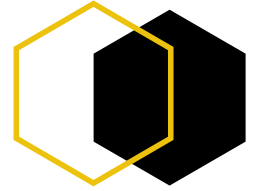
competition policy and MSME development

TEERAWAT CHAROENRAT
Khon Kaen University, Nong Khai Campus,
Thailand



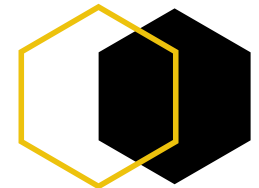


Competition
policy and law
is important to
MSMEs.



- If entrepreneurial and dynamic economies are to **grow and flourish** in ASEAN, then new businesses and MSMEs need to operate in an environment that allows them to **start** and **compete** on their **own merits**, and
- which **does not** allow existing larger competitors to **obstruct** the *innovations*, **new** products and services that MSMEs often bring to the market.
- When **genuine** open market competition **flourishes**, both **businesses** and consumers **benefit** (Schaper and Burgess, 2021).





- To do this, **competition policymakers** and **agencies** need to develop a solid knowledge based on *small firms*,
- how and why they **operate**, how competition law and policy **affects them**,
- how they interact with **competition agencies**, and, in turn, how agencies can best engage with the sector (Schaper and Burgess, 2021).





Environmental
factors affecting
MSME development
and preparation for
Covid-19 in Thailand



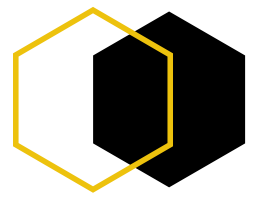
Environmental factors affecting MSME development and preparation for Covid-19 in Thailand

- Competition advocacy
- Competition authorities' advocacy role
- Competition enforcement for recovery
- Market access during Covid-19
- Market Access via Digital Markets
- Access to Finance
- Trade competition policy in Thailand
- Competition policy is crucial to Thailand





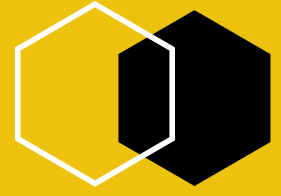
Competition advocacy



Competition advocacy

- Competition authorities can play an essential role in policy responses to the Covid-19 (OECD, 2020a).
- The main role of competition in ensuring the necessary conditions for economic growth and **recovery** make them vital stakeholders in a national policy context (OECD, 2020a).
- There is **no** "one size can fit all", competition authorities can utilize their experience in economic analysis, methods, and evidence in evaluating **anti-competitive effects** and
- investigating **potential efficiencies** that can be placed to good use when promoting and encouraging the **conditions** for **recovery** (Schaper and Burgess, 2021b).





Competition advocacy

- Competition can ensure a stable of distribution of goods and services via supply chains.
- For example, competition can help ensure foods supply chains, including agricultural inputs, processing, manufacturing, and distribution.
- Even when **shock occurs**, such bad weather conditions, diseases and conflict affect food systems, economies with ample competition suffer fewer disruptions (OECD, 2020).



Competition authorities' advocacy role



Competition authorities' advocacy role



- Fundamental economic theory demonstrates that **government interventions** in the market often lead to **unintended** and suboptimal outcomes.
- However, government backed competition authorities can play an important role **ensure** enterprises are **able** to operate in a level playing field.



Competition authorities' advocacy role



- Focusing on government policy responses to the Covid-19 pandemic, it is imperative to ensure that policy interventions do not result in less competitive markets.
- The Governments should consider that the **fiscal policy** is a more effective measure to increase aggregate demand when product markets are more competitive (OECD, 2020b).



Competition
enforcement for
recovery



Competition enforcement for recovery

- Global markets have experienced a number of severe shocks to **demand** and **supply** with significant **disruptions** to global value chains/production networks.
- Many markets have observed price hikes and businesses sought to **overcome** those **disruptions**, creating agreements along with the global value chain.
- The primary demand and supply mismatch for essential products and services have led to allegations of **exploitative pricing**.
- Several competition authorities have sent out warnings that they would take action where is necessary (OECD, 2020b).



Competition enforcement for recovery



- Differentiating **legitimate** from illegitimate pricing practices and how best to deal with the latter, have created substantial challenges for **many competition authorities**.
- Some competition authorities have long standing competence in combating exploitative abuse of power.
- However, it will **take time** to **build** such **competence** for countries that do not.
- **Some agencies** have considered other alternatives, including consumer protection or price gouging rules.
- A number of competition authorities have **reaffirmed** that the **scrutiny of cartels** and anticompetitive practices remained a priority.
- However, specific types of co-operation between **competitors** can fall within **categories** of **lawful** and pro-competitive collaboration (OECD, 2020b).



Market access during Covid-19



Market access during Covid-19

- Market access is an **ability** of enterprises to enter and operate within both **domestic** and **international** markets.
- The **ability** of an **enterprise** to offer goods or services to consumers in the marketplace that can be affected by a number of **important factors**,
- such as **general** and **industry-specific policies legislated** by a government, by transnational trading systems and the **behaviour** of other businesses.

- It can be stated that **no business** can survive **without** access to existing or potential new markets and customers.
- Therefore, market access is an important factor for competition authorities and policymakers (Schaper and Burgess, 2021a).





Market Access via Digital Markets

Market Access via Digital Markets

- The **Covid-19** pandemic has pushed MSMEs to go digital.
- Digitalization can make MSMEs more **resilient** and more competitive, as well as **facilitate** their **access** to both domestic and international markets.
- There is **empirical evidence** that MSMEs are unable to rapidly shift to **online delivery methods**, due to greater hardships and may be at **higher risk** of failure than counterparts.
- The **lack** of digital readiness among **many MSMEs** is a key **barrier** to go online shopping **both** during and after **Covid-19** pandemic (Schaper and Burgess, 2021a).



Trade competition policy in Thailand

- The Trade Competition Act (TCA) came into force on **5 October 2017.**
- The TCA is the main legislation regulating business operators in Thailand on issues of free and fair trade competition (Bunruangthaworn et al., 2020).
- The TCA established the **Office of Trade Competition Commission** (OTCC) which is **an independent agency** that has the power to order business operators to suspend, cease, or **rectify any action** to **prevent** the establishment of **monopolies** and **unfair trade practices** in Thailand (ASEAN, 2021).
- **OTCC**, it is a responsible authority for the **enforcement of the competition law** in all sectors in Thailand, in **coordination** with **sector regulators**.





Competition
policy is crucial
to Thailand

Competition policy is crucial to Thailand

- The **Thai economy** is still dominated by large firm which **dominate GDP** (60%), **exports** (86%), even though they account for **less than 1%** of all enterprises in the country.
- MSMEs account for 99% of all enterprise and, most importantly, 80% of total employment.
- So, competition policy is important to **ensure** their **survival**, that they **compete** on a level playing field with **large firms**,
- that they can enter new domestic markets (through the internet) **without large firms** preventing or dominating them,
- because they are important for employment (Charoenrat and Harvie, 2021)



Competition policy is crucial to Thailand

- Without competition policy to protect them they will be hindered in their growth and this will discourage entrepreneurial activity in the country.
- Covid-19 will also weaken them further without stronger competition policy.
- MSMEs are concerned with new entrants in the market and large firms exerting their market dominance.
- Therefore, MSMEs should be concerned with the need for strong competition policy in Thailand (Charoenrat and Harvie, 2021).





Access to Finance

Access to Finance

- There is ample evidence that **many MSMEs face** acute **problems** in accessing finance, mainly related to their limited resources, inadequacy in business operation and perceived risk by lenders (Harvie, 2011; Yuhua, 2014; Sharma and Kautish, 2019).
- For Thailand, research has shown confirmed MSMEs face difficulties in accessing formal sources of funding,
- **due to limitations** related to their characteristics such as small size, lack of human resource development, a lack of management and/or administration skills and lack of a business plan (Chaochotechuang and Mariano, 2016; Sriboonlue and Puangpronpitag, 2019).

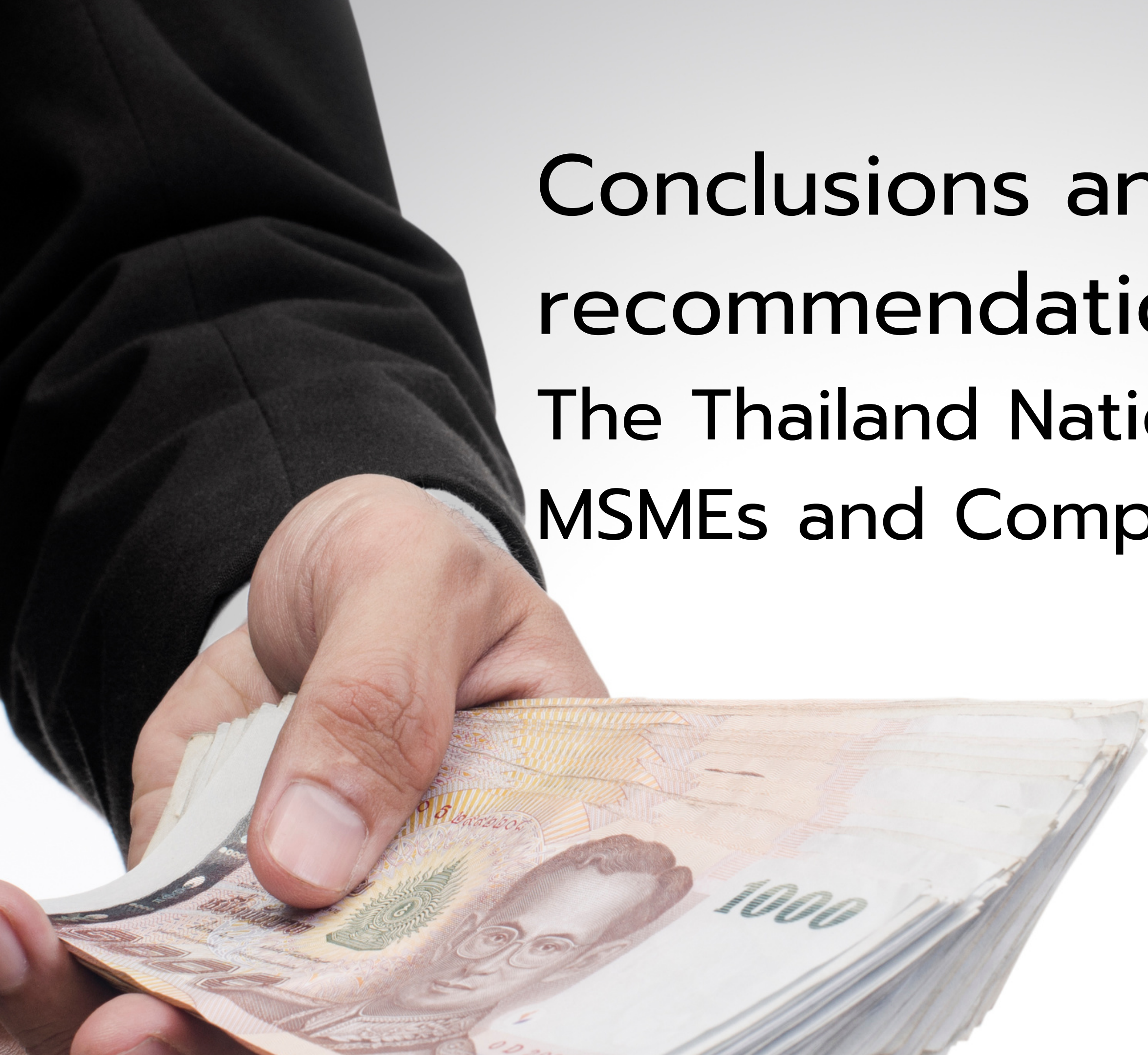


Access to Finance

- A lack of access to capital causes them to **encounter high financial costs** and **high failure rates**.
- They have also been **unable to obtain** capital through the Thai stock exchange market and raise funds from banks and financial institutions. Their financial sources are **limited mainly to commercial banks**.
- But as indicated commercial banks consider them as **risky** and **tend** to **impose credit constraints**.
- This is where **Credit Guarantee Fund (CGF)** provided by the government are so **important** to **reduce** the risks of lending to Thai MSMEs.
- This **lack of interaction** with **financial markets** and **institutions** has caused **several problems** for Thai MSMEs



**Conclusions and policy
recommendations:
The Thailand National Study on
MSMEs and Competition policy**



Thai MSMEs – current situation and importance

- Core of the economy:
- Structure – business numbers:
- 3 million enterprises
- 99.7% are MSMEs
- Employment - 80%



Thai MSMEs – current situation and importance

- 99.2% are Micro/Small
- 0.5% are Medium sized enterprises
- 0.3% are Large enterprises
- GDP – 42.2% (2019), target 50% by 2021
 - Exports – 30%



Thai MSMEs – current situation and importance

Regional performance disparities

Between the **Central provinces** (Bangkok and environs) and the North and South of the country

Low efficiency performance in aggregate and by manufacturing sub sectors

Economic diversification



MSME Issues

“Missing middle” – **lack** of medium sized enterprises

“Middle income trap”



Importance of **medium sized** enterprises

- Economies of scale/growth
- Innovation
- Participation in production networks
- Provide a springboard to becoming a large enterprise



Issues and challenges

1. Addressing short/medium term issues

- Covid-19

- Access to finance/liquidity/ cash flow
- Access to markets
(local an international)
- Microfinance
- Asset based financing products
(Factoring finance)
- Equity financing
(Stock Exchange Market of Thailand)



Issues and challenges (cont'd)

Access to Finance:

1. Commercial bank loans/market failure/credit rationing (Bank of Thailand) – credit guarantees, (Thai Credit Guarantee Corporation)
2. Competition - banks (loans/cost)
3. **SME Development Bank** (also Import-Export Bank) (Ministry of Finance)
4. State owned banks (Ministry of Finance)
5. **Debt moratorium** (Bank of Thailand)
6. Tax deferral (Ministry of Commerce)(Ministry of Finance)



Access to markets and internationalisation:

- Export promotion (Department of International trade promotion, Ministry of Commerce)
- Global/regional value chain participation
Utilisation of e-commerce (Digital Economy Promotion Agency, Ministry of Digital Economy and Society, Ministry of Sciences and Technology).





- **Quality standards** (Ministry of Industry, Thai Industrial Standards Institute)
 - **Trade facilitation** (Thailand Customs Department, Ministry of Finance)
 - **Maintain local market demand** (Ministry of Finance)
- Most Thai MSMEs do not export.
- The **domestic market** is **critical** for them.
- Employment subsidy/macro policy measures

Addressing the Missing Middle and the Middle income trap

- Productivity/Innovation/high value adding

manufacturing (automobiles, parts, telecommunication equipment manufacturing)

- Competitiveness

- Human capital

Addressing the Missing Middle and the Middle income trap

- Entrepreneurial activity
- Finance
- E-commerce platforms (competition, government, cost)
- Internationalisation
- Institutional framework
- Legislation, Regulation relating to MSMEs
- Entrepreneurial education and skills
- **Social enterprises**, inclusive and green MSMEs
- Agglomeration and industrial clustering

Thank you very much
for your attention

TEERAWAT CHAROENRAT
Khon Kaen University, Nong Khai Campus,
Thailand

